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**OFFICE OF THE PRINCIPAL ACCOUNTANT GENERAL (AUDIT) JHARKHAND,
RANCHI**

MANUAL OF AMG-I



**ISSUED BY AUTHORITY OF THE ACCOUNTANT GENERAL
(AUDIT) JHARKHAND, RANCHI**

PREFACE

The Audit Management Group-I Manual 2023, erstwhile known by the nomenclature "Works and RVP (River Valley Projects) Wing" has been updated from its 2008 version. It was first compiled in 1958 and subsequently updated in the years 1982, 1999 and 2008 respectively incorporating the changes in the scope, methodology, processes, planning, nature of audit products, types of audit, reporting requirements, demands of stakeholders, conformity and consistency with the processes in State Government Departments functions. Some of the significant changes were restructuring of the Indian Audit and Accounts Department and transfer of works. In this connection, Sectoral and Cluster wise restructuring of IA&AD offices in year 2012 and 2020 respectively have significant impact on the processes of audit. It contains instructions regarding the work to be done in the audit of Works Audit Department of the Audit Management Group-I.

2 The instructions contained in this manual are supplementary to Codes and Manuals issued from time to time by the office of Comptroller and Auditor General (C&AG) of India and other authorities. Relevant chapters also contain salient features of Compliance Auditing Guidelines, Performance Auditing Guidelines, AQMF, practices prevalent in INTOSAI and ASSOSAI. An attempt has been made in this Manual to cover a wide ground and periodical revisions based upon actual experience gained in field audit to keep pace with audit procedures in ever expanding activities of the government departments. Audit parties are required to bring to the notice of Headquarters any changes or additions as and when deem fit to be part of the Manual. This Manual should not be quoted as authority in any correspondence outside this office.

3. Further, this Manual has adopted new chapter on audit of Urban Local Bodies (Chapter XXIII). In the scenario of application of Technical Guidance and Supervision (TGS), the prevalent practices of audit of ULBs units after creation of DLFA have been adopted.

4. AMG-I Headquarter will be responsible for keeping the Manual updated by periodical issue of correction slips so that it may serve the intended purpose.

5. The efforts of Sri K.K. Shrivastawa, Sr.AO, AMG-I (Hqs) to update and revise the AMG-I Manual in year 2023 under direction of Sri JB Gupta, DAG (AMG-I) were praiseworthy.

6. The Manual serves as compendium and intended primarily for the guidance of the officers/officials of AMG-I. Instructions contained in the Manual are supplementary to instructions contained in the MSO (Audit) and other orders and instructions, and should not be quoted as an authority.

7. All members of this Office, specially those who are working in the Audit Management Group-I, are expected to be conversant with the detailed procedure laid down herein. Any error or omission which may be detected in this Manual and any useful suggestion for its improvement may be brought to the notice of the Accountant General.

Dated: 4/7/2024

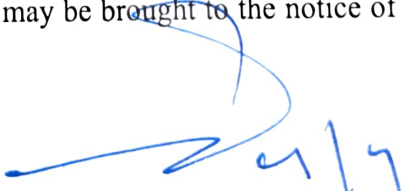

Accountant General (Audit) Jharkhand,
Ranchi

Table Of Contents

Chapter No.	Particulars	Paragraph No.	Rectified Page No.
I	General Arrangement	1.1 to 1.10	23 to 29
II	Duties and powers	2.1 to 2.69	30 to 50
III	Executive Powers of State	3.1 to 3.35	51 to 79
IV	Auditing Standard	4. 01 to 4.6.4.13	80 to 113
V	State Civil Works	5.01 to 5.47	114 to 150
VI	Stages prior to execution of work	6. 01 to 6.22	151 to 163
VII	Audit of Road Construction Department	7. 01 to 7.17	164 to 173
VIII	National Highways Wing	8. 01 to 8.06	174 to 204
IX	System Audit	9.01 to 9.04	205 to 211
X	Audit of Projects funded by World Bank/ IDA	10.01 to 10.07	212 to 225
XI	Man Power Audit	11.01 to 11.07	226 to 237
XII	Central Assistance	12.01 to 12.11	238 to 252
XIII	Performance Audit	13. 01 to 13.189	253 to 299
XIV	Audit of Deposit	14.01 to 14.14	300 to 304
XV	Contingency Fund	15.01 to 15.21	305 to 309
XVI	Nature of guidelines on INTOSAI and ASSOSAI	16.1.1 to 16.78	310 to 357
XVII	Drinking Water and Sanitation Department	17.01 to 17.64	380 to 397
XVIII	Power and Energy	18.01 to 18.10	398 to 399
XIX	Audit of Monthly Accounts and Related Records	19. 01 to 19.29	400 to 407
XX	Information Technology Audit	20. 01 to 20.41	408 to 429
XXI	Style Guide for Audit Report	21.01 to 21.102	430 to 446
XXII	Forest Audit	22.1.1 to 22.7.2	447 to 476
XXIII	Audit of ULBs	23.1.1 to 23.20.2	477 to 512

Appendix no.	Chapter No. related to	Paragraph No. related to	Particulars	Page No.
A	1	1.10	Auditee units (Annual Items) department wise	513 to 520
B	8	8.01	The National Highways Act, 1958 (No. 48 of 1956)	178 to 202
C	8	8.01	The National Highway Rules 1957	202 to 204
D	10	10.03(5)	format of Audit Certificate and Audit observations in respect of World Bank assisted projects	221 to 224
E	10	10.03(6)	Proforma for the Annual return indicating the position of issue of the Audit Certificates in respect of World Bank/IDA assisted projects	225
F	12	12.08	Form periodical report to be sent by State Government to GOI claiming payment of Grants - in – aid	250 to 252
G	16	16.7.1	Statement showing sector specific Fraud indicators (Red flags) & detective (Anti-Fraud) Measures in Public Works	358 to 373
H	16	16.7.2	Illustrative fraud and corruption in contracting for goods and services	373 to 376
I	16	16.19	Some indicators (red flags) for possible fraud and corruption (illustrative)	377
J	16	16.37	Some indicators (red flags) for possible fraud and corruption (illustrative)	378 to 379
K	22	22.2.2	Organisational Chart of Forest, Environment and Climate Change Department	521 to 522
L	22	22.5	Proforma for statement showing arrears of revenue of more than Rs 1000 outstanding for more than 3 years	523
M	22	22.5	Proforma for statement of certificate cases and year-wise break-up of Closing balances	523
N	22	22.5	Proforma for statement showing position of un-disposed forest produce as on 31 st March	523
O	22	22.5	Proforma for statement showing forest offence cases compounded but compounding fee not realized	524
P	22	22.5	Proforma for statement showing forest offence cases detected but not compounded	524
Q	22	22.5	Proforma for statement of un-detected forest offence cases	524
R	22	22.5	Proforma for statement showing the security deposit lying with the Division for more than 3 years as on 31 st March	524
S	22	22.5	The Compensatory Afforestation Fund Act, 2016	525 to 541

CHAPTER-I

General Arrangements

1.1	Historical Background
1.2	Organisational structure of the office
1.2.1	Audit Mandate and functions
1.2.2	Human Resources
1.3 to 1.4	Activities
1.5	General Arrangement of the work Departments
1.6	Organisational set up of Audit Management Group-I
1.7 to 1.8	Sectoral Set up and Manpower Distribution
1.9	Headquarters work
1.10	Auditee units (Annual Items)

CHAPTER-II

Duties and Powers

2.1 (A)	Duties of the Deputy Accountant General
2.2 (B)	Powers of the Deputy Accountant General
2.3 & 2.4	Duties of the Senior Audit officers at the Headquarters
2.5 to 2.6	Powers of the Senior Audit officers at the Headquarters
2.7 to 2.13	Responsibility of the Inspecting officer of AMG-I section
2.14	Audit Planning
2.14.1	General
2.14.2	Preparation of Annual Audit Plan
2.14.3	Risk profiling
2.14.4	The factors to be reviewed while assessing risk:
2.14.5	Components of Annual Compliance Audit Plan
2.14.6	Audit of Apex Auditable unit and review of Risk Profile
2.15	General Rules and Procedures for the Head Office
2.16	Records and Registers Maintained in the Head Quarters Section
2.17	Distribution of Work among the Senior Auditors/Auditors/Clerk in the Head Quarters Section
2.18 to 2.19	Permanent Programme Register
2.20	Programme
2.21	Provision of transit days:
2.22 to 2.23	Intimation of Audit
2.24	Preparation of Audit Programmes
2.25	Revision of Tour Programme
2.26	Tour Programme of the Supervising Officers
2.27 to 2.32	Co-ordination with the Department and Central/Performance Audit Section
2.33	Vetting and Issue of the Inspection Report
2.33.1 to 2.35	Vetting Section(Arrangement of IRs):
2.36 to 2.39	Check Register of Inspection Reports
2.40 to 2.41	Authorities to Whom Copies of Inspection Reports are Required to be Supplied.
2.42 to 2.45	Watching receipt of replies to Inspection Reports:
2.46 to 2.48	Objection Books
2.49 to 2.50	Six Monthly Register of Objection
2.51	Proposed Draft Para Register
2.52 to 2.53	Preparation and Maintenance of Audit Note Books
2.54	Dictionary of References
2.55	Register of Draft Corrections to the Manual
2.56	Supply of Important Orders to Audit Parties
2.57 to 2.61	Supply of Stationary and Forms

2.62	Reference from the Inspecting Officer and Audit Parties
2.63	Submission of Certified Accounts of Statutory Bodies/Other Bodies etc.
2.64	Replies to Inspection Reports
2.65	Disposal of Replies in the Head Quarters Section
2.66 to 2.69	System of Records

CHAPTER – III **Executive Powers of State**

3.1 to 3.3	Introduction
3.4.1 to 3.4.2	Tenders
3.4.3	Validity of tenders
3.4.4 to 3.4.8	Limitations on tenders
3.4.9 to 3.4.10	Acceptance of tenders
3.4.11	Acceptance of piece work agreement
3.4.12	Departmental execution of work
3.4.13	Procedure for award of works to contractors
3.5	Security Deposit for performance of Contract.
3.6.1 to 3.6.2	Acceptance and communication of contract /agreements to audit
3.6.3	Miscellaneous Powers of the Officers of the Public Works Department
3.7	Sale of State Buildings
3.8	Powers of Executive Engineer
3.9	Deposit Work-
3.10 to 3.11	Purchase. Manufacture and repair of tools, plants and accessories
3.12	Purchase of manufacture of stock
3.13	Write off
3.14	Disposal of Stores
3.15	Advances to Contractor on the security of materials brought to site
3.16	Technical sanction to detailed estimates for special repairs-
3.17	Technical sanction to detailed estimates for ordinary repairs
3.18	Repair
3.19	Unused Stock
3.20	Tools and Plant
3.21	Unserviceable stores
3.22	Surplus stores disposal
3.23	Delegation of Financial Power: Chief Engineer
3.24	Delegation of Financial Power: Superintending Engineer
3.25	Delegation of Financial Power: Executive Engineer
3.26	Power of Assistant Engineers
3.27	Summary of delegation of financial power of CE/ SE/EE
3.28 to 3.35	Duties and responsibilities of Divisional Accountant/ Divisional Senior Accounts Officer :

CHAPTER – IV **Auditing Standard**

4.1	Basic Postulates
4.2	Purpose and Authority of the Standards
4.3	Audit Mandate
4.4	Prerequisites for functioning
4.4.1	Independence
4.4.2 to 4.4.3	Accountability and Transparency
4.4.4	Quality Assurance and Quality Control
4.5	General Standards

4.5.1	Public Sector Auditing and its Objectives
4.5.2	Types of Public Sector Audits
4.5.2.1	Financial Audit:
4.5.2.2	Compliance Audit
4.5.2.3	Performance Audit
4.5.3	Elements of Public Sector Auditing
4.5.3.1	Parties of Public sector audits
4.5.3.2	Subject Matter, Criteria and Subject Matter Information
4.5.3.3	Types of Engagement
4.5.4	Confidence and Assurance in Public Sector Auditing
4.5.4.1	Forms of providing assurance
4.5.4.2	Levels of assurance
4.5.5	Principles of Public Sector Auditing
4.5.5.1	General Principles
4.5.5.1.1	Ethics and Independence
4.5.5.1.2	Professional Judgement, Due Care and Scepticism
4.5.5.1.3	Quality Control
4.5.5.1.4	Audit Team Management and Skills
4.5.5.1.5	Audit Risk
4.5.5.1.6	Materiality
4.5.5.1.7	Documentation
4.5.5.1.8	Communication
4.5.5.2	Principles related to the audit process
4.5.5.2.1	Planning an audit
4.5.5.2.2	Conducting an Audit
4.5.5.2.3	Reporting and Follow-up
4.6.1	Specific Standards
4.6.2 to 4.6.2.1	Financial Audit
4.6.2.2	Financial Reporting Frameworks
4.6.2.3	Materiality
4.6.2.4	Audit risk
4.6.2.5	Risk Assessment
4.6.2.6	Going Concern Considerations
4.6.2.7	Considerations Relating to Fraud in an Audit of Financial Statements
4.6.2.8	Considerations Relating to Laws and Regulations in an Audit of Financial Statements
4.6.2.9	Consideration of Subsequent Events
4.6.2.10	Evaluating Misstatements
4.6.2.11	Forming an Opinion and Reporting on the Financial Statements
4.6.2.12	Comparative information
4.6.2.13 to 4.6.2.14	Special Considerations
4.6.2.15	Considerations relevant to audits of Consolidated Financial Statements
4.6.3 to 4.6.3.1	Performance Audit
4.6.3.2	Perspective of Performance Audit
4.6.3.3	Type of Engagement and Assurance
4.6.3.4	Audit Risk
4.6.3.5	Selection of topics
4.6.3.6	Audit design
4.6.3.7	Audit approach
4.6.3.8	Audit procedures
4.6.3.9	Quality Control
4.6.3.10	Reporting
4.6.3.11	Recommendations

4.6.3.12	Follow-up
4.6.4 to 4.6.4.1	Compliance Audit
4.6.4.2	Objectives of Compliance Audit
4.6.4.3	Perspectives of Compliance Audit
4.6.4.4	Compliance Audit in relation with the audit of Financial Statements
4.6.4.5	Compliance Audit conducted separately
4.6.4.6	Compliance Audit in combination with Performance Auditing
4.6.4.7	Type of Engagement in Compliance Audit
4.6.4.8	Audit Risk
4.6.4.9	Materiality
4.6.4.10	Risk assessment
4.6.4.11	Risk of fraud, abuse and non-compliance
4.6.4.12	Reporting
4.6.4.13	Follow-up

CHAPTER – V

State Civil Works

5.1	Charged and Voted Expenditure
5.2 to 5.3	Audit Objective and the scope
5.4	Points to be seen during Inspection:
5.5 to 5.7	Recording of reasons for not accepting lowest tenders
5.8	Cash book
5.9	Check of foils of paid cheques
5.10	Cheque & Receipt Books
5.11	Contractors Ledger
5.12	Deposit Register
5.13	Imprest Accounts
5.14	Indent Books
5.15	Materials at site accounts
5.16	Measurement Books.
5.17	Register of rents of Buildings and Lands (form 158 to 158 (A) and (B)
5.18	Register of miscellaneous revenue receipts.
5.19	Muster Rolls (Form – 21 and T.C Form 49 of B.P.W.A. Code)
5.20	Surprise check of daily labour
5.21	Register of appropriations
5.22	Register of Buildings and Lands
5.23	Check Measurement Book Standard Measurement book
5.24	Registers of contractors bills (Rule 236 and 237 of B.P.W.A. Code)
5.25	Register of interest bearing securities (Rule 431 of B.P.W.A. Code)
5.26	Register of special recoveries
5.27	Register of Review of Measurement Books by Divisional Accountants (Appendix VI below Rule 231 of B.P.W.A. Code)
5.28	Register of works
5.29	Analysis of the accounts of the selected major or minor works
5.30	Transfer entries
5.31	Road – Metal – Returns (Rule 268 of B.P.W.A. Code)
5.32	Schedule of rates
5.33	Service Book
5.34	Register of undisbursed salary and Travelling Allowance
5.35	Surplus Stores (Rule 109 to 114 of B.P.W.A. Code)
5.36	Machineries and Equipment (Rule 155 to 163 of B.P.W.A. Code)
5.37	Audit of annual returns of bungalow furniture and crockery
5.38	Treasury Pass Book

5.39	Service Postage stamp account
5.40	Work Charged Establishment (Rule 59 to 62 B.P.W.D. Code)
5.41	Works Abstract (Rule 282 of B.P.W.A. Code)
5.42	Rush of expenditure
5.43	Special Machineries And Equipments
5.44	Log books of the vehicles
5.45	Investigation of losses due to careless or dishonest accounts
5.46	Special Audit
5.47	Existing instructions on Special Audit

CHAPTER VI

Stages prior to execution of work

6.1	System Flow Chart
6.2	Administrative Approval
6.3	Expenditure sanction
6.4	Technical Sanction
6.5	Appropriation and re-appropriation
6.6	Categories of work:
6.7	Repair and maintenance
6.8 to 6.9	Categories of work in Irrigation Projects
6.10 to 6.11	Technical Sanction
6.12	Detailed analysis of major work
6.13	Major Work
6.14 to 6.16	Responsibility of audit in regard to development of schemes:
6.17	Works and Accounts Management Information System (WAMIS)
6.18	Impact
6.19	Key take away
6.20	Picture
6.21	Process of working at WAMIS in the Division offices
6.22	Process of working at WAMIS in Forest Division offices :

CHAPTER – VII

Audit of Road Construction Department

Structure of Road Construction Department	
7.01	Secretary
7.02	Chief Engineer
7.03	Superintending Engineer
7.04	Executive Engineer
7.05	Audit on the accounts records of the Road Construction Department
7.06	Major Work
7.07	Analysis
7.08	Records for detailed work analysis
7.09 to 7.11	Construction Activities
7.12	Water Bound Macadam
7.13	Wet Mix Macadam
7.14	Shoulders
7.15	Base Course
7.16	SBD Circulars
7.17	Process and technique of detailed analysis of work

CHAPTER VIII

National Highways

8.01	Scope
8.02	Initially against state Balance
8.03	Powers of P.W. Officers
8.04	Acceptance of liabilities for expenditure
8.05	Levy of Agency charges in respect of National Highway Works
8.06	Exhibition of National Highway Transactions in Divisional Accounts.

CHAPTER – IX
System Audit

9.01	Definitions
9.02	System Audit
9.03 to 9.04	Processes of a system audit of an entity in the Government:

CHAPTER-X
Audit of Projects financed by World Bank/IDA

10.01	Audit of Projects financed by World Bank/ International Development Association (IDA)
10.02	Auditing Requirements as per guideline issued by World Bank.
10.03	Issue of audit certificate in respect of World Bank Assisted Projects
10.04	Time for submission of Audit Report
10.05	Report of losses
10.06	Responsibility for losses etc.
10.07	Auditorial function on receipt of the report of losses

CHAPTER –XI
Manpower Audit

11.01 to 11.02	Manpower Audit
11.03	Assessment of man-power requirements
11.04	Allocation and regulation of man-power
11.05	Norms/standards adopted for calculation of man-power requirements
11.06	Control of man-power
11.07	Conclusion

CHAPTER- XII
Central Assistance

12.01	Introduction
12.02	Sanction of Schemes
12.03	Examination and Acceptance
12.04	Modification and Revision of Project Estimate
12.05	Furnishing of Audit Certificate
12.06	Submission of Registers
12.07	Approval of Scheme
12.08	Periodical Reports on Progress of Expenditure
12.09	Sanctions of Grants-in-aid by the Central Government
12.10	Payments of Grants-in-aid
12.11	Audited figure of expenditure

CHAPTER – XIII
Performance Audit

13.01	Introduction
13.02	Scope for individual initiative and professional judgement
13.03 to 13.05	Performance Auditing
13.06 to 13.14	Economy, Efficiency and Effectiveness

13.15	Objectives of Performance Audit
13.16	Elements of Performance Audit
13.17 to 13.20	The three parties
13.21	Subject matter
13.22	Audit Criteria
13.23 to 13.25	Assurance and confidence in performance auditing
13.26 to 13.28	Outcomes of performance audits
13.29	General outlay of Performance Auditing Guidelines
13.30	Mandate for Performance Audit
13.31	General Principles
13.32	Ethics and Independence
13.33	Audit Objective
13.34 to 13.35	Audit approach
13.36 to 13.40	Audit Criteria
13.41 to 13.43	Audit risk
13.44 to 13.47	Communication
13.48 to 13.51	Skills
13.52 to 13.54	Professional judgment, due care and scepticism
13.55 to 13.56	Quality control
13.57 to 13.58	Materiality
13.59 to 13.61	Documentation
13.62 to 13.63	Strategic Audit planning
13.64	Objectives of strategic audit planning
13.65 to 13.66	Strategic audit planning process
13.67	Annual Audit Planning Process
13.68 to 13.70	Selection of audit topics
13.71	Interaction with audited entities and other stakeholders
13.72	Periodic updating of the data and the risk profile
13.73 to 13.76	Planning individual performance audits
13.77	Understanding the entity/programme
13.78 to 13.80	Defining audit objectives
13.81 to 13.86	Scope of audit
13.87 to 13.88	Determining the audit criteria
13.89 to 13.90	Sources of criteria
13.91	Services of expert for developing criteria
13.92	Refining the criteria and acceptance by the entity
13.93	Characteristics of good criteria
13.94 to 13.95	Deciding audit approach and methods
13.96	Analysis of procedures
13.97	Case studies
13.98	Use of existing data
13.99	Surveys
13.100	Analysis of results
13.101 to 13.104	Quantitative analysis
13.105 to 13.106	Developing audit questions
13.107 to 13.108	Assess audit team skills
13.109	Audit Design Matrix
13.110 to 13.111	Establish the time table and resources
13.112	Intimation of audit
13.113	Refinement or narrowing of objectives and criteria
13.114 to 13.115	Flexibility in the audit programme
13.116	Implementing the performance audit

13.117	Entry conference
13.118	Issuance of engagement letter
13.119	Field audit process
13.120	Entry Meeting
13.121 to 13.125	Data Collection & Analysis
13.126 to 13.130	Developing audit findings and conclusions
13.131 to 13.133	Developing recommendations
13.134	Audit Findings Matrix
13.135	Exit Meeting
13.136 to 13.138	Supervision
13.139	Evidence and documentation
13.140	C&AG of India's auditing standards
13.141	Competence
13.142	Relevance
13.143 to 13.144	Sufficiency
13.145	Factors affecting the evidence
13.146	Types of evidence
13.147	Sources of evidence
13.148 to 13.150	Documentation
13.151 to 13.153	Working papers
13.154 to 13.56	Audit file
13.157 to 13.158	The reporting process
13.159	The Reporting Process
13.160 to 13.161	Audit observations
13.162 to 13.163	Draft audit report
13.164	Response of the entity
13.165	Exit conference
13.166	Third party consultations
13.167	Observations of the headquarters on draft report
13.168	Draft Final report
13.169 to 13.170	Final report
13.171	Characteristics of a good report
13.172	Structure of the report
13.173 to 13.175	Enhancing the presentation and readability of the reports
13.176	Audit implementation cycle
13.177	Timelines of Performance Audit
13.178	Follow-up of Performance Audits
13.179	Objective of the follow-up programme
13.180 to 13.183	Assisting the Legislature
13.184 to 13.185	Effectiveness assessment
13.186	Continuous Improvement
13.187	Inventory of recommendations
13.188 to 13.189	Annual follow-up programme

CHAPTER –XIV **Audit of Deposits**

14.01 to 14.02	Audit objectives and scope
14.03	Source Documents
14.04 to 14.05	Audit Approach
14.06	Issues for audit scrutiny of Receipt and repayment or withdrawal of deposits
14.07	Closing Balances
14.08 to 14.09	Lapsed Deposit

14.10 to 14.12	Personal Deposits
14.13	Other Deposit Accounts
14.14	Local Audit

CHAPTER –XV Contingency Fund

15.01	Preamble
15.02 to 15.06	Receipts and Disposal of sanction orders
15.07	Source Documents
15.08	Audit Approach
15.09	General checks
15.10	Audit of Contract Contingencies
15.11	Audit of Scale Regulated Contingencies
15.12	Audit of Special Contingencies
15.13 to 15.16	Audit of Countersigned Contingencies
15.17	Bills countersigned before payment
15.18	Audit of Fully Vouched Contingencies
15.19	Contingent charges relating to wages of mazdoors and pay and allowances of staff paid from contingencies
15.20	Audit of sub-vouchers and payees' receipts
15.21	Audit of Payments against Contracts

CHAPTER-XVI

Nature of the guidelines of INTOSAI and ASSOSAI

16.1.1	Introduction
16.1.2	Applicability
16.1.3	Scope for individual initiative and professional judgment
16.1.4	Audit Mandate
16.1.5 to 16.1.9	Compliance Auditing: Definition and Objective
16.1.10	Elements of compliance audit
16.1.11	The three parties
16.1.12	Subject matter
16.1.13 to 16.1.15	Authorities and criteria
16.1.16	General outlay for Compliance Audit Guidelines
16.2.1	General Principals for Compliance Audits
16.2.2	Professional scepticism
16.2.3	Auditors should possess the necessary skills
16.2.4	Auditors should observe the code of ethics
16.2.5	Auditors should take responsibility for the overall quality of audit
16.2.6	Auditors should consider audit risk throughout the audit process
16.2.7	Auditors should consider materiality throughout the audit process
16.2.8	Auditors should prepare sufficient audit documentation
16.2.9	Auditors should maintain effective communication throughout the audit
16.2.10	Auditors should determine the audit scope
16.2.11	Auditors should identify the subject matter, authorities and suitable criteria.
16.2.12	Auditors should understand the auditable entity
16.2.13	Auditors should understand the control environment
16.2.14	Auditors should perform a risk assessment
16.2.15	Auditors should consider the risk of fraud

16.2.16	Auditors should develop an audit strategy and an audit plan
16.2.17	Auditors should gather sufficient and appropriate audit evidence
16.2.18	Auditors should evaluate audit evidence and form relevant conclusions
16.2.19	Auditors should prepare a report based on the principles of completeness, objectivity, timeliness and a contradictory process
16.3.1	Compliance Audit Plan
16.3.2 to 16.3.3	Audit Universe and Annual Compliance Audit Plans
16.3.4 to 16.3.8	Defining the Apex Auditable Entities and Audit Units
16.3.9 to 16.3.11	Risk Profiling
16.3.12 to 16.3.14	Preparing Annual Compliance Audit Plans
16.3.15	Components of Annual Compliance Audit Plan
16.4.1 to 16.4.2	Planning Compliance Audits
16.4.3 to 16.4.5	Planning for individual compliance audits
16.4.6	Scope of Audit
16.4.7 to 16.4.8	Compliance Audit Objectives
16.4.9	Criteria
16.4.10	Understanding internal controls
16.4.11 to 16.4.12	Materiality
16.4.13 to 16.4.14	Risk assessment
16.4.15	Risk assessment considerations with regard to fraud
16.4.16	Planning audit procedures
16.4.17 to 16.4.19	Compliance Audit Design Matrix
16.4.20	Compliance auditing in digital environment
16.4.21	Team composition
16.4.22	Intimation to the auditable entity
16.5.1	Conducting compliance audits
16.5.2 to 16.5.4	Audit evidence
16.5.5 to 16.5.7	Sufficiency and appropriateness of audit evidence:
16.5.8 to 16.5.9	Gathering and Evaluating Evidence
16.5.10	Gathering Evidence
16.5.11 to 16.5.14	Evaluation of Evidence
16.5.15 to 16.5.19	Documentation
16.5.20 to 16.5.22	Communication with the auditable entity
16.6.1 to 16.6.2	Reporting compliance audits
16.6.3	Forms and content of reports
16.6.4 to 16.6.6	Inspection Report
16.6.7 to 16.6.9	Departmental Appreciation Note
16.6.10 to 16.6.12	Compliance Audit Report
16.6.13 to 16.6.14	Follow up
16.6.15	Introduction of New Pattern of Inspection Reports
16.6.16 to 16.6.18	Contents under Part-II, Section A
16.6.19	Presentation of Draft Inspection Report
16.6.20 to 16.6.22	Principal governing categorization of Para under Part-IIA and Part-IIB
16.6.23 to 16.6.24	Test Audit Notes
16.6.25	Procedure for signing and Endorsing the Inspection Reports
16.6.26	Title Sheet
16.6.27	Improvement in Quality in Inspection Report
16.7.1 to 16.7.4	Standing order on role of Audit in relation to cases of fraud and corruption
16.8	Fraud examination
16.9 to 16.10	Characteristics of fraud
16.11 to 16.12	Characteristics of corruption
16.13 to 16.19	Nexus between fraud and corruption

16.20 to 16.23	Responsibilities of Audit
16.24 to 16.27	Considerations of fraud in performance audits
16.28 to 16.29	Professional skepticism
16.30 to 16.33	Fraud awareness at the audit planning stage
16.34	Identification of areas requiring attention
16.35 to 16.36	Vigilance about fraud at audit execution stage
16.37 to 16.39	Fraud indicators
16.40 to 16.41	Information to be sought from the audited entity management
16.42 to 16.45	Nature of evidence
16.46 to 16.52	Audit approach
16.53 to 16.54	Role of Audit in relation to IT fraud
16.55 to 16.57	Documentation
16.58 to 16.61	Reporting
16.62	Printing cases relating to fraud and corruption
16.63 to 16.67	Reporting to investigating agencies
16.68	Post-Audit Report letter to the Chief Minister
16.69 to 16.72	Follow-up
16.73	Additional instructions
16.74	Objection Book
16.75	Skill development
16.76 to 16.77	Reporting to Headquarters
16.78	Continuance of the existing provisions relating to reports on defalcations and losses

CHAPTER XVII

Drinking Water and Sanitation Department

17.01	Introduction
17.02 to 17.03	Powers of the Chief Engineer, Superintending Engineers and Executive Engineers of DW &S Department
17.04 to 17.09	Audit Procedure
17.10 to 17.11	Work Charged Establishment
17.12 to 17.13	Departmental charges
17.14 to 17.16	Jal Jeevan Mission (JJM)
17.17	Service level delivery under JJM
17.18	The institutional mechanism under JJM
17.19	Financial Implication and Funding pattern
17.20 to 17.25	Fund allocation criteria
17.26 to 17.29	Central Rural Sanitation Programme (Total Sanitation Campaign)
17.30	Objectives
17.31	Strategy
17.32 to 17.33	Implementation
17.34	Components
17.35	National Scheme Sanctioning Committee
17.36 to 17.37	Special Provisions
17.38 to 17.39	Implementing Agencies
17.40	Role of Panchayati Raj Institutions
17.41	Role of Non-Government Organisations
17.42 to 17.43	Project Funding
17.44	Release of funds
17.45	Utilisation of interest earned on project funds
17.46	Maintenance
17.47	Inspections

17.48	Revision in project
17.49	Reports
17.50 to 17.51	Evaluation
17.52	Nirmal Gram Puraskar
17.53	Research
17.54	Annual Audit
17.55	Swajal Yojana
17.56	Vision
17.57	Scope of coverage
17.58	Rationale of the Swajal Project
17.59	Objectives of the Swajal Project
17.60	Swachh Bharat Mission
17.61	Objectives of the Swachh Bharat Mission (SBM)
17.62	Components
17.63	Swachh Manch
17.64	SBM ODF Plus and ODF Plus Plus Protocol

CHAPTER XVIII

Power and Energy

18.01	Introduction
18.02 to 18.03	Powers of the Chief Electrical Engineer
18.04	Execution of works
18.05 to 18.08	Completion Plans and certificate
18.09	Procedure of maintaining accounts, registers in connection with repair works
18.10	Technical Sanction and Administrative Approval

CHAPTER XIX

Audit of Monthly Accounts and Related Records

19.01 to 19.02	Audit Objectives and Scope
19.03	Monthly Account
19.04 to 19.07	Schedule of Revenue Realised
19.08	Schedule of Refunds of Revenue
19.09	Schedule of Works Expenditure
19.10	Schedule of Deposit Works
19.11	Schedule of Takavi Works
19.12	Schedule of Debits/Credits to Miscellaneous Heads of Accounts
19.13 to 19.14	Schedule of Debits/Credits to Remittances
19.15	Schedule of Settlement with Treasuries
19.16 to 19.18	Schedule of Cash Settlement Suspense Account
19.19	Schedule of Debits to Stock
19.20	Stock Account
19.21	Schedule of Miscellaneous Works Advances
19.22	Schedule of Purchases
19.23	Schedule of Deposits
19.24	Special Tools and Plant Received Sheets and Indents
19.25	Annual Certificates of Balances
19.26 to 19.27	Schedule Dockets
19.28	Schedule Docket for Percentage Recoveries
19.29	Vouchers

CHAPTER-- XX
Information Technology Audit.

20.01 to 20.03	Introductory
20.04 to 20.05	Control in a computer System.
20.06 to 20.07	Significance of Controls
20.08	Objectives of computer control
20.09	Preliminary evaluation.
20.10	Audit methodology
20.11	Direct substantive Testing
20.12	System Based Audit
20.13	Audit Techniques
20.14	Computer Audit Techniques are Employed for
20.15	The particular computer audit technique depends on :
20.16 to 20.17	Main Points to be checked in different audit Areas.
20.18 to 20.19	Audit of development.
20.20	Association of audit in systems development.
20.21	Main points to be checked by audit in system Development.
20.22	Audit of operation and maintenance - General Controls.
20.23	Organisational Controls.
20.24	Segregation of Duties.
20.25	Authorisation Control
20.26	Logical Access Control
20.27	Operation and file controls.
20.28	Change Management Control
20.29	Net Work communication Security Controls.
20.30	Business Continuity Planning
20.31	Important points to be checked in general controls.
20.32	Audit of operation and maintenance-Application controls
20.33	Documentation Standards
20.34	Input Controls
20.35	Data Transmission Controls.
20.36	Processing Controls.
20.37	Output Controls
20.38	Master/ Standing Data File Controls
20.39	Audit Requirements
20.40	Important points to be checked in application controls.
20.41	Audit Trail

CHAPTER XXI
Style Guide for Audit Report

21.01 to 21.03	General advice on good writing
21.04 to 21.06	How long is long
21.07 to 21.09	Objectives of reports
21.10	The IA & AD style of report writing
20.11	Length of reports, paragraphs, reviews and appendix
21.12 to 21.16	Structure of reviews
21.17	Appendix
21.18	Diagrams, tables etc.
21.19	Glossary

21.20	Abbreviations
21.21	Active not passive
21.22	Apostrophes
21.23	Capitals
21.24	Chapter number
21.25	Dates
21.26	Figures
21.27	Font
21.28	Page numbers
21.29	Paragraph numbers
21.30	Percentages
21.31	Preface
21.32	Singular/plural
A to Z of common errors and weaknesses	
21.33	A or An
21.34	Adverbs
21.35	Among versus Between
21.36	Alternative
21.37	Ampersands
21.38	Anticipate
21.39	Basically
21.40	Circumstance
21.41	Colon
21.42	Comma
21.43	Compare
21.44	Compound
21.45	Comprise
21.46	Continual versus Continuous
21.47	Convince
21.48	Currently
21.49	Decimate
21.50	Different
21.51	Disinterested
21.52	Due to
21.53	Effectively
21.54	E.g. versus i.e.
21.55	Estimated
21.56	Factor
21.57	Farther versus Further
21.58	Finally
21.59	Flaunt
21.60	Foreign words and phrases
21.61	Full stops
21.62	Get
21.63	Hopefully
21.64	However
21.65	Hyphens
21.66	Information overload
21.67	Inverted commas
21.68	Ise or -ize?
21.69	It's versus Its
21.70	Jargon

21.71	Less and fewer
21.72	Literally
21.73	Majority
21.74	--ment
21.75	Metaphoros
21.76	Multiple/negatives
21.77	Nature
21.78	None
21.79	Nor
21.80	Only
21.81	Optimum
21.82	Paragraphs
21.83	Parameter
21.84	Particular
21.85	Per
21.86	Plus
21.87	Presently
21.88	Punctuation
21.89	Semicolon
21.90	Shall versus Will
21.91	Sentences
21.92	Short words
21.93	So
21.94	Spelling
21.95	That versus Which
21.96	Unnecessary words
21.97	Verbs
21.98	While
21.99	Who versus whom
21.100 to 21.101	Would versus should
21.102	Common mistakes

Chapter-XXII

FOREST AUDIT MANUAL

22.1.1	Background
22.1.2	Salient features of the Indian Forest Act, 1927
22.1.3	Scope of audit of expenditure and receipts
22.2.1	Introductory of Forest Management
22.2.2	Organisational set-up
22.2.3	Working Plan
22.2.4	Wildlife Management
22.2.5	Jaivik Udyan at Chakla, Ranchi
22.2.6	Training
22.2.7	Research
22.2.8	Forest Resource Survey
22.3	Sources of receipts
22.3.1	Sale/disposal of forest produce
22.3.1.1	Marking list
22.3.1.2	Sale by auction/tender
22.3.1.3	Forfeiture/Adjustment of security Deposit
22.3.2	Minor Forest Produce

22.3.3	Disposal of Seized Timber
22.3.4	Forest Offence
22.3.5	Saw Mills – Licence and renewal
22.3.6	De-reservation of forest/use of forest land for non-forest purpose
22.3.6.1	Realisation of Net present Value (NPV)
22.4	Audit Procedure
22.4.1	Composition of the Field Audit parties:
22.4.2	Nature and object of local audit
22.4.3	Scope of Forest Receipt Audit
22.4.4	Records and Registers subjected to receipt audit
22.4.5	Duties and functions of audit parties
22.4.5.1	Assistant Audit Officer
22.4.5.2	Auditor
22.4.6.1	Loss due to non-observance of terms of contract:
22.4.6.2	irregular retention of forfeited security deposit
22.4.6.3	Non/short realisation of licence fee/renewal fee
22.4.6.4	Loss due to deterioration in quality of timber due to delay in disposal
22.4.6.5	Non/short recovery of Sales tax
22.4.6.6	Non-inclusion of surcharge in certificate demand
22.4.6.7	Unauthorised encroachment of forest land
22.4.6.8	Loss of revenue due to under valuation of confiscated forest produce
22.4.6.9	Theft cases and fixation of responsibility
22.4.6.10	Non-assessment and non-realisation of cess
22.4.6.11	Levy of Sales tax on sale of timber and other produce
22.4.7	Results of Audit
22.4.8	Audit of Expenditures
22.4.8.1	Important records to be examined in expenditure audit
22.4.8.2	Cash book:
22.4.8.3	Register of cheques drawn
22.4.8.4	Register of Works
22.4.8.5	Disburser's Ledger/Contractor's ledger
22.4.8.6	Classified abstract of Revenue and expenditure
22.4.8.7	Schedule of Remittances to Treasuries
22.4.8.8	Schedules of transactions with other Government/Rilway/P&T/Defence
22.4.8.9	Forest Plantations
22.4.8.10	Muster Rolls
22.4.8.11	Measurement book
22.4.8.12	Store Account
22.4.8.13	Monthly Accounts
22.4.9	Duties and Functions of audit parties in relation to expenditure
22.5	Raising and pursuance of Objection
22.5.1 to 22.5.2	Guidelines for Field parties
22.5.3	Inspection programme
22.5.4	Gazetted Supervision
22.6	Internal Control Mechanism
22.6.1	Introduction
22.6.2	Financial Control
22.6.2.1	Budgetary control
22.6.2.2	Expenditure Control
22.6.3	Administrative Control
22.6.3.1	Administrative Report
22.6.4	Operational Control

22.6.5	Supervisory Control
22.6.6	Monitoring mechanism
22.6.7	Audit checks for internal control system for Receipts and Refunds
22.6.8	Role of Audit against possible Fraud and Corruption in Forest Management
22.6.8.1	Introduction
22.6.8.2	Extent of fraud/corruption
22.6.8.3	Audit checks to prevent fraud and corruption
22.6.9	Internal Audit
22.7	CAMPA
22.7.1	Objectives of CAMPA
22.7.2	State CAMPA

Chapter-XXIII

URBAN LOCAL BODIES

23.1	Introduction
23.1.1	General
23.1.2	Act and Rules
23.1.3 to 23.1.4	Audit of ULBs under Technical Guidance and Support (TGS) arrangement
23.2	Annual Budget of ULBs
23.2.1	Preparation of budget estimate of Municipality
23.2.2	Sanction of budget estimate of Municipality
23.2.3	Power to alter budget grant
23.3	Accounts of ULBs
23.3.1	Financial statement
23.3.2	Balance Sheet
23.3.3	Books of account
23.3.4	Accrual basis
23.3.5	Provisions for Audit of ULBs: some general checks
23.3.6	Standard terms and conditions of technical guidance and support (TGS)
23.4.1 to 23.4.2	Audit of Urban Local Bodies
23.4.3 to 23.4.4	Before conducting the audit
23.4.4.1	Grants
23.4.4.2	Borrowings
23.4.4.3	Loans of Beneficiaries
23.4.4.4	Review of Schemes/Projects/Programmes
23.4.4.5	Cash book
23.4.4.6	Receipts
23.4.4.7	Payment vouchers
23.4.4.8	Bank reconciliation
23.4.4.9	Payment to staff
23.4.4.10	Expenditure on wages
23.4.4.11	Office Contingencies
23.4.4.12	Stock Accounts
23.4.4.13 to 23.4.7	Expenditure on works
23.5	Code of Ethics for IA&AD
23.6	Audit of Grants, Loan & Advances
23.6.1	General Grants
23.6.2	Specific Grants
23.7	Audit of grants and loans
23.8	Audit of grants-in-aid
23.9	Audit of Utilization Certificates
23.10	Selection of cases

23.11	Loans
23.12	Audit in the office of recipient body or Authority
23.13	Establishment Audit
23.13.1	General
23.13.2 to 23.13.3	Establishments Bills
23.13.4	Service Books
23.13.5	Leave Account
23.13.6	Salaries and Allowances
23.13.7	Travelling Allowances
23.13.8	Medical claims
23.13.9	Provident Fund
23.13.10	Contingencies
23.13.11	Advances
23.13.12	Gratuity & Leave encashment
23.13.13	Pension and Gratuity
23.14	Course of receiptsw and Audit
23.15	Internal revenues of municipality
23.16	Audit of receipts
23.17	Audit of Financial statements
23.17.1	Receipts and payments account
23.17.2	Income and expenditure statement
23.18.1	Audit of internal Control
23.18.2	Internal Control as an integral process
23.18.3	Components of Internal Control
23.18.4	Role of Audit in Internal Control
23.18.5	Interface external auditor and internal audit
23.18.6	General Checklist for Audit of Internar Control
23.19	Inspection Reports
23.19.1	Duties and Responsibilities of the Inspection Officer
23.19.2	Distribution of works
23.19.3 to 23.19.16	Draft Inspection Reposts (DIR)
23.20.01 to 23.20.02	Audit evidence

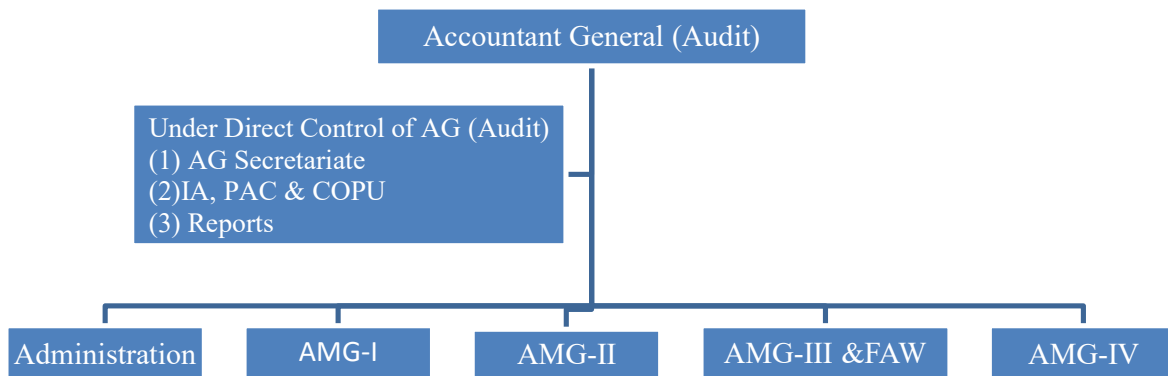
Chapter-I

General Arrangements

1.1 Historical Background

With the carving out of a new state from Bihar, the state of Jharkhand came into existence from 15-11-2000; subsequently the offices responsible for compilation of accounts of the State of Bihar (undivided) and conducting audit thereto were also renamed as (1) O/o the Principal Accountant General (A&E)-I ,Bihar and Jharkhand, Ranchi (2) O/o the Accountant General (A&E)-II Bihar and Jharkhand, Patna (3) O/o the Accountant General (Audit)-I Bihar and Jharkhand, Patna and (4) O/o the Accountant General (Audit)-II Bihar and Jharkhand, Ranchi. Again, with an account of functional re-adjustment between the audit offices situated in Patna and Ranchi, O/o the Accountant General (Audit)-II Bihar and Jharkhand, Ranchi was recognized as O/o the Accountant General (Audit) Jharkhand, Ranchi with effect from 22 July 2002.To align the auditing work with functional set up of the state of Jharkhand, O/o the Accountant General (Audit) Jharkhand, Ranchi restructured¹ its internal functioning with effect from 02-04-2012 in the sectoral groups viz Social Sector I and II, ANG-I I and II and Revenue Sector each headed by IA&AS rank officer designated as Deputy Accountant General/Sr. Deputy Accountant General and also known as Group Officer. The office of the Principal Accountant General Audit has again been restructured (July 2020) and divided in four Audit Management Groups (AMGs) viz AMG-I, AMG-II, AMG-III and AMG-IV. By this restructuring, the auditee departments have been regrouped. The previous Economic General Sector-I has been renamed as AMG-I. AMG-I audits the Forest, Environment and Climate Change Department, Road Construction Department, Building Construction Department, Drinking Water and Sanitation Department and Urban Development and Housing Department.

1.2 Organisational structure of the office



Each of the sectors shown above is headed by an IA & AS rank officer designated as Deputy Accountant General/ Sr. Deputy Accountant General. However, how many sectors an IA & AS officer would head depends on the availability of such officers in the office.

¹ Headquarters' Office Order No. 111-SMU/PP/Restructuring/5-2011 dated 27.03.2012

1.2.1 Audit Mandate and functions

The CAG derives its authority and functions mainly from the provisions of Articles 149 to 151 of the Constitution of India. Article 149 of the Constitution provides that the CAG shall exercise such powers and perform such duties in relation to the accounts of the Union and of the States and of any other authority or body as may be prescribed by or under any law made by the Parliament. Parliament passed the necessary legislation, namely CAG's (Duties, Powers and Conditions of Service) Act, 1971. The CAG discharges its constitutional obligation of audit function for the State of Jharkhand with the help of the Accountant General (Audit) Jharkhand, Ranchi in relation to the audit of the accounts of the state in keeping with the power vested under section 13 to 21, 23 and 24 of the Act *ibid* including amendments² made there under.

The Audit Management Group-I helps Accountant General (Audit) Jharkhand Ranchi to plan and execute compliance audit and performance audit (whenever approved by the headquarters office) with respect to the Department/body/authority etc. shown in Table 1.1. Besides, the Group also contributes material for All India Performance Audit if the topic of such audit pertains to the department under the purview of this sector.

Table: 1.1 Showing DPC Act in nutshell

<i>Important Sections of DPC Act in nutshell</i>
<i>☞ Section-13 enjoins upon CAG to conduct audit of expenditure incurred from the Consolidated fund of India and of each state and of all Union Territory having legislative Assembly 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 had been applied or charged. This section involves audit with respect to regularity, propriety, efficiency cum performance and system audit. Auditing of transaction made under Contingency Fund and Public Accounts come under the ambit of the section.</i>
<i>☞ Section-14 empowers audit of receipts and expenditure of any body or authority substantially financed by loan or grants from the consolidated Fund and reporting of such audit.</i>
<i>☞ Section-15 deals with scrutinizing the procedure by which the authority satisfied itself with fulfillment of terms and condition while authorizing sanction of loan or grants for any specific purposes to a body or authority excluding foreign State or International organization.</i>
<i>☞ Section-16 provides for audit of all receipts which are payable into the Consolidated Fund. This section also requires CAG to satisfy himself that the rules and procedures in that behalf are designed to secure an effective check on the assessment, collection and proper allocation of revenue and are being duly observed.</i>
<i>☞ Section-17 empowers to audit the accounts of stock and stores.</i>
<i>☞ Section- 18 describes the powers of CAG in relation to Audit</i>
<i>☞ Section-19 vests responsibility to CAG for the audit of Government Companies and corporation established by or under law made by Parliament. Accounts of any corporation established by or under law made by legislature of a state or Union Territory having legislative assembly may be audited if such a request is made to the CAG by Governor of a State or Administrator of Union Territory in public interest.</i>
<i>☞ Section-20 relates to the audit by CAG on request of President or Governor of the State.</i>
<i>☞ Section-21 authorizes CAG to delegate its power to the officers of his department for</i>

² The DPC Act was amended in 1976, 1984 and 1987.

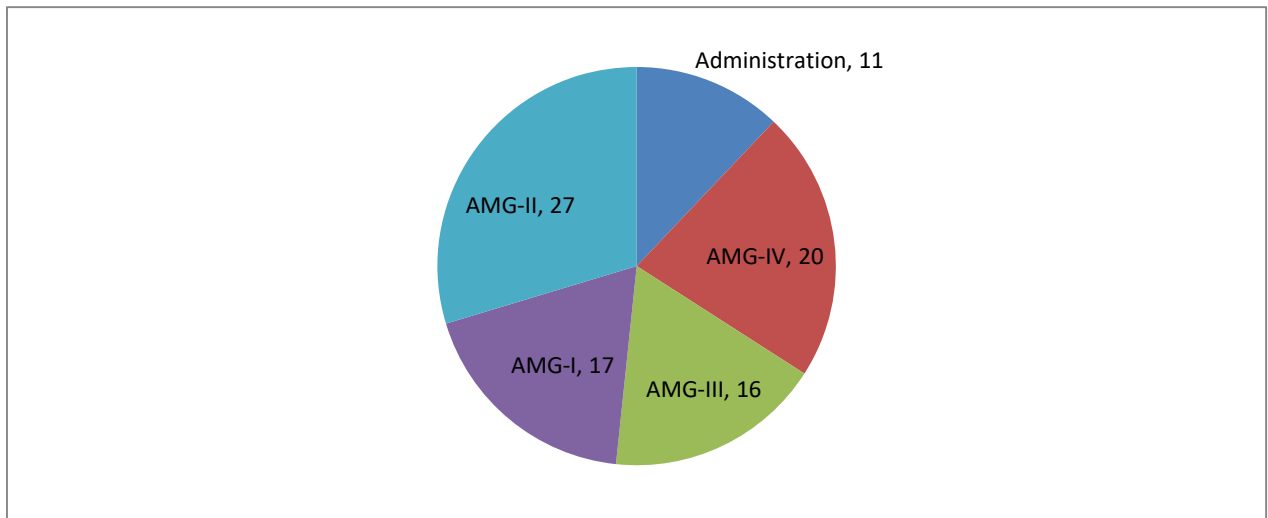
discharging audit works

- ☞ *Section-23 relates to power of CAG to make regulation for carrying into effect the provisions of this Act in so far as they relate to the scope and extent of audit in the context of scope and extent of audit including laying down*
- ☞ *Section-24 relates to power of CAG to dispense with detailed audit.*

1.2.2 Human Resources

The office draws its man power from the direct recruitment through Staff Selection Commission and through deputation from different offices under IA & AD. The man power vested under the authority of Accountant General (Audit) are designated as Senior Audit Officer, Assistant Audit officer, Assistant Supervisor, Senior Auditor and Auditor, and are assisted by Data Entry Operator, and Multi tasking Staff. In order to make audit offices more officer centric to give effect to shifting of audit approach from the audit of Establishment to Risk based audit, the rationalization of staff strength in offices under IA & AD is under process in a phased manner. The strength in cadre of Assistant Audit Officer and Auditor/Sr. Auditors is also to be rationalized so as to reach a ratio of Sr. AO, AAO and Auditor/Sr. Auditor 1:2:2.5 through promotion/recruitment/attrition etc as a part of rationalization exercise. The inter-sectoral distribution of personnel has also been kept deployed in the same ratio so far it is practicable. The sectoral distribution of Sr. AO followed by short term rationalization is shown in the following Chart:

Distribution of Sr. Audit Officer as in July 2023



Audit Management Group-I

Activities

1.3 The Audit Management Group-I is responsible for audit of the transactions of the Works Department of the State which are brought to account by the Divisional Officer. It is also responsible for the appropriation audit of the Public Works Expenditure, against the Divisional allotment. The work activities of the Works Department of Government of Jharkhand extend over the Road Construction Department, Building Construction Department, Drinking Water and Sanitation Department, Water Resources Department, Minor Irrigation, Power and Energy, Rural Engineering

Organisation, Rural Development Special and National Rural Employment Programme (Rural Development Department).

Out of these, Road Construction Department, Building Construction Department and Drinking Water and Sanitation Department come under audit purview of Audit Management Group-I.

1.4.1 Audit Management Group-I plans for the compliance audit of the auditee units falling from the departments given in the **Table 1.1**. Apart from the units of Commercial audit, there are **348** auditable units under Audit Management Group-I as on November 2023 connected with the Departments of Government of Jharkhand performing Economic activities. Though the selection of the unit for audit in a financial year is made on the basis of risk exposure involved in each of the unit and the man power available for such audit, Performance Audit/Thematic Audit, if any planned, pertaining to any of these Department is also carried out by this Group (AMG-I).

Table:1.1 Departments of Government of Jharkhand with respective auditable units under Audit Management Group-I

SI No.	Department	Audit entities
1	Building Construction	34
2	Drinking Water and Sanitation	60
3	Energy	03
4	Forest, Environment and Climate Change	134
5	Road Construction	61
6	Urban Development and Housing Department	56
	Total	348

1.4.2 Activities of these department may be broadly sub-divided into two categories:-

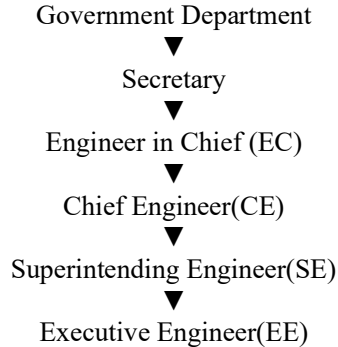
- (i) Administration
- (ii) Execution

The Administration vests in the Secretaries of each department and the execution rest with Engineer in Chief/ Chief Engineer who is the supreme authority in the technical side of the branch entrusted to his care. For facility of administration and proper control, the territorial area of the State had been divided into circles.

At the top of each circle, there is a Superintending Engineer. For every division, there is a Divisional Officer generally known as the Executive Engineer who is directly responsible for the execution of work in the Division and for rendering accounts to the Accountant General (A & E). A Divisional Accountant is also posted by the AG (A& E) who helps the Divisional Officer in internal check of accounts and to report to AG (A& E). The Divisional Accountant acts as the Financial Adviser to the Divisional Officer. The annual confidential report of the Divisional Accountants rests with the Accountant General (A & E).

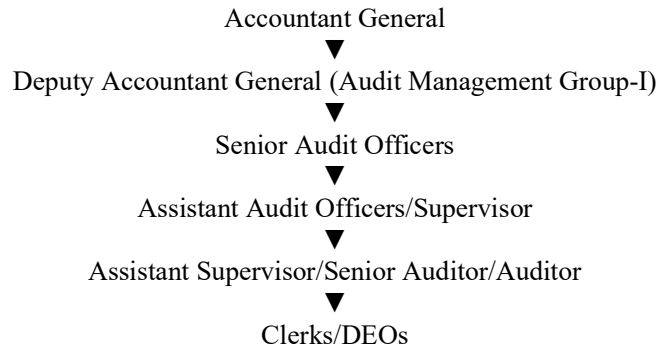
General Arrangement of the work Departments

1.5 The following diagrams show briefly the arrangements of the authority and his relation in which officers of each works Department stand with each other;



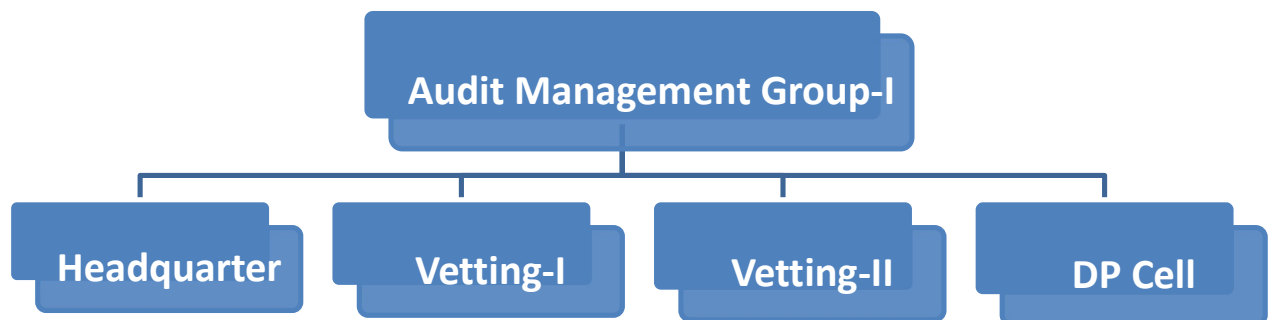
Organisational set up of Audit Management Group-I

1.6 The following diagrams show briefly the arrangements of the authority and his relation with officers of Audit Management Group-I:



1.7 Sectoral Set up and Manpower Distribution

The Audit Management Group-I: discharges both compliance audit and performance audit as per the Annual Audit plan approved by headquarters office with the audit parties formed separately for both the audits. Besides, a team of personnel posted in headquarters office provide necessary support to the teams and exercise monitoring and control in terms of planning as well as executing auditing function and processing of Draft Inspection Report/ Potential Draft Para to be issued to the respective Departmental Head as per the norms set in compliance audit guidelines and MSO. The personnel posted in headquarters office have been sub-divided into the following sections and discharges the work assigned:



Each of the section shown above comprises with requisite number of Assistant Audit officer, Assistant Supervisor, Senior Auditor and Auditor and supporting staff and discharges their function under supervision of Sr. Audit Officer. The sectional strength is shown in the table below :

Table: 1.2 Distribution of Man-in-Position of Audit Management Group-I as on 31/7/2023

Sl.No.	Section	Sr.AO	AAO/Sup.	Sr. Ar./Ar.	DEO/Clerk	MTS
1	AMG-I (HQs)	01	02	02	01	01
2	AMG -I(Field)	10	22	08	00	00
3	AMG -I(Vetting-I)	01	00	03	00	00
4	AMG-I (Vetting-II)	01	02	04	00	00

Each section performs allotted items of work as detailed in the table with the allotted man power.

Table:1.3 Details of work performed by each section

SI. No.	Sections	Allotted items of work
1.	AMG -I(Hqr) & DP Cell	<ul style="list-style-type: none"> • Correspondence with the Headquarters office New Delhi on various issues and providing inter-sectoral co-ordination. • Management of Staff of AMG-I wing • Maintenance and regular Updation of Permanent Programme Register (PPR) • Preparation of Annual Audit Plan of AMG-I • Preparation of Tour Programme of AMG-I • Consolidation of all monthly, quarterly, half yearly and annual reports and various other report. Compliance of DI/IA section, RTI and work related to issue of Audit Certificate • Works related to tour advances, checking of all TA adjustment bills, weekly Diaries of the parties and monthly tour diaries of the inspecting officers. • Monitoring receipt of Draft Inspection Reports from the parties/inspecting officers and all correspondence connected therewith. Transmission of Draft Inspection to the respective sections. • Issue of SOF, processing of DP and other related work related to DP • Efforts should be made to covert the important audit observations to PDPs and from PDPs to DPs. • All co-ordination work and Miscellaneous work
2.	AMG - I (Vetting-I)	<p>Vetting, pursuance and settlement of all Inspection Reports pertaining to the departments :-</p> <ul style="list-style-type: none"> • Building Construction Department • Forest, Environment and Climate Change Department.
3.	AMG -I (Vetting -II)	<p>Vetting, pursuance and settlement of all Inspection Reports pertaining to the departments :-</p> <ul style="list-style-type: none"> • Road Construction Department • Drinking Water and Sanitation Department • Urban Development and Housing Department • Energy Department

1.8 It is essential that every auditor makes himself thoroughly conversant with the Jharkhand Public Works Account Code Jharkhand Public Works Department Code and the Auditing Standard Guidelines.

Headquarters work

1.9 Vetting, issue and pursuance of P.W. Inspection Report, Pursuance and processing of draft for inclusion in the Audit Report in respect of Inspection Reports of the following Work Department.

1. Road Construction Department,
2. Building Department,
3. Drinking Water and Sanitation Department,
4. Urban Development and Housing Department.
5. Forest, Environment and Climate Change Department
6. Energy Department

1.10 Auditee units (Annual Items)-Appendix-A

Chapter -II Duties and Powers

Duties, Powers and Responsibilities of the Deputy Accountant General /Sr. Deputy Accountant General Audit Management Group-I

(A) Duties

2.1 (a) The Deputy Accountant General AMG-I shall be responsible to the Accountant General for the smooth working and general efficiency of the Department. His main duties shall be as follows :-

- i. General administration of the AMG-I wing.
- ii. Scrutiny , approval and issue of Inspection Reports
- iii. Scrutiny and approval of draft paras for the Audit Report before submission to the Accountant General for final approval,
- iv. Scrutiny and approval of the materials for the Digest of important and interesting cases,
- v. Scrutiny and approval of the draft Audit comments submitted by the Assistant Audit officers and Inspecting officers, before submission to the Accountant General,
- vi. Disposal of letters and unofficial reference from Govt. or the Comptroller and Auditor General of India and other important correspondence relating to rules and procedure of audit etc. under the approval of the Accountant General where necessary as well as disposal of any reference from the Inspecting officers.
- vii. Supervision of the important items of audit of Audit Management Group-I .
- viii. Review of the PDP Registers periodically
- ix. Any others works/duties entrusted by the AG (Audit) as and when deemed fit by him.

Note: I. The local audit of entertainment and other allowances of the Governor should be arranged to be supervised by the Deputy Accountant General (Audit Management Group-I). All preliminary objection memos should be issued over the signature of the Dy. AG (Audit Management Group-I) to ensure that frivolous and petty objections are avoided.

(CAG's confidential letter no. 939/Administration I/621-56 (II) 28/2/1962)

Note: II It has been decided by the C&AG of India that Deputy Accountant General (AMG-I) should go on an average minimum of seven days inspection in a month (including days of transits, if any) i.e. 120 days in a year.

(CAG's Circular No 1 PPG/2013 IN Lr No. III/P/5-300-PPG/30-2013 dated 25.09.2013)

Note: III Cases of unauthorised absence of the officers and staff on inspection duty have come to notice. It has been directed by the C&AG that surprise inspections of audit parties in the field at the level of group officers should be more frequent and the staff in the audit parties should be required to maintain diaries indicating details of work done on each day which should be scrutinized in detail at the Headquarters section and submitted to the supervisory officers.

Any cases of remissions in the performance of duties or unauthorized absence of duty during the course of inspection should be mentioned in the confidential report of the officers and staff. If any member of the inspection party applies for leave

during the course of inspection for sudden and unforeseen reasons, approval to the grant of leave should be obtained from the Head quarters telephonically on the date of the leave applied for.

(CAG's circular letter no. 766-TA-I/137-80 dt. 16/8/80 published in Audit-Bulletin of September 1980).

- (i.) When an inspection discloses a defalcation or some serious financial irregularities, he will bring full facts to the notice of the Accountant General, and if necessary, visit the station personally with a view to supervise and guide the staff to conduct a successful audit.
- (ii.) Report of heavy losses, defalcations and other serious irregularities discovered during audit should be sent confidentially to the state govt. in advance of the Inspection Reports, over the signature of the DY. AG (Audit Management Group-I)
- (iii.) He shall bring to the notice of AG any other important matter relating to the Audit Management Group-I with his suggestion thereon
- (iv.) The memos forwarding the Inspection Reports to the Department of State and Central Governments shall be initialed by him or by Sr. AO authorized by him.
- (v.) All registers of the Headquarters sections shall be reviewed by him according to the time table indicated in calendar of Returns so that all kinds of irregularities may come to his notice and he may take suitable remedial measures.

(B) Powers of Deputy Accountant General, Audit Management Group-I

2.2 (a) (i) He may sanction casual leave to the Branch officers working under him

(ii) He may grant extension of time for individual items of audit to any extent as justified by exigency of the case.

2.2 (b) Power of Audit to Waive Recoveries

A. Recoveries on account of expenditure held to be irregular

In order to avoid unnecessary wastage of time and labour on cases that are simple and unimportant in character, the State and UT Governments have agreed to exercise, on their behalf, by Senior Audit officers of the following powers of waiver which may not be delegated to subordinate officers:

(i) The officer of the rank indicated below or equivalent may waive the recovery of irregular expenditure not exceeding the amount specified against each in any individual case:

Accountant General	Rs. 500/-
Sr. Dy. Accountant. General	Rs. 200/-
Dy. Accountant General	Rs. 150/-
Other gazetted officers(Sr.AO/AAO)	Rs.50/-

Note : If the irregularity is such that it is likely to recur, the govt. servant responsible should be told that the expenditure was irregular even if no recovery is made.

(ii) Certain expenditure is placed under objection not because the whole or any portion thereof can not be justified by itself but because it is not strictly covered by any rule, or the authority for incurring the expenditure insufficient or full proof such as is afforded by sub-vouchers to establish that it has been incurred, has not been produced. In

such cases, the Accountant General or the officers subordinate to him may waive recoveries up to the limit indicated below if the following conditions are fulfilled:

Accountant General	Rs. 1000/-
Sr. Dy. Accountant. General	Rs. 400/-
Dy. Accountant General	Rs. 200/-
Other gazetted officers	Rs. 150/-
Assistant. Audit Officers	Rs. 50/-

(a) The expenditure must not be of recurring nature.

(b) Where the objection is based on insufficiency of the sanction, the Senior Audit Officer should be satisfied that the authority empowered to sanction the expenditure would do so if requested.

(c) Where the objection relates to non-availability of sufficient proof of payment, the Senior Audit officer must be satisfied that it would be unnecessarily troublesome if submission of complete proof were to be insisted upon and must also see no reason to doubt that the charge has actually been paid.

(iii) Where expenditure under objection has for any reason, become irrecoverable, an Senior Audit officer of the rank indicated below or equivalent may write off an amount not exceeding the amount specified against each in any individual case:

Accountant General	Rs. 1000/-
Sr. Dy. Accountant. General	Rs. 400/-
Dy. Accountant General	Rs. 300/-
Other gazetted officers(Sr.AO/AAO)	Rs. 100/-

Note: The powers conferred upon Senior Audit officers in terms of these provisions should not be exercised in respect of objections not based on their audit, such as bills received by them and forwarded to another office for audit, or in respect of any amount outstanding under a debt or deposit head. These powers may, however, be exercised in respect of overpayments from or amounts due to be refunded to the Provident Fund Accounts of individual subscribers established as irrecoverable.

[Para 7.1.16 of MSO (A) 2nd edition 2002]

B. Recoveries relating to Personal Claims

The following guidelines should be kept in view in dealing with recoveries relating to personal claims of government servants:

(i) Before insisting on the recovery of irregular or excessive payments of personal claims placed under objection after the lapse of more than a year after their actual disbursement, the Accountant General should, subject to the provisions of sub-paragraph (ii) below, refer the matter for the orders of the Government concerned. If Government decides to waive the recovery and the Accountant General is satisfied with the decision, he will withdraw the objection. Otherwise, the circumstances of the case may be reported to the Legislature through the Audit Report.

Note(1) The power of accepting the orders of govt. in such cases is vested in Accountant General personally except in cases where the amount involved is Rs. 1000/- or less in which cases, the Senior Deputy Accountant General/Deputy Accountant General may accept the waiving order up to the limit of Rs. 1000/ Rs.500 in each case. These powers should not, however, be delegated to subordinate officers.

Note (2) a. All cases in which the orders of govt. to waive recoveries due without further action have been accepted should be recorded in a register, which should be reviewed by the Accountant General at such intervals as may be considered by him suitable, but at least

once in a year. The register should invariably show, inter alias,(i) how the overpayments occurred in each case,(ii) the rules that were contravened (iii) the extent of responsibility of the drawing and disbursing officers on the one hand and to the Senior Audit officer on the other,(iv) the reasons given by govt. for waiving the recovery,(v) the grounds on which Accountant General, Sr. Dy. Accountant General or Dy. Accountant General accepted the govt. orders, and (vi) the remedial measures if any, taken to prevent the recurrence of such cases.

Note (2) b. The Union and the State Govts. have, however, agreed that in respect of cases of the type referred to in (a) above the Accountant General and other Senior Audit officers may forego recovery on their behalf, if the amount involved does not exceed the limits indicated below and if they are satisfied that the amount held under objection was drawn by the govt. servant concerned under a reasonable belief that he was entitled to it:-

Accountant General	Rs. 800/-
Sr. Dy. Accountant. General	Rs. 500/-
Dy. Accountant General	Rs. 300/-
Other gazetted officers(Sr.AO/AAO)	Rs. 50/-

C. Recovery in Other Cases

The provisions of sub-paragraphs (A) and (B) above apply mutatis mutandis to overpayments discovered during local audits and to non-recovery of govt. dues the recovery of which is to be watched by Audit.

[vide paragraph 7.1.17 and 7.1.18 of the MSO (A) 2nd edition 2002]

Note: Senior Audit officers should not exercise their powers in respect of transactions of Central govt. and Union Territories whose accounts have been departmentalised.

[Note below paragraph 7.1. 5 of M.S.O.(A), 2nd edition 2002]

Duties and Powers of the Senior Audit officers at the Headquarters

(A) Duties

2.3 The Senior Senior Audit officers at the Headquarters shall primarily be responsible for all routine matters relating to sections under their respective charge.

2.4 During the absence of DY. AG (Audit Management Group-I) on tour or other wise, the Senior Audit officers shall be directly responsible to the Accountant General for the smooth running of the section under their charge unless alternative arrangements for looking after the charge by an other Group Officer is made and shall promptly bring to the notice of the AG all important developments relating to the Audit Management Group-I with suitable suggestions.

(B) Powers

2.5 The Branch Officers would have the power to sanction casual leave to the staff working under them up to a maximum of 5 days at a time and that for AAOs would be 3 days at a time out of maximum entitlement of 8 days casual leave in a calendar year.

(vide Comptroller And Auditor General circular No. 44/N.G.E/2000 No. 1046-N.G.E.(APP)/96-97 dated 12.10.2000)

2.6 During the absence of the DAG (Audit Management Group-I) on tour, unless alternative arrangement for looking after the charge by other Group officer is made, all important works requiring the exercises of his (DAG's) powers shall be managed by the Senior Audit officers at the Head quarters by obtaining AG 's approval, and the minor matters may either be left over or disposed of by them in

anticipation of DAG's approval on return. Such matters disposed of by the Senior Audit officers at the Head quarters during the DAG's absence on tour should be brought to his notice immediately, on his return.

(C) Responsibility of the Inspecting officer

2.7 The Inspecting Officer should be assisted, at the inspection of each divisional office, by staff adequate to complete the inspection of that office within the period allotted for the purpose. The staff must include at least one experienced Assistant Audit Officer one other Assistant Audit Officer. Inspection work is important and the staff should be selected carefully. A broad outline of the duties and responsibilities of that could be entrusted to different categories of personnel in the Public Works inspection parties is detailed below:

- (i) Study of the notes of Chief Engineer and Superintending Engineer on their inspection of divisions and those of the Executive Engineer and Divisional Accountant on their inspection of sub-divisions with a view to issuing appropriate directions to the audit staff.
- (ii) Review of budget allotments and actuals in respect of major items of revenue and expenditure, instances of large excesses, savings or short realisation.
- (iii) Review of all regular tenders and contracts, along with the related records and documents and of a percentage of the agreements executed since last inspection, including review of systems and procedures for invitation and finalisation of contracts and agreements.
- (iv) General review of the accounts of works, with reference to muster rolls, transfer entries, Suspense and Deposit registers, Schedule of rates, Register of Rents, Establishment records and monthly accounts.
- (v) Review of the system for and extent of check-measurements by the divisional and sub-divisional officers and other higher authorities and of check of Measurement Books by the Divisional Accountant.
- (vi) Review of Register of Revenue other than rents, including review of procedures for its assessment and realisation, special attention being paid to cases of shortfalls in revenue realisation.
- (vii) Review of the effectiveness of banking (treasury) arrangements.
- (viii) Review of the systems for receipt, disbursement, custody and verification of cash.
- (ix) Review of systems for acquisition, custody and management of stock and of stores transactions.
- (x) Review of accounts of manufacture operations.
- (xi) Scrutiny of Register of Bank Guarantees and verification of Guarantees and of action taken for their enforcement.
- (xii) Examination of adequacy of arrangements and the action taken by the Department for the prompt disposal of audit notes, rejoinders, Inspection Reports and money value objections.
- (xiii) Review of the Register of Divisional Accountant's audit objections.
- (xiv) Review of the action taken by the Divisional Accountant for the up to date maintenance of codes, manuals, circulars, etc.
- (xv) Value for Money Audit, in general

B. Assistant Audit Officer-I

- (i) Complete and detailed analysis of selected works with reference to all connected documents, such as sanctioned estimates, agreements, measurement books, materials-at-site accounts, etc.
- (ii) Scrutiny of a few files relating to works.
- (iii) Scrutiny of a few tender documents.
- (iv) Examination of the Register of Works.
- (v) Examination of Statement of Annual Certificate of Balances.
- (vi) Study of Charge Reports of divisional and sub-divisional officers.
- (vii) Scrutiny of Muster rolls
- (viii) Complete check of contractors' ledgers for selected months.
- (ix) Scrutiny of Register of contractors' bills
- (x) Examination of Stores and Stock accounts (including general review of stores ledger, bin cards etc.).
- (xi) Review of arbitration cases.
- (xiii) Examination of Workshop accounts, use rates and proforma accounts.
- (xiv) Review of Register of Quarries and distance for leads.
- (xv) Review of Schedule of Rates.
- (xvi) Examination of data relating to extra and supplemental items.
- (xvii) Examination of abnormal or unworkable rates quoted by contractors.
- (xviii) Scrutiny of estimates for special repairs.
- (xix) Verification of action taken on previous Test Audit Notes.
- (xx) Settlement of outstanding paragraphs in previous inspection reports.
- (xxi) Examination and disposal of special points referred by Central Audit for local verification.

C. Assistant Audit Officer-II

- (i) Scrutiny of cash books, amanath cash book, receipt books, treasury bill book, challans, cheque books and remittance books.
- (ii) Review of Stock Register of receipt books and cheque books.
- (iii) Examination of Register of Undisbursed Pay.
- (iv) Review of Acquittance Rolls.
- (v) Review of Schedule of Settlement with Treasuries.
- (vi) Scrutiny of transfer entries.
- (vii) Review of Tools and Plant.
- (viii) Scrutiny of Register of Rent and Other Receipts and of arrangements for their assessment, demand, collection and accounting.
- (ix) Review of Register of Valuables.
- (x) Examination of imprest and temporary advance accounts.
- (xi) Examination of Register of Liabilities.

- (xii) Clearance of debit advices received from the Accountant General (A&E).
- (xiii) Review of Register of Budget Allotments; instances of major savings, excesses, short realisation, etc. with reference to provisions; and of adequacy of reconciliation work done by the department.
- (xiv) Verification of accounts schedules, vouchers, cheques, etc., received from the Main Office with the relevant original records. (xii) Review of Survey Reports and Register of Survey Reports.
- (xv) Verification with Treasury records.
- (xvi) Review of Register of Agreements/Work Orders along with the related agreements/work orders
- (xvii) Scrutiny of Land acquisition cases.
- (xviii) Review of Cash Settlement Suspense Accounts.
- (xix) Examination of cases of theft, losses, etc.
- (xx) Realisation of sale value of tender forms with reference to the Tender Register and their accounting with reference to treasury schedules and transfer entries.
- (xxi) Examination of a few work files and tender documents.

D. Assistant Supdrvisor/Senior Auditor

- (i) Examination of Register of Service Books.
- (ii) Review of Service Books and Leave Accounts.
- (iii) Scrutiny of pay bills, TA bills, medical reimbursement claims, LTC claims and other personal claims.
- (iv) Examination of Provident Fund accounts.
- (v) Review of Register of Advances, sanctions to advances and their recovery.
- (vi) Review of Register of payments due to other departments (Income Tax, Sales Tax, court attachment, and other deductions).
- (vii) Examination of Register of Contingent Bills, along with original bills, sub-vouchers, etc.
- (viii) Scrutiny of different kinds of securities obtained.
- (ix) Review of deposit transactions.
- (x) Scrutiny of Register of Fixed Charges.
- (xi) Examination of Register of Vehicles and log books; Register of Spare Parts; petrol and diesel account.
- (xii) Check of Stamp Account.
- (xiii) Examination of Register of library books.
- (xiv) Examination of accounts of stationery and forms.
- (xv) Review of Register of Measurement Books, a few Measurement Books and results of Divisional Accountant's review thereof.
- (xvi) Examination of Register of leases and lease files, and Register of license fee for buildings and lands.
- (xvii) Verification of stores ledger, delivery notes, Materials-at-site register

(xviii) Verification of unserviceable machinery.

(xix) Scrutiny of Objection books and adjustment registers.

(xx) Settlement of outstanding paras of previous Inspection Reports and verification of action taken on previous Test Audit Notes

[Para 6.2.2 of MSO (A) 2nd edition 2002]

2.8.1 Inspecting officers are expected-(i) to guide their staff (ii) to do a certain amount of original work, and (iii) to examine personally with reference to initial documents of all important points raised by their staff.

2.8.2 The duties and responsibilities assigned to the Inspecting Officer according to the provisions envisaged in para 6.1.8. of section (VI) of MSO (Audit) are sufficiently exhaustive. Besides performing the co-ordinating function to achieve overall efficiency in performance and seeing that necessary process of audit of the various documents have been carried out by the staff under him, the inspecting officer will also do a certain amount of original work; examine personally with reference to original document and important points raised by the staff.

(CAG's letter no. T-962 Admn/74-40 dt 23.9.1940)

2.8.3. The Inspecting officer should try to get all the facts and explanation on the spot wherever satisfactory explanation is not forthcoming and if Inspecting officer feels that the points raised by him are so important that they may ultimately find a place in the Audit Report to be submitted to the legislature, he or the AAO should take particular care to clinch all issues involved, to collect all relevant information and also to obtain attested/Xeroxed copies of those documents/records which are likely to be useful in persuading the matter to the higher authorities.

(CAG's D.O. No. 1307/Admn-I/388-55 Dt. 24/9/55. No. 971-Tech-Admn. II/131-68, dated 2/5/1968).

2.9 The Divisional Officer should be given sufficient notice of the probable dates of inspection and should be requested to (i) obtain from his subordinate offices, the necessary books, documents, etc. which should be specified; and (ii) be present at his headquarters to meet the Inspecting Officer in time to discuss the results of the inspection with him.

[paragraph 6.2.4 of M.S.O.(A), 2nd edition 2002]

2.10 The inspection and test audit of the records should ordinarily be undertaken at the headquarters of the Divisional Officer. It is, however, open to the Accountant General to require the accounts records of sub-divisions or subordinate officers to be produced for inspection in the offices concerned or in the Divisional office itself.

[paragraph 6.2.3 of M.S.O.(A), 2nd edition 2002]

2.11 The supervising officer will also discuss with the Head of the office all important objections of the current audit as well as the outstanding objections of the previous Inspection Reports and endeavour to settle as many of them as possible.

2.12 The Inspecting officer shall write out the report himself and should not leave it to its subordinates to do the drafting. This is necessary in order to enable the Inspecting officer to apply his mind actively to every thing mentioned in the report. This is also calculated to ensure the accuracy of the facts stated, the cogency of the arguments applied and moderation in and preciseness of the language used.

(Auth: CAG's confidential D.O. letter no. 307 Admn I/338-55, dated the 24th June, 1955 and confidential D.O. letter no. 388, Admn. I/55 dated 9/12/1955-circulated with the secret O.O. No. 1950 of 13/ 1/56).

Note: The Inspecting officers are directed to submit duly ranked DIR along with Floppy/CD to AMG-I (Hqrs) section within seven days from the date of conclusion of audit.

2.13 In order to improve the position regarding issue of Inspection Reports the field parties are hereby directed to adopt the following procedures in drafting and sending the Inspection Reports to the Headquarters.

- (i) The Draft Inspection Reports of the office when audit is fully supervised by the Senior Audit officer should be drafted by the Senior Audit officers themselves. In case where no supervision or partial supervision is provided the DIRs will be drafted by the AAO concerned holding the charge of the party in a similar manner. It may also be ensured that all annexure to the DIRs are prepared in triplicate.
- (ii) It should be as concise as possible. The objection raised should be clear and supported by exhaustive facts and key documents. Only important objections may be included in the DIR and all minor objections taken in the Test Audit Notes and issued on the spot.
- (iii) The audit team must ensure that the objection memos issued to the Drawing and Disbursing officer are received back in original with suitable replies with dated initial duly stamped. The discussion sheet with the Head of the offices on the closing date of audit should be attached with the DIR.

(Authority: - O.O. No. OAD (M) 124/87-88/100 dated 10/12/1987)

2.14 Audit Planning

2.14.1 General

A high quality audit is to be carried out in an economic efficient and effective way and in a timely manner. It is imperative that compliance audits are planned to achieve adequate coverage at an acceptably low level of audit risk, audit processes which should result in a high quality audit report. Thus, adequate planning needs also to ensure that appropriate attention is accorded to crucial areas of audit and also potential problems are identified in a timely manner which necessitates planning of compliance audit with an attitude of professional scepticism and exercising professional judgment. As it would not be practical to cover each unit of audit universe for audit therefore, top down, risk based, Department centric mechanism for macro level planning and preparation of annual compliance audit plans is the way out.

2.14.2 Preparation of Annual Audit Plan

Early in January each year, Headquarters Section will prepare a plan for local audit and inspections to be undertaken during the ensuing financial year based on the availability of parties during the year. The plan will be in the form of an annual program and approved by the Accountant General (Audit). This will be further split up into quarterly program for various inspecting parties. In addition to the units selected for audit, copies of this program of local audit should also be sent to the Administrative Departments and the Heads of the Departments concerned. While preparing the Annual Audit Plan, care should be taken to include, on a regular basis, at least 25 per cent of the transactions from the Personal Ledger/Personal Deposit Accounts of the Drawing and Disbursing Officers being audited. Only amounts booked under Minor Head 106 under Major Head 8443 (relating to disbursements in the previous year's accounts) should be taken into account for this purpose. Audit planning should also recognize the necessity of professional/technical assistance in complex areas of investigation. Therefore, provision may also be made in the plan for procurement of services of outside experts in the relevant fields, wherever necessary.

2.14.3 Risk profiling

The risk based approach of planning compliance audits is about focusing audit efforts on the perceived high risk areas/activities. Risk profiling of the Apex Auditable Entities and their Audit Units has to be done considering their structures, roles they are expected to perform and compliance requirements. As

the Governments and other organizations' has taken to transition into digital environment, they generate process and store voluminous data. Also, useful and relevant data in separate forms and continuously produced by various government and non-government agencies and entities when collated, provide the contextual framework and valuable insight into the functioning of an apex auditable entity. The advent of big data marks a paradigm shift, which by design integrates data from various sources and in various formats to transform data into actionable information.

The IA&AD has adopted a Big Data Management Policy to harness such information. This policy is expected to facilitate greater and deeper insights into the Apex Auditable Entity's environment to clearly identify risk areas and priorities the audit units. Clearly, holistic database of audit entities is required for preparation of compliance audit plan. Therefore, it has been endeavored to collect relevant information of five years⁵ about the various risk parameters by visiting the Apex Auditable units. The risk parameters while collecting the information interalia includes number of audit units, Government orders, policies, budget and expenditure annual plans important instruction/circulars/guidelines issued to audit units/implementing units for implementation of various schemes/programs and other relevant information. The database so collected is utilized for risk profiling of the unit.

Table:1.5 Definition of Audit Unit, Implementing Unit and Apex Unit

<ul style="list-style-type: none"> ☞ Audit unit-A unit functioning for achievement of the objective of the Department having substantial devolution of administrative and financial powers or functional autonomy or operational significance with reference to achievement of objectives of the apex auditable entity or any of the two or more. ☞ Implementing Unit- The last mile service providers and implementation arms of Government, with very limited delegation of financial and administrative powers - of contingent nature and for managing establishment. ☞ Apex Auditable Unit-The Department / Sector in the State Government or the Central Government being the top layer would be defined as the Apex Auditable Entity
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2.14.4 The factors to be reviewed while assessing risk:

- Latest socio-economic survey of the Centre/ State
- Current Budget & Demands for Grant
- Outcome budgets
- Five year plans and Working Group reports/ Annual plans
- Finance Commission Report
- Annual/ Performance/ Activity Reports of Ministries / Departments/ Companies and other information on Government websites
- Major policy announcements/initiatives of Government
- VLC data & Report on State Finances
- Finance & Appropriation Accounts
- Geographical location
- Past audit coverage
- PAC/COPU suggestions
- Court orders
- Audit Advisory Board suggestions
- Reports of Legislative Committees
- Changes in legislation
- Replies to questions given to the Legislature
- Past Audit findings/ Inspection Reports
- Media reports and visibility of topics
- Trend of expenditure and /or receipts

⁵ Headquarters Letter No CR/CO-Ordn/AAP 2018 dated 25/10/2017

2.14.5 Components of Annual Compliance Audit Plan

- a. Selection of Apex Auditable Entities and Audit Units that would be taken up for compliance audits;
- b. Selection of implementing units under the audit units as necessary;
- c. Determination of specific subject matter, where considered necessary; and
- d. Allocation of audit resources for the audits to be undertaken

2.14.6 Audit of Apex Auditable unit and review of Risk Profile

It must be the endeavor of the office to ensure coverage of all Apex Auditable Entities in a reasonable period of time, between three to five years. The risk profile of the audit units would have to be reviewed and updated periodically to assess continued maintenance or to consider revision in the risk profile assigned to the apex auditable entities and audit units based on new intervening developments, changes and increase/decrease in irregularities noticed by various stakeholders, etc.

The programme of local audit for a financial year should, however, be drawn up after due consideration of the availability of requisite and duly qualified staff for the purpose. The programme so drawn up, should, then be communicated to the Finance Department of the State Government, which shall be asked to suggest if they want any other office to be included for any special reason in the list for the year. In finalising the list, due consideration may be given to the suggestions of the State Government. If the suggestion of the State Govt. cannot be implemented within the resources at our disposal, it may be necessary to postpone the audit of some other less important office for subsequent year. The copy of the programme thus finalised may be sent to the government.

General Rules and Procedures for the Head Office

2.15 Audit Management Group-I (Headquarter section) is the controlling section and exercises overall control over the working of AMG-I Group & its field parties. Its main functions are:-

- a) Preparation of annual audit plan.
- b) to prepare tour programmes of the Inspection parties
- c) to issue intimations to the concerned auditee units
- d) to collect all relevant files, documents, vouchers etc. from the sections and to despatch them to field parties
- e) to examine and submit to Branch Officer/Group Officer weekly diaries of field parties and to watch their prompt receipt
- f) to examine the T.A. bills of field parties with reference to diaries of the parties and approved programme of audit before they are transmitted to Establishment. Section.
- g) to forward copies of all important orders, circulars etc. to all field parties
- h) to keep AMG-I Manual up to date
- i) to deal with all general questions relating to AMG-I.
- j) to maintain Calendar of Returns and to submit the same on due dates to the authorities to whom they are due.

2.16 Records and Registers Maintained in the Head Quarters Section

Details of records and registers maintained in the headquarter sections of the AMG-I will be available in the Calendar of Returns of the respective sections. The said registers should be examined by the Assistant Audit officers concerned and also put up to Branch officer/Group officer on the due dates as mentioned in the Calendar of Returns. The same should be put up to Group officer half yearly and to the AG annually for review.

2.17 Distribution of Work among the Senior Auditors/Auditors/Clerk in the Head Quarters Section

A statement showing the detailed distribution of work among the Sr. Auditors/auditors/clerk in the Head quarters section should be maintained in the respective section. The allocation of work shown therein should be formally communicated to the Sr. Auditor/Auditor/ Clerk concerned and his signature obtained in the office copy. Any subsequent change in the distribution of work should be approved by the Dy. AG (Audit Management Group-I), and formally communicated to the person concerned in the same manner.

Permanent Programme Register

2.18 This register should contain a complete list of auditee units, the audit of which is to be done by the AMG-I with their periodicity and time allotted in terms of an Audit Party as approved by the Accountant General. Whenever under the orders of a competent authority, any new auditee is added, or one of the existing items is deleted or its periodicity altered, necessary addition or correction should at once be made in the Register, quoting full reference of the relevant orders, under the dated initials of the Senior Audit officer/ AMG-I / Head quarters or by the Assistant Audit officer AMG-I / Head quarters on his behalf. As this register is designed to serve as a permanent record of the department, it should be neatly maintained, in a bound volume containing sufficient number of folios of good quality preferably ruled and submitted to the group officer quarterly.

2.19 The permanent programme register should be maintained in the form given below. Col.8 will be filled in on receipt of the DIR from the Assistant Audit officer of the field parties.

1. SI. No.
2. Name of Govt. Department.
3. Name of A/C.
4. Drawing and Disbursing Officer.
5. Location of office.
6. Periodicity of Audit.
7. No. of days allowed.
8. Details of audit conducted:-

No. of days allowed for each audit	Period of A/c covered in audit	No. of I.R. and year	Date of receipt of DIR	Date of despatch of IR	Remarks, if any

2.20 Programme:-The programme of local Inspection is required to be drawn on the basis of annual audit forecast. Programmes for field parties and supervision by Senior Audit officers may be drawn in advance for every quarter and submitted to Deputy Accountant General (AMG-I) for approval.

2.21 Provision of transit days: The programme should be drawn up in the most economical manner so as to ensure maximum output whether a particular holiday should be marked as transit is a matter to be decided by the AG /Dy. AG in his discretion after taking into consideration the importance of the holiday and the convenience of the administration as well as of the staff.

(C&AG's D.O. letter no. 2396-Admn. I/528-62 date 11.9.62)

Intimation of Audit

2.22 Before an audit is taken up, intimation thereof should be sent by the Assistant Audit officer to the head of the office concerned. This intimation should be sent at least 14 days in advance so as to

enable the local office to get ready for the audit in time or seek postponement in case some unavoidable circumstances warrant this course.

2.23 The audit intimation should invariably contain a request to the effect that the head of the office or any other officer representing him should be present during the period of audit and specially on the closing date so that he may be able to discuss the objection memos.

Preparation of Audit Programmes

2.24 The mandays allowed for each audit party has to be fixed after taking into consideration quantum of work in audit and past experience in the same audit as well as addition, if any, to be done during local audit. Audit personnel are expected to strictly adhere to the same. However, in case of any unforeseen circumstances, a request for extension should be made to AMG-I (Hqr) beforehand with a view to obtaining the sanction of Deputy Accountant General (AMG-I).

A copy of the approved programme should be supplied to the respective auditee unit and Inspection Party in time, so that there is no wastage of time in waiting for them. If there be occasion for any subsequent amendment, that should be communicated to the party concerned in time.

Revision of Tour Programme

2.25 (a) When occasions necessitating the revision of tour programme arise, the Head quarters section will concede to the requests for revision only in genuine cases; but in that case too, the field parties must obtain prior approval of Group Officer. The request for the revision must also invariably reach the Head quarter within two days from which the change in the approved programme is intended to be effected.

(Authority: O.O. No. OAD (M)-124/84-85/25 dt. 14.6.84)

2.25 (b) Generally proposal for revision in the approved tour programmes by the field audit parties will not be accepted in the Headquarters. But if due to some unavoidable circumstances audit of an office, as per approved tour programme, is not possible, in that case, the members of audit party will have to report in the Head quarters immediately, or they may take up audit of the account records of next item of the approved tour programme and intimation to that effect along with the documentary evidence of the circumstances under which the audit of that particular item could not be materialised should be sent through the concerned party incharge to the Group Officer immediately for approval.

2.25 (c) Those Inspecting officers who have been provided with two or more field audit parties for supervision, they may in the above circumstances (as stated in sub-para-(b) above) change their supervision from that audit party to another audit party and it will be necessary for them also to intimate the Group Officer immediately for approval.

(Authority: O.O. No. OAD (M) - 34 dated 2.7.92).

Tour Programme of the Supervising Officers

2.26 The programme should be prepared for supervision of only such items of audit which are either in progress, or are to be taken up during the month, in accordance with their normal sequence in the party's audit programme. But in doing so, every endeavour should be made to see that

- (i) All new items of the audits taken up by the audit parties (except the minor and unimportant ones) are supervised as far as practicable ;
- (ii) All important audits are adequately supervised, either in one or more spells ;

- (iii) the supervision is done as far as practicable, towards the close of audit in order to enable to settle all important points and discuss the draft Inspection Report with the head of the office : and
- (iv) The cost of T.A. is not unnecessarily increased.

Co-ordination with the Department and Central/Performance Audit Section

2.27 The Local Audit supplements Central Audit and as such it is necessary that the work of Audit should be reviewed as a whole and not in separate compartment. The Central Audit sections should, therefore, keep a vigilant eye over the transactions which come under their audit and should not hesitate to bring those to the notice of the Outside Audit Department, which in their opinion require further examination at local inspections. Besides the individual transactions, it may at times be considered necessary, in view of the heavy expenditure or imperfect control exercised by the disbursing and controlling officers or again as a result of general extravagance in a particular office or department that the accounts of that office should be locally examined. In such cases, the audit report of central audit sections should be forwarded to the Deputy Accountant General (AMG-I) or in his absence, to Senior Audit officer at the Head quarters.

2.28 In order to be able to keep an effective watch over such cases, AMG-I (Hqr) Section will maintain a suitable "Register of Points for Local Audit" in which all points meant for local audit should be kept in sufficient details.

2.29 The Performance Audit Section will also suggest for local investigation of (i) cases of such points which come to their notice in the course of Sanction audit, (ii) Scrutiny of expenditure from an efficiency audit point of view and (iii) examination of schemes which shall not be satisfactorily tackled in the main office. The Performance Audit section will suggest such cases with the approval of the Accountant General. Each point referred to an audit party should be noted on separate sheets so that after the local investigation is completed, separate case files may be started for each. The result of such investigations should be intimated to the Performance Audit section.

2.30 The important irregularities noticed in departmental accounts during the local audits should also be brought to the notice of group officer of AMG-I wing for taking up appropriate action with the higher authorities, so that the action may be adequate and effective.

2.31 With a view to ensuring quick disposal of Inspection Reports it has been ordered by the Accountant General that whenever an Inspection Report is received by AMG-I (Hqr) Section from the AMG-I field parties, for comments or opinion, it should be diarised in the sectional Diary Register and its disposal watched accordingly.

(O.O. No. 1457 (OAD) dated 18.1.54).

2.32 Except in purely routine matters (e.g. obtaining information etc.) no case should be referred by the AMG-I Sections to other sections, without obtaining the orders of Branch officer who will satisfy himself that the course is essential and that steps have been taken to prevent any avoidable delay.

Vetting and Issue of the Inspection Report

2.33 The draft inspection reports submitted by audit parties to the headquarters are vetted in the respective vetting section of AMG-I and after approval of the said draft I.R. by the DAG (AMG-I), it takes the shape of the inspection report and issued from that respective vetting section of AMG-I sector.

2.33.1 Vetting Section:

Should ensure that DIRs contain certificate of the party-in-charge regarding Fraud and Corruption cases in the prescribed proforma.

- Cases related to Suspected/Presumptive Fraud and Corruption should be highlighted in the I.Rs. All such cases should be printed in 'Bold Type'.
- All cases of Suspected/Presumptive Fraud and Corruption should be entered in the Objection Book.
- A separate register should be maintained for recording cases of Fraud and Corruption. The cases should be followed up vigorously with concerned audited entity and significant cases should be followed up with Secretary of the Department. The register should be put up to Group Officer monthly and to Accountant General half-yearly starting from 01.04.2007.
- Reports of individual cases, in the first instance, should be confidentially addressed to the Controlling Authority with the approval of Group Officer. More serious cases should also be confidentially addressed to the Secretary of the Administrative Department concerned and the investigative authorities like Centre/State Vigilance Commission, Lok Ayukta etc, as applicable, either over the signature of Accountant General or with his approval.
- Half-yearly return of such cases to be submitted to the controlling section for compilation and onward transmission to Headquarters' office with the approval of Accountant General.
- While vetting the DIRs it should be ensured that the term Fraud or Corruption may not be used in a conclusive sense unless such action may be established in a Court of Law.
- Since the register is to be put up to Group Officer monthly and to Accountant General half-yearly, suitable entry should be made in the Calendar of Returns.
- Detailed list of important cases of Suspected Fraud and Corruption should be prepared annually for sending them to respective Secretary of the Department by Accountant General.

[vide OO No.OAD(M)-F&C-49 dated 16.01.2007]

2.33.2 **The vetting section** should ensure that the Inspection Report of compliance audit submitted by the Field Audit Party are in consonance with the formats prescribed for the purpose under para 6.4 and 6.5 of the Compliance Audit Guidelines, Edition, 2016.

2.33.3 The vetting section should arrange the duly vetted Inspection Report with all its records preferably in the following order before the same is placed before Group Officer for approval

From top to bottom:-

1. Vetting Sheet
2. Check list of documents
3. DIR./Typed copies of the DIR.
4. Annexure, if any
5. Matrix for Grading of DIR
6. Compliance Audit Design Matrix
7. Finding Audit Matrix
8. Audit Notes/Exit conference
9. Requisition
10. Duty list
11. Selection of memo/selection of detail months
12. Entry conference
13. Title sheet
14. Certificate of Assurance
15. Daily Diary
16. Original memo with initial replies
17. Treasury Verification

18. Sanctioned Strength/P.I.P.
19. Certificate received from the Auditee
20. List of Service books
21. Statement of Allotment & Expenditure
22. Key Documents.

2.33.4 The vetting process has to ensure that

- Every finding is supported by sufficient and appropriate evidence (Key Documents) and conclusions reached should be appropriate in the circumstances.
- IR paras have been categorized appropriately as Part IIA and Part IIB respectively. An illustrative list of paras that should be categorized in Part IIA and Part IIB are provided as Annexure.
- While seeking approval of the Group Officer for issuing the inspection Report, a judgment of the persistent irregularities that need to be brought to the notice of the Executive through a ‘Department Appreciation Note’ needs to be taken. Accordingly, a ‘Department Appreciation Note’ may be issued to the respective Principal Secretary by the PAG/DG/AG/PD as envisaged in the Compliance Auditing Guidelines.
- In order to maintain the deterrent value of audit, some low risk entities may have to be audited and in such cases ‘nil’ reports may have to be issued. However, it has to be ensured that the requisite process rigour has been adhered to. All cases of ‘nil’ reports should be well documented, logically borne out and should be issued only after prior approval of the PAG/DG/AG/PD of the field office.

2.34 The Inspection Reports should be issued within one month from the date of completion of the Inspection.

(Authority: C&AG’s letter No. 1895-Admn. III/280-60 dated 20.9.60).

Any departure from this time schedule should be brought to the notice of the Deputy Accountant General (Inspection) and his orders obtained. It is also emphasized that where-ever Inspection Reports are not issued within one month of the completion of audit should invariably be shown in the state of work report of the concerned AMG-I Section as internal arrears.

2.35 All field parties are required to submit a hard copy of DIR indicating rank of the proposed I.R. para along with softcopy to AMG-I (Hqr) section within 7 days from the date of conclusion of audit. Undue delay in submission of DIR would be dealt with seriously. Printed copy of DIR should be compared with manuscript before submission. All requisite Pro forma such as computerization in auditee units and Assurance certificate for fraud and defalcation etc. and relevant key documents of all important paras should be attached in the DIR.

Certificate to the effect that audit have been conducted in conformity with auditing standard must be incorporated in all DIRs.

Certificate of Assurance to be Obtained From Field Parties along with

Draft Inspection Report

Certificate of Assurance

The audit of -----covering the
Period from-----to-----was conducted by

S/Shri -----AAO assisted by
 S/Shri 1.-----AAO 2.-----Sr. Auditor/Auditor
 from-----to-----under full/partial supervision
 Of Shri-----Sr. Audit Officer.

It is certified that all issues relating to fraud and corruption have been examined in audit, to the extent records made available for test check, in compliance with the provision of standing order contained in Hqrs. letters No. 126/Audit (AP) 1-2004 dated 06.09.2006 and other applicable instructions by the Accountant General, and suitably commented upon in the enclosed report, whenever found necessary, supported by detailed documentation.

- 1.-----
- 2.-----
- 3.-----
- 4.-----

Signature, Name & Designation of Party members

[Authority: - AG 's order No. OAD-M-F&C-49 dated- 16.01.07]

Check Register of Inspection Reports

2.36 All the Head quarters sections will maintain the "Register to watch the progress in the settlement of Inspection Report." in the prescribed format. AMG-I (Hqr) section will maintain the "Register for watching the receipt and issue of Inspection Reports" in the revised form

(C&AG 's circular letter no. 259-O & M/30-67/vol. XII dated 5.5.72)

2.37 As soon as the DIRs are received in the Hqrs. section, it will be entered in the Check Register. The serial no. of the check register in respect of the reports concern will also be noted in the file cover as well as at the top of the DIRs, indicating the year to which they relate. After that the dealing auditor /senior auditor will fill up the Editing Memo and submit the same to the AAO for scrutiny and onward submission to the group officer of AMG-I wing through the Branch Officer concerned within a week from the date of its receipt in the headquarters section.

2.38 The Senior Audit Officer acting as sub-auditor on behalf of other Accountant General (Main Senior Audit Officer) after conducting the local audit entrusted to him should forward the Inspection report and Audit comments etc. to the main Senior Audit Officer viz. the Accountant General concerned on whose behalf the audit had been conducted and latter should issue the report and pursue the same to finality.

(C&AG letter no.1836-Admn. I/Admn.III-138/62 dated 28.7.1962)

2.39 As soon as the report is finally approved by the Senior Deputy Accountant General/Deputy Accountant General (Audit Management Group-I) , the section will issue IRs to the local offices with a forwarding letter / endorsement under the signature of the Sr. DAG/DAG (AMG-I) or the Sr. Audit Officer (Hqrs.) on behalf of the former.

Authorities to Whom Copies of Inspection Reports are Required to be Supplied.

2.40 Copies of Inspection Reports on the accounts of work division offices should be sent simultaneously to the (i) Head of the office inspected (ii) the Head of the department concerned (iii) the Superior officer if any between the Head of the office and the Head of the departments and, (iv) the Administrative Department of Government and their attention invited specially to any important item or serious irregularities or other points requiring special attention. Copies of Inspection Reports will not ordinarily be sent to the Finance Department of the state Government, but when embezzlement is detected or inferred from any suspicious circumstances or any serious financial irregularity is

discovered, a copy of the Inspection Report containing such information should be sent to the Finance Department also. In such cases, special attention of both the Finance Department and Administrative Departments should be drawn in the Forwarding memorandum to the relevant paragraphs of the report so that they may take action on them as expeditiously as possible.

2.41 The memorandum forwarding copy of the Inspection Report to the Head of the local office should state that the replies to the different paragraphs of the report should be submitted within one month from the date of its receipt.

2.42 Watching receipt of replies to Inspection Reports: The period for the receipt of 1st reply should be one month from the date of issue of Inspection Report.

(Authority: C.&AG 's letter No. 1895-Admn.-III/ 268-60 dated 20.9.66)

2.43 While quarterly reminders should be sent to the office inspected for compliance of outstanding audit paras, a consolidated list of outstanding audit paras should be sent half-yearly in September and March each year to the head of the department under the signature of the Group Officer.

2.44 The receipt of compliance report for Inspection Reports and final settlement of paras are to be watched through a Progress Register of settlement of Inspection Reports in the prescribed form. This should be submitted to Branch officer / Dy. AG (AMG-I) once a month.

(Based on C&AG 's letter No. 1656- Admn-III-152-60 dated 16.8.60).

2.45 The vetting section should endeavour to settle the paras, expeditiously and in the case where final and full compliance has not been received a demi- official reminder at appropriate levels should be issued.

Objection Books

2.46 The Objection Book in the vetting section of AMG-I should be kept in Form MSO (A)-II, which provides separate columns for keeping a record of the objections under the following categories: Misappropriation, fraud, defalcation, etc.

Excess payments, loss/shortage of stores etc.

Credit sales, recoveries in respect of which have been pending beyond such reasonable period as may be prescribed by the Accountant General.

Advances pending recovery/adjustment beyond such reasonable period as may be prescribed by the Accountant General.

Miscellaneous objections

[para 7.2.25 of M.S.O(A) 2nd edition 2002]

2.47 The objection book should be submitted to Deputy Accountant General (Audit Management Group-I) or the Accountant General once in every half year i.e. on the last working day of February and August every year.

2.48 Money values of objections raised in Inspection Reports should be noted in the register for "Objection Book" maintained in form MSO Audit 10.

(Authority: C.&AG 's letter No. 692-T.A/I/635-66 dated 1.3.67 and no. 768-Tech.-Admn. I/635-66 dated 13.3.67)

Six Monthly Register of Objection

2.49 A register of items outstanding for more than six months is maintained in which necessary entries are transcribed from the objection books. The details of the objection and the action taken for their settlement should be clearly mentioned in the appropriate columns of the register. The unsettled objections should be listed in the register and submitted to the Branch officer in-charge each month for

inspection with a brief abstract showing the total number of items outstanding for each month. The register should be submitted to the Accountant General once in each quarter i.e. on the last working day of June, September, December and March. The six monthly register which do not contain any items need not be submitted to AG

[Based on para 7.2.34 of MSO (A), 2nd edition 2002]

2.50 Half-yearly lists of inspection reports and objections outstanding for over six months or one year should be sent to the ministries and departments concerned to enable them to have an idea of the pendency and to expedite their settlement.

[Vide para 7.1.12(iii) of MSO (A) 2nd edition 2002]

Proposed Draft Para Register

2.51 In each vetting section, a “Proposed draft Para Transit Register” should be maintained recording therein the cases of proposed draft paras noticed during the course of vetting. Whenever such para likely to be developed as draft paras is noticed in the DIR ,it may be brought to the notice of DAG (AMG-I) and after obtaining his approval, such paras should be entered in the PDP transit register and the extract of such paras with concerned key documents mentioning I.R.no., year and name of auditee unit may invariably be sent to the DP Cell through transit Register of the section where the cases will be further examined and will be entered in the PDP Register with the approval of the DAG (AMG-I).

The said PDP register should contain the columns for (a) I.R no. and year (b) name of auditee unit (c) Name of contributor (d) gist of para(s) marked for PDP (e) date of approval of Sr. DAG (AMG-I) and (f) money value.

Preparation and Maintenance of Audit Note Books

2.52 The Assistant Audit officer and every Senior Auditor/Auditor at the Head quarter Sections should maintain a Note Book in which he should maintain a record of the points, he has to watch, but which are not required to be noted in any of the prescribed registers. All pages of Note Book should be serially numbered and there should be an Index. Whenever there is a change of incumbency, the Note Book should be surrendered to the Assistant Audit officer who will make it over to the successor. In order to ensure that the Note Book should serve the purpose for which it has been introduced. The Assistant Audit officer should personally instruct the Senior Auditors/Auditors about maintaining it.

2.53 A similar Audit Note Book should be maintained by every Assistant Audit officer and Senior Auditor/Auditor engaged on outside audits and inspections for noting all information, rules and orders. A separate set of pages should be assigned in this note book for each auditee office the accounts of which was audited by the audit party every year.

(Based on O.O. No. (T.M.) - 1578, dated 13.9.54).

2.54 Dictionary of References

A dictionary of reference should be maintained in the AMG-I (Hqr) sections in prescribed Form which should contain a gist of all important orders, ruling and decisions affecting the wing of AMG-I requiring reference during local audits, which do not find a place in any other code or Manual. This will ensure uniformity of interpretation and practice.

(Based on Comptroller and Auditor General's letter No. 1505-Admn. I/441-53 dated 17.8.54).

2.55 Register of Draft Corrections to the Manual

A register should be maintained in which all new orders and corrections affecting the office Manual should be entered. The Assistant Audit officers (AMG-I) will be responsible for keeping the Manual up-to-date. They should propose draft corrections to the Manual as soon as any rule or order necessitating an amendment comes to their notice.

2.56 Supply of Important Orders to Audit Parties

AMG-I (Hqr) section will ensure that Xeroxed copies of all relevant orders, circulars and letters affecting the works and other activities of audit parties are issued to each audit party as well as Sr.AO on tour. All necessary guidelines should also be issued from time to time to the audit parties for better performances.

2.57 Supply of Stationary and Forms

The stationary and forms, required for use in the head quarters sections and audit parties of AMG-I (Hqr) should be obtained from the Record Section one quarter in advance e.g. supplies for the quarter ending April-June may be obtained in the month of December and those for the quarter ending July-September, in the month of March. Quarterly indents should be sent to the Record Section by the 20th of the month immediately preceding that in which the supplies are required to be obtained.

2.58 A proper stock account of all stationary articles should be maintained in AMG-I (Hqr).

2.59 The stationeries meant for AMG-I parties should be promptly supplied to concerned members of audit party and their acknowledgement obtained and kept in file.

2.60 Supply of stationary and forms will be made subject to availability of stock, in accordance with the requirement.

2.61 The annual requirement of stationary and forms should be worked out by the AMG-I Sections and intimated to the Record Section every year on or before the dates notified by the section from time to time. In preparing the indents, due consideration must be given to economy, past consumptions and stock in hand.

2.62 Reference from the Inspecting Officer and Audit Parties

All communications from the Inspecting officers and outside audit parties should be diarised in a separate register and their disposal noted against each item. The important notes and papers received from the field parties should be taken up and disposed off immediately. An arrear report of such communication should also be compiled in the diary registers at the end of each week and put up to Branch officer for his review as is done in the case of other letters received from other sources.

2.63 Submission of Certified Accounts of Statutory Bodies/Other Bodies etc. and Audit Report thereon for Presentation to the Parliament/State Legislature

The audit falling under section 14, 15, 19 and 20 of C&AG's (DPC) Act, 1971 should be conducted as per instructions contained in "Manual of Instructions for Audit of Autonomous Bodies" Volume I&II, Second Edition, July 2007.

2.64 Replies to Inspection Reports

The period for receipt of 1st reply should be one month from the date of issue of an inspection report. The receipt of such replies will be watched by the head quarters section through the check Register and

cases of unusual delay should be promptly taken up with the higher administrative authorities of the department concerned.

2.65 Disposal of Replies in the Head Quarters Section

On receipt of replies in the head quarter section they will be carefully examined by the dealing senior Auditor/Auditor concerned with reference to the original objection and submitted to the Senior Audit officer/ Assistant Audit officers at headquarters along with a draft rejoinder in respect of such items where further action is called for where the reply of the head of the office is considered unsatisfactory or insufficient, comments of the higher administrative authorities of the departments may be called for and important cases may also be referred to Government for a decision or clarification after obtaining the orders of the Senior Deputy Accountant General/Deputy Accountant General (AMG-I) or the Accountant General where necessary.

2.66 System of Records

The bulk of the records of the department consist either of inspection report files or cases on important subjects. After the inspection reports are issued, the original draft along with a spare typed copy of it, the objection statements, and other concerned papers are filed together in the same stiff cover, and this will form the nucleus of the file. All subsequent correspondence on the inspection report, including the replies and rejoinders should be filed in the relevant inspection report file.

2.67 Separate case files should be maintained on other important subjects. Care should, however, be taken to see that the numbers of files are not unnecessarily multiplied and that all correspondence connected with the same subject matter are filed together for the sake of easy reference.

2.68 The case file should have relevant file headings indicating the subject matters in brief. A “Register of case files” should be maintained by each AMG-I section.

2.69 Detailed instructions regarding the system of filing, reference and destruction of the letters etc. are contained in chapter-XIV of the Office Procedures Manual which should be consulted.



Chapter – III

Executive Powers of State

3.1 The *modus operandi* of the exercise of the power is regulated by rules of business of the Jharkhand state.

3.2 The term “Public works Department” include all its works Branches, namely Road Construction Department, Building Construction Department, Rural Development Department, Rural Works Department, Drinking Water and Sanitation Department, Water Resources Department and Energy Department.

(Authority Note 1 below Paragraph 1C of JPWD code 2012)

3.3 A State Government should have the same powers in regard to residences forming part of larger projects, such as construction of a Canal, as they exercise in regard to residence in general. Thus the residential buildings forming part of larger project should be dealt with under the rules pertaining to such buildings and not under those pertaining to the project as a whole.

Tenders

3.4 Tenders must be obtained for all works which are proposed to be given on contract unless the amount of contract is Rs.2.50 lakh or less.

- (1) The following constitute the tender documents:-
 - (i) a complete set of drawings
 - (ii) a complete specification of the work and of the materials to be used
 - (iii) a schedule of quantities;
 - (iv) a set of conditions of contract

(Authority: Rule 170 of the Jharkhand PWD.Code 2012)

- (v) Note 4 below JPWD code Rule 159a- The department should prescribe standard Notice Inviting Tenders (NIT's) for different nature/category of works so as to minimize the publication expenses. Details of such tenders should be available on internet, notice boards etc. which must be mentioned in such published tender notices

3.4.1 The Inspecting staff should particularly see that the tenders have been invited after proper publication of notice for all heavy purchases of stores. The original tenders should be examined and compared with the comparative statements and the agreements finally accepted and cases of alteration of figures, overwriting and unauthorised alterations of the tendered rates or other terms specified in the tenders should be specially investigated and the result mentioned in the inspection Report.

3.4.2 The general principal to be followed in entering into a contract are given in Para.3.7.2 to 3.7.5 of MSO (Audit) 2002.

3.4.3 Validity of tenders

The validity of tenders should be decided prior to the opening of financial bids by inviting bids for the projects costing more than Rs 50 lacs through two envelop system or in a likewise manner

(Authority : Note 2 below Paragraph 163(a) of the JPWD Code 2012)

3.4.4 Limitations on tenders

No work shall be commenced unless a properly detailed design and estimate have been sanctioned, appropriation of funds made and orders for its commencement issued by competent authority. Provision in the estimate for expenditure on a work conveys no authority for the commencement of outlay.

(Authority Rule 247 of Bihar Financial Rules adopted by Jharkhand)

3.4.5 Before a work is given out on contract, the Executive Engineer must prepare “Contract” documents to include (i) A complete set of drawing showing the general dimensions of the proposed work, and so far as necessary, details of the various parts. (ii) complete specification of the work to be done and of the materials to be used, unless reference can be made to some standard specification. (iii) schedule of the quantities of the various descriptions of work and (iv) A set of “conditions” of contract to be complied with by the person whose tender may be accepted.

(Authority Para 170 of JPWD code 2012)

3.4.6 No tender for the execution of works of any description of work branches of the Public Works Department should be considered for evaluation unless accompanied by chalan showing the deposit of earnest money into a treasury to the extent notified as necessary by the Executive Engineer or other Officer.

(Authority: Rule 161 (i) of JPWD code 2012)

3.4.7 The earnest money could be in the form of current issues of National Savings Certificates, Fixed Deposits of a Scheduled Bank(all the above mentioned form of earnest money issued within the State of Jharkhand), Bank Draft and Bank Guarantee issued by any Scheduled Bank anywhere in India

(Authority: Rule 161 (ii) of JPWD code 2012)

3.4.8 The amount of earnest money to accompany the tender and the amount and nature of the security deposit required in the case of accepted tender should be informed to the participants before. The tender notice should also stipulate that contractors submitting tenders should furnish VAT Registration along with it.

(Authority: Rule 159(v) and 159 (vi) of JPWD code)

Acceptance of tenders

3.4.9 Governor is pleased to delegate to the Chief Engineer the powers to authorize the Executive Engineers and Sub divisional officers of the Public Works Department either as a class or individually to accept tenders up to the limits and subject to the conditions specified below-

- (1) Executive Engineers.....Up to Rs.10,00,000

The amount of tenders (added to the cost of materials where materials are supplied by Government to the contractor) must not exceed the amount of the sanctioned estimated by an amount greater than that which the Executive Engineer is empowered to sanction.

- (2) Sub Divisional Officers..... Up to Rs. 50,000

The amount of tender must be strictly limited to the amount of the sanctioned estimate.

3.4.10 The Executive Engineer, Superintending Engineer and Chief Engineer of the Public Works Department have been authorized by the Department to accept tenders up to the limits and subject to the conditions specified below:-

- (1) Executive Engineer.....up to Rs.10,00,000
- (2) Superintending Engineer..... up to Rs.50,00,000
- (3) Chief Engineer up to Rs.2.50 crore

- (4) Committee chaired by Engineer-in-Chief above Rs 2.50 crores

(Authority: Rule 291 & 292 XVI (i) of JPWD code 2012)

Acceptance of piece work agreement

3.4.11 The following rules regulate the acceptance of piece work agreement-

- (a) Except as provided in clause (c) below, piece work agreements should not be accepted for any work, being the whole or part of any sanctioned project, the sanctioned estimate for which exceeds Rs.2.50 lakh
- (b) If the sanctioned estimate of the work exceeds Rs.60000 the previous approval of the Superintending or Chief Engineer should be obtained before the piece work system is adopted.
- (c) With the approval of the Superintending Engineer, piece work system may be adopted for earth work dressing and turfing in road and Irrigation projects up to a limit of Rs.12.50 lakh. It may also be adopted for work on the collection and consolidation of road metal even when the estimate for such work exceeds Rs.2.50 lakh provided that the cost of the work given out on an individual contractor does not exceed Rs.1.25 lakh
- (d) The provision of paragraphs 130 and 161 should be strictly observed and no tender for piece work should be accepted by an Executive Engineer if in similar circumstances it would not be within his power to accept a tender for contract.

(Authority Rule 166 of JPWD code 2012 adopted by the Jharkhand Government)

Departmental execution of work

3.4.12 All original works costing below Rs.2.50 lakh shall be executed departmentally

(Rule 158a of JPWD Code 2012)

Procedure for award of works to contractors

3.4.13 The contractors for execution of works in the Public Works Department are classified into five categories as follows and award of any work to any individual contractor, the cost of which exceeds the amount noted against the class to which he belongs, is prohibited except with the prior approval of the Chief Engineer:

- (a) Class I A Qualified to tender for works of any value
- (b) Class I B Qualified to tender for works up to Rs.100.00 lakh
- (c) Class II Qualified to tender for works up to Rs.50 lakh
- (d) Class III Qualified to tender for works up to Rs.30.00 lakh
- (e) Class IV Qualified to tender for work up to Rs.10.00 lakh
- (f) Class V Qualified to tender for works up to Rs.5.00 lakh only
- (g) Class VI Qualified to tender for works up to Rs.1.00 lakh only

(Authority: Jharkhand Enlistment of contractors Rules 2003)

Security Deposit for performance of Contract.

3.5 Security is to be taken for the due fulfillment of a contract. This security should be for total amount of 10(ten) % of the contract value which may comprise of -

- i) Amount deposited as earnest money duly endorsed to the Executive Engineer.

ii) Certificates and papers mentioned in paragraph 161 of JPWD code duly endorsed to the Executive Engineer. Such certificates and paper or bank guarantee should be valid upto the defect liability period after completion of the work.

iii) A deductions of rest amount from the monthly/ periodic payments to be made on account of work done.

iv) All security furnished by the successful agency is to be verified within shortest possible time. The same expediency should be observed in case of renewal of the security or recovery of money. Under no circumstances without renewal any payment should be made to any agency.

Note 1 - Parties concerned may be permitted to make either a suitable deposit or guarantee arrangements with any Bank which lodges with the Reserve Bank of India requisite securities in respect of the guarantee to be executed or fixed deposit receipts to be tendered by it on terms and conditions laid down by Government in this behalf from time to time.

Note 2- Due precautions should be observed while refunding the security deposit of the concerned agency after the completion of the work.

(Authority : Paragraph 172 of JPWD Code 2012)

Acceptance and communication of contract /agreements to audit

3.6.1 Certified copies of important contracts with high value entered into by the officers of the PWD shall be furnished to Audit office.

(Authority : Rule 169 (v) of Bihar Financial Rules adopted by the Government of Jharkhand)

3.6.2 Every sanctioning authority is responsible that all sanctions and orders against which audit of receipts or disbursements is to be conducted by the Accountant General, are communicated to him. A consolidated monthly return of Major and Minor works and Repairs and Tools and Plant comprising all sanctions to estimates and appropriations of works and projects accorded by the subordinates of the Department with those accorded by the Department of Government, should be submitted by the Superintending Engineer or Deputy Chief Engineer, to the Chief Engineer who should transmit the same to the Accountant General not later than 15th of the month following that to which it relates.

(Article 29 of BPWA Code and Note 2 thereunder)

3.6.3 Miscellaneous Powers of the Officers of the Public Works Department

I. Purchase, manufacture or repair of

(a) Office furniture

Chief EngineerFull Power
Superintending Engineers...up to Rs 75000

(b) Live stock

Chief Engineer.....No powers
Superintending Engineer....No powers
Executive Engineer..... No power

(c) Tents

Chief Engineer.....Full powers
Superintending Engineer...Rs.35000 for each estimate

(d) Tools and Plant other than (a) (b) and (c)

Chief Engineer.....Full powers

Superintending Engineer...Purchase up to Rs.1.50 lakh for each estimate for
A new supplies and for repairs within the limits
assigned to his circle in the budget Estimate.
Executive Engineer..... Up to Rs.15000

II. Purchase of stores

Stores other than tools and plant. – Stock, road metal and other materials required in ordinary course for the execution of sanctioned works, may be procured on the responsibility of the Executive Engineer without special authority, though the Superintending Engineer's approval should be obtained to the measure proposed for the purchase of the stock in large quantities.

(Authority : Paragraph 257 of JPWD Code 2012)

III. Disposal of stores-

Superintending Engineer can order disposal of all unserviceable stores including stock, tools and plant, materials at site of works and materials received from works dismantled or under going repairs and to sanction their write off, where necessary. Also sanction the issue of any materials from store to private persons or other departments (including State Railways) for full value plus usual charge of 10 per cent when this can be done without inconvenience to the public service.

Note -The State Government have waived the departmental charges leviable under rules 152 and 176 of Bihar Financial Rules on the sale of G.C.I sheets to the Health Department.

The sale proceeds will be booked under the head 1059 Public Works other receipts.

(Authority: Delegation of Financial Powers (Rule 292 of JPWD Code 2012 and Rule 152 and 176 of Bihar Financial Rules)

Executive Engineer – To sanction the writing off from the returns of tools and plant of all tools and plant the full value of which has been recovered and issue orders for disposal by sale or otherwise of surplus stores at their full value and of materials received from works dismantled for undergoing repairs at their estimated value up to Rs.5000.

Sanction sale of articles on the stock accounts to persons for full value plus 10% up to Rs.5000

IV. Losses due to depreciation

Superintending Engineer –To sanction estimates for losses due to depreciation of stock up to a limit of Rs.70000/- with condition that reasons are reported to the Chief Engineer and the Accountant General

.Executive Engineer- No powers

V. Write off –

Chief Engineer, and Superintending Engineer- To write off the irrecoverable value of stores of public money subject to the conditions (a) that the loss does not disclose a defect of system the amendment of which requires the orders of the Government and (2) that there has not been any serious negligence on the part of some individual officer or officers which might possibly call for disciplinary action up to a maximum limit of Rs.3500.

VI. Losses in Manufacture-

All unusual losses in the manufacture of materials must, on their occurrence, be reported to the Superintending Engineer-

(Authority : Paragraph 142 of JPWD code)

Sale of State Buildings

3.7 The Superintending Engineer in the buildings and roads branch of the Public Works Department are authorized to dismantle and sell state buildings (excepting residences) the book value of which is not over Rs.35000, in each case, but before exercising this power, it should be ascertained by reference to the local Civil Officers whether the buildings can be put to any use.

(Authority: Rule 293 of JPWD Code 2012).

Powers of Executive Engineer

3.8 The powers of the Executive Engineer in respect of Work Divisions of Jharkhand are provided in Paragraph 294 of JPWD Code 2012

- (i) Alteration in design– Power to sanction trifling alterations in the constructional details of works during their execution in cases of necessary reporting as a general rules, his action to the Superintending Engineer.
- (ii) Technical sanction and approval of BOQ-Rs 25 lakh for each work provided that Administrative approval has been accorded by the competent authority. These powers apply to deposit works also.
- (iii) Excesses over sanctioned estimates- Powers to pass all excess of not more than 20 per cent of the amount of original estimate sanctioned by himself or by higher authority provided that total amount of the excess is within the limit of his powers to sanction estimate technically under Para 294 of JPWD Code 2012. But, an Executive Engineer has no power to sanction any excess over a revised estimate sanctioned by higher authority.
- (iv) Approval of excess beyond agreement – EE has power to approve maximum 10 % beyond agreement amount which will be inclusive of claim or due to supplementary agreement and it will be subject to permissible limit of Administrative approval.
- (v) Emergent repairs – Full powers to sanction the emergent repairs to works to any reasonable and necessary amount in case of imminent danger to the structure but this should be reported as a general rule to the Superintending Engineer within 15 days.
- (vi) Contract – Power to accept tenders up to Rs.10 lakh for original works.
- (vii) Departmental work – EE has power to sanction execution of work departmentally for the works up to Rs 1 lakh subject to maximum of Rs 5.00 lakh in an year. But, this will be reported in writing to the department within 15 days of such order.

3.9 Deposit Work- Power to authorize undertaking of contribution or Deposit Work up to Rs. 10,000 excluding departmental charges.

3.10 Purchase. Manufacture and repair of tools, plants and accessories- Power to sanction the purchase, manufacture and repair of Tools and Plant (excluding live-stock, office furniture and tent upto Rs 15000.

3.11 Based on the approval of the Cabinet, the Government of Jharkhand, Road Construction Department, Ranchi decided (26 March 2002) that all materials required for execution of contracts over Rs 10 lakh would be supplied by the contractors and not by the department. It was also decided that “approved percentage rates” over the tendered Bill of Quantity (premium rates) were not payable to contractors on the cost of materials like bitumen, cement, steel, rods, pipes and other construction materials including carriage and profit, supplied and utilised by them in the works.

3.12 Purchase of manufacture of stock – Reserve of stock will be maintained only when necessitated by the remoteness of the division or works from the market or source of supply, or for use in emergency. When it is considered necessary that reserve should be maintained the maximum limit will be fixed by the Chief Engineer. Divisional Officers are empowered to purchase or manufacture stores to maintain the reserve subject to the approval or sanction to estimates, vide paragraphs 261 and 262 of JPWD code.

(Authority : paragraph 263 of JPWD Code 2012)

3.13 Write off – Executive Engineer has power to sanction the write off, from the tools and plant returns, of all tools and plant the full value of which has been recovered. He has also powers to issue orders for disposal by sale or otherwise of surplus stores at their full value and of materials received from works dismantled or undergoing repairs at their estimated value, if the value of such store is upto Rs 5000.

(Authority : paragraph 294 of JPWD Code 2012)

3.14 Disposal of Stores

(i) Powers to issue orders for disposal by sale or otherwise of surplus stores including at their full value materials received from works dismantled or undergoing repairs their estimated value when the original purchase value of the articles does not exceed Rs. 5000/-

(ii) Powers to sanction the sale of articles on the stock accounts to private persons at full value, plus the supervision charges of ten *percent* when this can be done without inconvenience to the public service up to limit of Rs. 5000/-

(Para 294 of JPWD Code 2012)

(iii) Power to issue orders for the disposal by public auction of unserviceable materials after dismantling of Public works buildings at their estimated value, when their estimated value is up to Rs. 10,000

(Para 294 of JPWD. Code)

3.15 Advances to Contractor on the security of materials brought to site for contract for finished work- Power to sanction advances up to an amount not exceeding 75 per cent of the market value of the materials provided that they are not of perishable nature and that a formal agreement is drawn up with the contractor under which Government secures a lien on the materials etc. under paragraph 251(a) of Bihar Public Works Account Code adopted by Government of Jharkhand.

3.16 Technical sanction to detailed estimates for special repairs- Power to sanction such estimates up to Rs.1,00,000 .

3.17 Technical sanction to detailed estimates for ordinary repairs- Power to sanction within the limit of budget allotments for each work plus such amount as can be provided by re-appropriation

3.18 Repair: Materials required for maintenance and repair to works shall be indented for by the Sub-Divisional Officer to the extent that can be consumed within a year. The Executive Engineers will be held personally responsible for the strict observance of this rule; unless such materials can be straight way made over to specific repair works, they should be brought on to stock.

(Authority Para 275 of JPWD code 2012)

3.19 Unused Stock: When submitting his second half yearly return of stock the Sub-Divisional Officer shall submit a list of items for which there have been no transactions for the last two years. The Executive Engineer shall obtain the orders of the Superintending Engineer as to the disposal of such materials. The Superintending Engineer should make every attempt to obtain the utilisation of this stock by other Executive Engineers in his own or other Circle and if they cannot be so disposed of, order then to be sold.

(Authority Para 276 of JPWD code 2012)

3.20 Tools and Plant : When submitting their annual return of tools and plant the Sub divisional Officers shall submit a list ;of all tools that have not been used for two years and/of plant that has not been used for three years and the Executive Engineers shall obtain the orders of the Superintending Engineer regarding their disposal. The Superintending Engineer shall ascertain whether these tools and plant are required in any other circles and if not, sanction their sale by calling for sealed tenders or by public auction (with a reserve price) whichever is more likely to obtain the better price. In a case; where; neither method is likely to fetch a good price, a private sale may be accepted with previous permission of the Superintending Engineers, who will satisfy himself as to adequacy of the offer before according his permission.

Before any new tools and plant are indented for by any Executive Engineer he must ascertain from the Superintending Engineer, whether they can be made available from other circles.

(Authority Para 277 of JPWD code 2012)

3.21 Unserviceable stores

(i) The Superintending Engineers shall have full powers to dispose of all unserviceable stores including stock and tools and plant, materials at site of work, materials received from works dismantled or undergoing repairs and to sanction their write off whenever necessary.

(ii) The Superintending Engineers shall have full power to sanction write off of the irrecoverable stores mentioned in item (i) above.

(Authority Para 293 of JPWD code 2012)

3.22 Surplus stores (i) The Superintending Engineer shall have power to dispose of surplus stores including stock and tools and plant materials at site of works and to sanction their write off where necessary value of which is up to Rs. 70,000 in each case subject to the condition that reasons should be recorded and communicated to the Chief Engineer and the Accountant General Jharkhand. In case of tools and plant where the book value cannot be ascertained the estimated value should be taken into account.

(Authority Para 293 of JPWD code 2012)

Delegation of Financial Power

3.23 The following powers have been delegated to the Chief Engineer

(Authority: Govt. of Bihar letter no. 62 dated 09.09.1974)

Nature of Power	Limit of Powers	Remarks
Sanction to estimates Administrative Approval	Original works other than individual projects of Water Supply and Sanitary and Electric Installation	
	A – Non-residential buildings	
To accord administrative approval to estimates for projects or works	(i) Rs. 70,000/- for non-residential buildings belonging to his department the cost of which is debitable to the Public Works Grant.	
	(ii) Rs. 35,000/- for misc. works belonging to his department the cost of which is inclusive of water supply, works grant, electrical installation	
	(iii) Rs. 70,000/- for communication works	Chief Engineer concerned
	Note: (i) Power delegated is inclusive of water supply, sanitary and electrical installation where such works forms part of the main buildings projects (ii) Communication works included works on road side inspection bungalows, rest houses (iii) Power delegated will not apply to works on the following non residential buildings (a) Secretariat buildings at Ranchi and temporary barracks adjoining; the Secretariat compound at Ranchi. (b) Legislature building (both Assembly and council) at Ranchi. (c) Buildings used for residential purpose; but are classified as non residential e.g. police barracks, hostels, peons, barracks etc. (v) Government in the Public Works Department will accord administrative approval to all works relating to buildings mentioned at (iii) (a) and (b). As regards works relating to the buildings mentioned at (iii) (c) administrative approval will be accorded by the government in the Administrative Department concerned. (i)* 4701- works for which capital and revenue accounts are kept works chargeable to capital account-Rs.70,000 (ii)*0702 –Works for which Capital and Revenue Accounts are kept –Extensions and Improvements –Rs.70,000 (iii) 4701 Works for which Capital and Revenue accounts are not kept (a) Original works-Extensions and improvements Rs.70,000 (b) Miscellaneous expenditure-Rs.35000 in each case. Subject to the conditions that these powers should not be exercised unless there is budget provision specifically made for the purpose and the expenditure is non- recurring (Limits fixed are exclusive of percentage charges for Establishment, Tools and Plant.)	Chief Engineer concerned
	B. Residential Buildings Rs.50,000 for residential buildings occupied ;by	

	<p>officers of his own department the cost of which is debitable to the Public Works Grant subject to the proviso that the standard rent of the buildings calculated under Fundamental Rules or Jharkhand Service Code Rules as the case may be, shall not exceed 10 per cent of the average emoluments of the class of tenants for which it is intended and subject to the further proviso that the projects conform to the type plants duly approved by Government</p> <p>Note 1- Power delegated is inclusive ;of the water supply, sanitary and electrical installations where such works are parts of the main building projects</p> <p>Note 2- Power delegated will not apply to any new works and also of works of addition or alteration to existing residential buildings and quarters occupied free of rent.</p> <p>Note 3- Government in the Public Works Department will accord administrative approval to the projects relating to-</p> <p>(a) residences at Ranchi.</p> <p>(b) Chambers, quarter's flats (including Legislatures (club) etc. meant for the members of both houses of Legislature at Ranchi.</p> <p>©residences at Ranchi intended for occupation by Ministers, the gazetted officers of the Secretariat and the Heads; of the Departments and the gazetted officers attached to their offices.</p> <p>(d) Clerks quarters at Ranchi intended for occupation by the ministerial staff accompanying Government and Heads of Department to Ranchi.</p> <p>Individual projects of Water Supply, sanitary and electrical installation.</p>	
	<p>C – Non-residential Buildings.</p> <p>For additions, improvements and alteration to existing Water Supply, sanitary & Electrical installations:</p> <p>(a) Rs. 35,000/- for Water Supply or Sanitary installation.</p> <p>(b) Rs.15,000/- for Electrical installation.</p> <p>Subject to the proviso that such additions or alterations are in accordance with the scale and type fixed by the Government, for a particular class of buildings and where no such scale and type have been fixed it should be certified by the estimating officers concerned that the proposed works of addition, improvement and alteration are not in excess of the need for the class of building to which work relates.</p> <p>Note 1 – Outlay on the first installation of Water Supply, Sanitary and Electrical Works in a building will require the sanction of Government.</p> <p>Note 2 – Power delegated will apply to those non-residential buildings only the cost of which is debitable to the Public Works Grant.</p> <p>Note 3 – Power delegated will not apply to non-residential buildings mentioned in Note iii (c) under item no. I-A.</p>	
	<p>D – Residential Buildings</p> <p>For additions, improvements and alterations to the existing water-supply, sanitary and electrical installations including out-houses:</p> <p>(a) Rs. 75,000/- for Water Supply or Sanitary</p>	

	<p>installation (b) Rs. 10,000/- for Electrical installation. Subject to the condition (a) that the standard rent of the buildings calculated under Fundamental Rules or Jharkhand Service Code Rules, as the case may be shall not exceed 10 percent of the average emoluments of the class of tenants for whom it is intended; (b) that such additions, improvements, and alterations are in accordance with the scale and type fixed by Government for a particular class of buildings, and (c) where no such scale and type have been fixed, it should be certified by the estimating officer that the proposed work is not in excess of the need for the class of buildings to which the work relates. Note 1 Outlay on the first installation of Water Supply, Sanitary and Electrical works will require the sanction of Government. Note 2 Powers delegated will apply to works on those residential buildings only, the cost of which is debitable to the Public Works Grant. Note 3 Powers delegated will not apply to residential buildings mentioned in Notes 2 and 3 under item 1-B.</p>	
II Alteration in Design	To sanction necessary alteration in the constructive details of works during their execution, provided such alteration do not cause an increase of charge beyond the limit of his powers to deal finally with excess over estimates.	
<p>III Allotment of funds.</p> <p>(i) To allot funds from the reserve placed at his disposal for losses on stock</p> <p>(ii) Transfer of saving: (a) To transfer saving from any one portion of the project to another within the sanctioned estimate in the case of projects for Civil Works sanctioned by Government.</p> <p>(b) To transfer savings from any one portion of the project to another which is not provided in the sanctioned estimate but is necessary for that particular project</p>	<p>Up to Rs.20000/- subject to the condition that the reasons should be reported in writing to the Public Works Department, Finance Department and the Accountant General (A & E), Jharkhand.</p> <p>Full power subject to the condition that the order of the Department should be obtained in case of any material departure from the approved estimate.</p> <p>Full power subject to the condition that the order of the Department is obtained prior to the sanction</p>	
<p>IV. Technical Approval, Technical sanction and approval of BOQ</p> <p>(i) To accord technical sanction/ Technical approval to estimates for works including Electric Works (original and supplementary), (survey, investigation and testing) and approval of BOQ.</p>	<p>Full powers. In case of irrigation projects, however, the Chief Engineer can accord technical sanction to detailed working estimates against the sanctioned provision under each head, after administrative approval to it has been accorded by the competent authority provided that whenever any modification is proposed in the details of the scheme involving a departure from the approved design or the alteration of the other parts of the scheme or affecting the standard of efficiency or stability of the whole work, he should move the State Government to accord or obtain fresh administrative approval.</p> <p>Note: - These powers apply to Deposit Works also.</p>	

(ii) To sanction estimates technically for land required for construction of buildings.	Full powers	
(iii) To sanction estimates for ordinary repairs.	Ditto.	
(iv) To sanction estimates for special repairs	Ditto	
(v) To prescribe lump sum provision for annual repairs to electric installation of civil buildings.	Up to a limit of Rs.25,000 in each case where cost of such annual ordinary repairs is less than Rs.25,000, subject to revision from time to time. Within this amount the expenditure will be permissible year after year without any detailed estimate being prepared and when the above limit is exceeded in any working year; detailed estimates will have to be prepared according to ordinary rules and got sanctioned by the competent authority.	Chief Engineer concerned.
(vi) To sanction (a) estimates for losses due to depreciation of stock or due to reduction in the rates of prices of stock, or (b) due to disposal of all unserviceable stores, etc.	(a) Up to Rs.1.50 lakh (b) Up to Rs. 1.50 lakh	Subject to the condition that the reasons should be recorded in writing to the Public Works Department, Finance Department and the Accountant General (A&E), Jharkhand.
(v) Disposal of stores- (i) To declare any stores (including stock tools and plant materials received from works dismantled or undergoing repairs) as surplus and unserviceable and to issue order for the disposal by public auction or other wise of these stores. (ii) To sanction the write off of the irrecoverable loss due to the disposal of the surplus, stores by public auction or otherwise. (iii) To remit the supervision charge of 10 % in the case of sale of surplus stores when considered to be un saleable.	(i) Full powers subject to the condition that reasons should be recorded and communicated to the Public Works Department, Finance Department and the Accountant General (A&E), Jharkhand. (ii) Full powers-subject to the condition that the reasons should be reported in writing to the Public Works Department, Finance Department and the Accountant General (A&E), Jharkhand. (iii) Full powers.	
VI. Excess over estimates. (i) To pass excess over estimates sanctioned by themselves or higher authority. (ii) To pass excess expenditure on all other works. (iii) To pass excess over annual repair estimated.	To pass all excess of not more than 20% of the amounts of original estimates sanctioned by him or by a higher authority. Up to a limit of Rs.10,000 in respect of the total of the sanctioned estimates. Full powers-subject to the provision that total expenditure under the primary unit repairs including the excess is within the available grant.	Subject to permissible limit of administrative approval.
VII. Contingencies in the estimate for a work. To divert provision for contingencies in an estimate to new works or repair and provided there in but fairly contingent on the proper completion of work.	Up to Rs.75,000	

<p>VIII. Tools and Plants..</p> <p>(i) to sanction the purchase, manufacture and repair of Tools, Plant and accessories other than office furniture, live stock and tents.</p> <p>(ii) to sanction the purchase, manufacture and repair of office furniture.</p> <p>(iii) Tents To sanction the purchase, manufacture or repair of tents.</p> <p>(iv) Stock limit. To sanction the stock limit for each division and for its reduction</p>	<p>Full powers within the limits assigned in the budget estimates.</p> <p>Full powers within the limits assigned in the budget estimates.</p> <p>Full powers within the limit assigned in the budget estimate.</p> <p>Full powers.</p>	<p>The stock limit shall not exceed the requirement for six months</p>
<p>IX. Compensation. To sanction estimate for compensation for crops destroyed by breaches of canals</p>	<p>Up to Rs.10,000</p>	<p>Chief Engineer concerned</p>
<p>X. Low suits. To sanction law suits</p>	<p>May sanction expenditure on account of law charges as prescribed by the finance department from time to time</p>	
<p>XI. Rent of Buildings. To sanction rent of buildings used as office.</p>	<p>May sanction within the limit of budget provision as prescribed by the finance department from time to time.</p>	
<p>XII. Sale or Dismantlement of Buildings</p> <p>To sanction disposal or demolition of public buildings (other than residential buildings) and Inspection Bungalows constructed from public funds</p>	<p>Up to book value of Rs.75,000 subject to the following restrictions –</p> <p>(1) Whenever he sanctions the sale of a building he should communicate the order to the collector, take necessary action to sell lands and building together</p> <p>(2) No buildings should be sold unless it has been previously ascertained that it is not required by any Department of Government and approval of collector should be obtained before any building is ordered to be sold.</p> <p>(3) No building should be demolished unless it is in a dangerous condition or beyond repairs.</p> <p>(i)Power should not extend to the sale or dismantlement of several individual buildings situated in a compound the total cost of which exceeds Rs.75,000.</p> <p>(ii) When it is proposed to sell or dismantle a portion of the building, the value of entire building and not of the portion should be taken into consideration.</p>	
<p>XII. Write off of losses (i) To sanction the write off of lost measurement books including the</p>	<p>Full powers</p>	

standard measurement books		
(ii) To sanction the write off of the lost receipt books	Full powers	
(iii) To write off irrecoverable sum of public money lost through fraud or negligence of individuals or by other causes	Up to Rs.3500 in each case subject to the following conditions (i) To declare any stores disclose a defect of system the amendment of which requires the orders of Government and (ii) that there has not been any serious negligence on the part of some individual officer or officers which might possibly call for disciplinary action requiring the orders of higher authority (see rule 63 of the Jharkhand Financial Rules).	
(iv) To sanction the write off of irrecoverable value of all classes of stores lost, destroyed or damaged through fraud or negligence of individuals or by other causes	Up to Rs.3500 in each case subject to the condition (i) that the loss does not disclose a defect of system, the amendment of which requires the orders of Government and (ii) that there has not been any serious negligence on the part of some individual officer or officers which might possibly call for disciplinary action requiring the orders of higher authority (see rule 63 of the Jharkhand Financial Rules)..	
XIV Contribution Works To authorize undertaking of contribution works or deposit works	Up to Rs.75,000 excluding Departmental charges	
XV. Statement of objections To dispose off half yearly statement of items held under objection	Full powers to dispose of statement of objections in the case of accounts of the Division provided no financial rules are infringed.	
XVI Contracts and Tenders (i) Power to accept tenders	upto 2.50 crores beyond which power vests in a committee chaired by Engineer-in-Chief	
(ii) To alter the time limit and to remit or reduce the penalty provided in all agreements or contract	Full powers except in case of those entered into by higher authority	Extension of Time (EOT) –In contracts approved by the Chief Engineer-full powers where extension of time (EOT) required is upto 25% of the time period defined in the contract. Engineer-in-Chief shall be competent for grant of period beyond 25% and upto 50%. Matters beyond 50% shall be referred to a committee headed by Departmental Secretary whose other members would be-E-i-C, Internal Financial Advisor and the concerned Chief Engineer.
XVII. Classes of deeds etc (i) All instruments relating to purchase, supply and conveyance or carriage of materials, stores, machinery etc. (ii) All instruments relating to the execution of works of all kinds, connected with buildings, bridges, roads, canals, tanks reservoirs, docks and herbours, and	Full power	Chief Engineers concerned

<p>embankments and also instruments relating to the construction of waterworks, sewage works, the erection of machinery, and the working of coal-mines.</p> <p>(iii) Security bonds for the due performance and completion of works.</p> <p>(iv) Security bonds for the due performance of their duties by Government servants whom the officers specified have power to appoint.</p> <p>(v) Leases for grazing cattle on canal banks or roadsides, for fishing in canals for the cultivation of land under the Irrigation Department, lease of water for irrigation and other purposes and leases of water power and instruments, relating to the sale of grass, trees or other produces on roadside or in plantation.</p> <p>(vi) Leases of houses, lands or other immovable property provided the rent reserved shall not exceed Rs.5, 000/-month.</p> <p>(vii) All instruments connected with the recovery of property given as security.</p> <p>(viii) Instruments connected with the collection of framing of tolls at bridges or ferries or other means of communication provided by the State Government.</p> <p>(ix) Agreements for the recovery of fines on account of drift wood or other timber passing into a canal.</p>		
XVIII Purchas of Books, Periodicals, maps and other Publications,quality control laboratory equipments and	Full powers	
XIX. Printing of Forms and Stationary in Private Press	Upto Rs 25000	
XX Approval of Excess beyond Agreement Amount	Maximum up to 25% beyond agreement amount which will be inclusive of claim or due to supplementary agreement	subject to permissible limit of Administrative Approval
XXI To sanction execution of work departmentally	up to Rs. 10 lakhs for each works circle/year within his jurisdiction	Subject to the condition that the reason should be reported in writing to the department within 15 days of such order

3.24 The following powers have been delegated to the Superintending Engineer:

Nature of Power	Limit of power	Remarks
1 Sanction to estimates Administrative Approval	Original works other than individual project of water supply and sanitary and electrical	

<p>To accord administrative approval to estimate for projects or works</p>	<p>installations</p> <p>A – Non- residential buildings</p> <p>(i) Rs. 35,000/- for non-residential buildings belonging to his Department the cost of which is debitable to the Public Works Grant.</p> <p>(ii) Rs.20,000/- for Misc. works belonging to his Department the cost of which is debitable to the Public Works Grant.</p> <p>(iii) Rs. 35,000/- for communication works</p> <p>Note (i) Power delegated is inclusive of Water Supply, Sanitary and electrical installations where such works form part of the main buildings project.</p> <p>(ii) Communication works include works on road side Inspection Bungalows, Rest Houses etc.</p> <p>(iii) Power delegated will not apply to works on the following non-residential buildings; (a) Secretariat building of the state government (b) Legislative buildings (c) Building used for residential purpose but are classified as non-residential e.g. police barracks, hospitals, peons barracks etc.</p> <p>(iv) Government in the PWD will accord administrative approval to all works relating to buildings mentioned at (iii) (a) and (b). As regards works relating to the buildings mentioned at (iii)(c) administrative approval will be accorded by the Govt in the administrative department concerned.</p>	<p>Superintending Engineer concerned</p>
	<p>B – Residential Buildings</p> <p>Rs. 35,000/- for residential buildings, occupied by officers of his own department the cost of which is debitable to the Public Works Grant, subject to the proviso that the standard rent of the buildings calculated under Fundamental Rules, or Jharkhand Service Code Rules, as the case may be shall not exceed 10 percent of the average emoluments of the class of tenants for whom it is intended and subject to the further proviso that the projects conform to the type plans duly approved by Government.</p> <p>Note 1 Power delegated is inclusive of water-supply, Sanitary and Electrical installation where such works are parts of the main buildings projects.</p> <p>Note 2 Power delegated will not apply to any new work and also of works of additions or alteration to existing residential buildings and quarters occupied free of rent</p> <p>Note 3 – Government in the Public Works Department, will accord administrative Approval to the projects relating to :-</p> <p>a) Residences at Ranchi</p>	

	<p>b) Chambers, quarters, flats (including Legislature's club), etc., meant for the members of Legislature at Ranchi</p> <p>c) Residences at Ranchi intended for occupation by Ministers, the gazette officers of the Secretariat, and the Heads of Departments and the gazetted officers attached to their officers.</p> <p>d) Clerks' quarters at Ranchi intended for occupation by the ministerial staff accompanying Government and Heads of Departments to Ranchi.</p> <p>Individual projects of water supply, sanitary and electric Installations..</p>	
	<p>C – Non-residential buildings For additions, improvements and alterations to existing Water Supply, Sanitary and Electric Installations— (a) Rs. 20,000/- for Water Supply of Sanitary installation; (b) Rs. 10000/- for Electric installation</p> <p>Subject to the proviso that such addition or alteration is in accordance with the scale and type fixed by the Government, for a particular class of buildings and where no such scale and type have been fixed it should be certified by the estimating officers concerned that the proposed works of addition, improvement and alteration are not in excess of the need for the class of building to which the work relates.</p> <p>Note 1- Outlay on the first installation of Water supply, Sanitary and Electrical Works in a building will require the sanction of Government.</p> <p>Note 2 – Power delegated will apply to those non-residential buildings only the cost of which is debitable to the Public Works Grant.</p> <p>Note 3 – Power delegated will not apply to non-residential buildings mentioned in Note (iii) (c) under item no 1-A.</p>	
	<p>D – Residential building For additions, improvements and alterations to the existing Water Supply, Sanitary and Electrical Installations in residential buildings including out-houses— (a) Rs. 10,000/- for Water Supply or Sanitary installation, (b) Rs.5000/- for Electrical installation.</p> <p>Subject to the condition (a) that the standard rent of the buildings calculated under Fundamental rules or Jharkhand Service code rules, as the case may be shall not exceed 10 percent of the average emoluments of the class of tenants for whom it is intended (b) that such additions, improvements and alterations are in accordance with the scale and type fixed by government for a particular class of buildings; and (c) where no such scale and time</p>	

	<p>have been fixed, it should be certified by the estimating officers that the proposed work is not in excess of the need for the class or buildings to which the work relates.</p> <p>Note 1 Outlay on the first installation of water supply, sanitary and electrical works will require the sanction of Government.</p> <p>Note 2 powers delegated will apply to works in those residential buildings only, the cost of which is debitable to the Public Works Grant.</p> <p>Note 3- Powers delegated will not apply to residential buildings mentioned in note 2 under item No.1B.</p>	
II .Alteration in design	To sanction necessary alteration in the constructive details of works during their execution provided such alterations do not cause an increase of charge beyond the limit of his powers to deal finally with excess over estimates	
<p>III. Technical approval, technical sanction and approval of BOQ</p> <p>i) To accord technical sanction / Technical Approval to estimates for works including Electrical Works (original and supplementary) & Approval of BOQ</p> <p>ii)To sanction estimates for ordinary repairs.</p> <p>iii)To sanction estimates for special repairs.</p> <p>iv)To prescribe lump sum provision for annual repairs.</p> <p>v)To prescribe lump sum provision for annual repairs to Electrical Installation in Civil buildings.</p> <p>vi)Periodical repairs :- To authorize commencement of urgent periodical repairs in anticipation of formal sanction of estimates.</p> <p>vii)Emergent repairs :- To sanction emergent repairs to work to any reasonable and necessary amount in case of imminent danger to the structure.</p> <p>viii)To sanction estimate for (a) losses due to depreciation of</p>	<p>Rs. 50 Lakhs for each work, provided that Administrative Approval or sanction has been accorded by the competent authority.</p> <p>Note 1 – The above limit excludes departmental charges.</p> <p>Note 2 – The above limit apply to Deposit Works also.</p> <p>Within the limits assigned to his circle in the budget estimate.</p> <p>Ditto.</p> <p>Up to Rs. 15000 for each case (excluding municipal tax).</p> <p>Up to a limit of Rs 15000 in each case where cost of such annual ordinary repairs is less than Rs 15000 subject to revision from time to time. Within this amount the expenditure will be permissible year after year without any detailed estimate being prepared and when the above limit is exceeded in any working year, detailed estimates will have to be prepared according to ordinary rules and got sanctioned by the competent authority.</p> <p>Full Powers.</p> <p>Full Powers.</p> <p>Up to Rs. 70000 subject to the condition that the reasons should be reported in writing to the Chief</p>	<p>Amount of Administrative Approval will be the guiding factor for limitations of financial power``</p>

<p>stock or due to reduction in the rates of prices of stock or (b) due to disposal of unserviceable stores, etc.</p> <p>ix) To sanction estimate for survey ,investigation and Testing including approval of Alignment</p>	<p>Engineer and the Accountant-General, Jharkhand</p> <p>Full power</p>	
<p>V.Disposal of stores</p> <p>(i) To issue orders for the disposal of all unserviceable stores including stock and tools and plant materials at site of work materials received from works dismantled or under going repairs and to sanction their write off where necessary</p> <p>(ii)To sanction the write off of the irrecoverable value of unserviceable stores mentioned in item (i) above</p> <p>(iii) To issue orders for the disposal of surplus stores including stock and tools and plant materials at site of works and to sanction their write off where necessary</p> <p>(iv) To sanction the write of of the loss from the book value of surplus stores mentioned in item (iii) above that is the difference between the book value of articles and the amount realized by their disposal</p> <p>(v) To sanction the write off of the irrecoverable loss of the surplus materials exceeding the book or estimated value of Rs.75,000</p> <p>(vi) To sanction the issue or sale of any materials from store yards to private persons or other departments (including state Railways) for full value including supervision charge of 10 per cent when this can be done without inconvenience to the public service</p> <p>(vii)To remit the supervision charges of 10 percent in the case of sale of surplus stores when the sale is sanctioned by him and when in his opinion, the sale would otherwise be unsaleable.</p>	<p>Full powers</p> <p>Full powers</p> <p>Rs.75,000 in each case subject to the condition that reasons should be recorded and communicated to the Chief Engineer and the Accountant General Jharkhand.</p> <p>[Note – In the case of Tools and Plant, where the book value cannot be ascertained, the estimated value should be taken into account.]</p> <p>Rs.7000 in each case</p> <p>Limited to 20 percent of the book or estimated value, subject to the condition that the reasons should be reported in writing to the Chief Engineer and the accountant general Jharkhand.</p> <p>Full powers</p> <p>Full powers</p>	
<p>VI Excess over Estimates</p> <p>(i) To pass excess over estimates sanctioned by themselves or higher</p>	<p>To pass all excesses of not more than 20 percent of the amount on original estimates sanctioned by himself or higher authority provided that the total</p>	

<p>authority.</p> <p>(ii) To pass excess expenditure on all other works</p>	<p>amount of the excess is within the limit of his powers to sanction estimates technically.</p> <p>To pass all excess expenditure within a limit of Rs.5000 on sanctioned original works and repairs irrespective ;of the total amount of the sanctioned estimate;</p> <p>Note- Superintending Engineer has no power to sanction any excess over a revised estimate sanctioned by higher authority</p>	
<p>VI. Contingencies in the estimate for a work</p> <p>To divert provision for contingencies in an estimate to new works or repairs not provided therein but fairly contingent on the proper completion of works.</p>	<p>Up to Rs.35000 subject to the condition laid down as follows</p> <p>(1) If the amount provided under the head contingencies in an estimate is either expended or earmarked, no further new works or repairs should be sanctioned till fund for such works or repairs are allotted.</p> <p>(2) No works or repairs which are not fairly contingent should be undertaken without proper sanction to a supplementary estimate which should be submitted for sanction as soon as the necessity is foreseen.</p>	
<p>VIII. Tools and Plant</p> <p>(i) To sanction the purchases, manufacture and repair of tools, plant and accessories other than office furniture live stock and tents</p> <p>(ii) Office furniture To sanction the purchase, manufacture and repair ;of office furniture</p> <p>(iii) Tents To sanction the purchase, manufacture or repair of tents</p>	<p>Up to Rs.1.50 lakh for each estimate for new supplies and for repairs within the limits assigned to his circle in the budget estimate.</p> <p>Up to Rs.75000 for each estimate</p> <p>Up to Rs.35000 for each estimate</p>	
<p>VIII .Compensation To sanction estimate for compensation for crops destroyed by breaches of canals</p>	<p>Up to Rs.5000</p>	<p>Superintending Engineer concerned</p>
<p>IX. Rent of Buildings To sanction rent of buildings used as offices</p>	<p>May sanction within the limit of budget provision as prescribed by the finance department from time to time –</p>	
<p>X Sale or dismantlement of buildings To sanction disposal or demolition of public buildings (other than residential buildings) and Inspection Bungalows constructed from public funds</p>	<p>Up to book value of Rs.35000 subject to the following restrictions-</p> <p>(1) Whenever he sanctions the sale of a building he should communicate the order to the Collector to take necessary action to sell lands and buildings together.</p> <p>(2) No buildings should be sold unless it has been previously ascertained that it is not required by any Department of Government and approval of collector should be obtained before any building is ordered to be sold.</p> <p>(3) No building should be demolished unless it is in a dangerous condition of past repairs.</p> <p>(4) Power should not extend to the sale or</p>	

	dismantlement of several individual buildings situated in a compound the total cost of which exceeds Rs. 35,000/-. (5) When it is proposed to sell or dismantle, the value of entire building and not of the portion should be taken into consideration.	
XI – Write off of Losses (i) To write off irrecoverable sum of public money lost by fraud or the negligence of individuals or any other causes. (ii) To sanction the write off of irrecoverable value of all classes of stores lost destroyed or damaged by fraud or the negligence of individuals or any other cases	Up to Rs. 3500/- in each case subject to the condition (i) that the loss does not disclose a defect of system the amendment of which requires the order of Government, and (ii) that there has not been any serious negligence on the part of some individual officer or officers which might possibly call for disciplinary action requiring the orders of higher authority (see Rule 63 of the Jharkhand Financial Rules Vol I) Up to Rs.4000 in each case subject to the condition (i) that the loss does not disclose a defect of system the; amendment of which requires the order of Government, and (ii) that there has not been any serious negligence on the part of some individual officer or officers which might possible call for disciplinary action requiring the orders of higher authority. (see Rule 63 of the Jharkhand Financial Rules Vol I)	
XII. Contribution works To authorize undertaking of contribution works or deposit works	Up to Rs.35000 excluding Departmental charges	
XIII Contract and tenders (i) To accept; tenders	Up to Rs.50 lakh	
XIV Execution of classes of deeds contracts and other instruments (i) All instruments relating to purchase, supply and conveyance ;or carriage of materials stores machinery etc. (ii)All Instruments relating to the execution of works of all kinds, connected with buildings, bridges roads, canal tanks and reservoirs decks, harbours and embankment and also instruments relating to construction of water works sewerage works, the erection of machinery and the working of coal mines (iii) Security bonds for the due performance and completion ;of works (iv) Security bonds for the due performance of their duties by Government servants whom the officers specified have power to appoint	Full powers Full powers	Superintending Engineer concerned Superintending Engineers concerned.

<p>v) Leases for grazing cattle on canal banks or roadsides; for fishing in canals; for the cultivation of land under the Irrigation and other purposes, and lease of water power; and instruments relating to the sale of grass, trees or other produce on roadsides or in plantations.</p> <p>vi) Leases of houses, lands or other immovable property, provided that the rent reserved shall not exceed Rs. 5,000 a month.</p> <p>vii) All instruments connected with the reconveyance of property given as security.</p> <p>viii) Instruments connected with the collection or farming of tolls at bridges or ferries or other means of communication provided by the State Government.</p> <p>ix) Agreement for recovery of fines on account of drift wood or other timber passing into a canal.</p>	Full powers	Superintending Engineers concerned.
XV Purchase of books , Periodicals, Maps	Upto Rs. 10000 in a year for his office	
XVI Purchase of Quality control, laboratory instruments and other field instruments.	Maximum Rs. 50000 per year	
XVII Approval of Excess beyond Agreement Amount	Maximum up to 15% beyond agreement amount which will be inclusive of claim or due to supplementary agreement	Subject to permissible limit of Administrative Approval
XVIII To sanction execution of work departmentally	up to Rs.5 lakhs for each works division/year within his jurisdiction.	Subject to the condition that the reason should be reported in writing to the department within 15 days of such order.

3.25 The following is a summary of powers delegated to the executive engineers in charge of a division vide rule 294 of Jharkhand PWD code 2012.

Nature of Powers	Limit of Power	Remarks.
I. Alteration in design.	To sanction trifling alteration in constructional details of works during their execution in cases of necessity reporting as a general rule his action to the Superintending Engineer.	Such alteration should be reported as a general rule to the superintending engineer within 15 days.
II. Technical Approval, Technical Sanction and approval of BOQ. To accord sanction to estimates /Technical Approval for works including electrical works, original and supplementary and approval of BOQ.	Rs. 25 lakh for each work provided that administrative approval or sanction has been accorded by the competent authority. Note 1- The above limit excludes departmental charges. Note 2 - These powers apply to deposit works also.	Amount of Administrative Approval will be the guiding factor for limitations of financial power
(i) To sanction estimates for	Within the limits of budget allotment for each	

ordinary repairs. (ii) To sanction estimates for special repairs. (iii) To prescribe lump sum provision for annual repairs to electrical installations in civil building. (iv) Emergent repairs. To sanction emergent repairs to works to any reasonable and necessary amount in case of imminent danger to the structure.	work plus such amount as can provide by re appropriation. Up to Rs 1 lakh Up to a limit of Rs 15000 only. Full Powers	Executive Engineer, concerned Should be reported as a general rule to the superintending engineer within 15 days.
III. disposal of stores. (i) To sanction the writing off from the returns of tools and plants of all tools and plant the full value of which has been recovered.	Full powers.	
(ii) to issue orders for disposal by sale or otherwise of surplus stores at their full value and of materials received from works dismantled or undergoing repair at their estimated value.	Up to Rs 5000	
(iii) to issue orders for the disposal by public auction of unserviceable materials after dismantlement of public works buildings at their estimated value.	Up to Rs. 10000.	
(iv) To sanction sale of articles on the stock accounts to private persons at full value plus the supervision charge of 10 percent when this can be done without inconvenience to the public service.	Up to Rs. 5000.	
IV. Excess over estimate to pass excess estimates sanctioned by themselves or higher authority.	To pass all excess of not more than 20 per cent of the amount of original estimates sanctioned by him self or higher authority provided that the total amount of excess is within the limit of his powers to sanction estimates technically. Note - An executive engineer has no power to sanction any excess over a revised estimate sanctioned by higher authority.	Subject to permissible limit of administrative approval.
V- Contingencies in the estimate for work. To divert provision for contingencies in an estimate to new works or repairs not provided therein but fairly contingent on the proper completion of works.	Up to Rs 20,000 subject to the condition laid down as follows :- 1. if the amount provided under the head ' contingencies' in an estimate is either expended or earmarked no further new works or repairs should be sanctioned till funds for such works or repairs are allotted. 2. No works or repairs which are not fairly contingent should be undertaken with out proper sanction to a supplementary estimate which should be submitted for sanction as soon as the necessity is fore seen.	
VI. Tools and plant. Purchase, manufacture and repair of tools, plant and accessories. To sanction the purchase,	Up to Rs. 15,000.	

manufacture and repairs of tools and plants (excluding live stock, office furniture and tent)		
VII. Contribution or deposit works. To authorize under taking of contribution or deposit work.	Up to Rs 10,000 excluding departmental charges.	
VIII. Contracts and tenders power to accept tenders.	Up to Rs. 10 lakh	
IX. Execution of classes of deeds, contracts and other instruments. (i) All instruments relating to purchase, supply and conveyance or carriage of materials, stores machinery, etc.	Full Powers.	
(ii) All instruments relating to the execution of works of all kinds connected with buildings, bridges, roads, canals, tanks, reservoir, docks and harbors and embankments and also instruments relating to the construction of water works, sewerage works, the erection of machinery and the working of coal mines	Full Powers.	Executive Engineers concerned.
iii) Security bonds for the due performance and completion of works. iv) Security bonds for the due performance of their duties by Government servants whom the officers specified have power to appoint. v) Lease for grazing cattle on canal banks or roadside; for fishing in canals; for the cultivation of land under the Irrigation Department, leases of water for irrigation and other purposes, and leases of water, power and instruments relating to the sale of grass, trees or other produce on roadside or in plantation. vi) Leases of houses, lands or other immovable property, provided that the rent reserved shall not exceed Rs. 5,000 a month. vii) All instruments connected with the reconveyance of property given as security. viii) Instruments connected with the collection or farming of tolls at bridges or ferries or other means of communication provided by the State Government. ix) Agreements for the recovery of fines on account of drift wood or the timber passing into a	Full Powers.	

canal.		
X. Purchase of books , Periodicals, Maps	Upto 5000 in a year for his office	
XI Purchase of Quality control, laboratory instruments and other field instruments.	Maximum 30000 per year	
XII Approval of Excess beyond Agreement Amount	Maximum up to 10% beyond agreement amount which will be inclusive of claim or due to supplementary agreement	Subject to permissible limit of Administrative Approval
XIII To purchase item directly and pass its Vouchers	Rs 25000	
XIV To sanction estimate for crop compensation	Upto Rs. 3000	
XV To sanction execution of work departmentally	Rs 100000 upto a maximum of Rs. 500000 in a year	Subject to the condition that the reason should be reported in writing to the department within 5 days of such order

[Authority Rule 294 of Jharkhand PWD Code 2012]

3.26 - Power of Assistant Engineers

The following powers have been delegated to the Assistant Engineers in charges of sub divisions:-

Nature of Powers	Limit of Power	Remarks.
– Execution of classes of deeds, contracts of other instruments.	Full powers.	Assistant Engineer concerned.
i) All instruments relating to purchase, supply and conveyance or carriage of materials, stores, machinery, etc. ii) All instruments relating to the execution of works of all kinds connected with buildings, bridges, roads, canals, tanks, reservoirs and embankments and also instruments relating to the construction of waterworks, sewerage works, the erection of machinery and the working of coal-mines. iii) Security bonds for the due performance and completion of works. iv) Security bonds for the due performance of their duties, by Government servants whom the officers specified have power to appoint. v) Leases for grazing cattle on canal banks or roadsides; for fishing in canals; for the cultivation of land under the Irrigation Department; lease of	Full powers.	Assistant Engineer Concerned

water for irrigation and other purposes; and leases of water power and instruments relating to the sale of grass, or other produce on roadside trees or in plantations.		
II a) To purchase Tool and Plant & accessories	upto 5000 in a year	
b) To sanction purchase, manufacture , repair of office furniture , live stocks, tents etc	upto 1000 in a year	
c) To purchase items directly and pass its Vouchers	Rs. 2500	

[Authority Rule 295 of JPWD Code 2012]

3.27 The summarized delegation of financial power of Chief Engineer/ Superintending Engineer/Executive Engineer are as under:

Chief Engineer, enjoys the following powers

Sl. No.	Nature of Power	Extent of Power
1.	To accord Administrative approval to estimates for projects or work for non Residential buildings.	(i) Rs. 70000 for such buildings belonging to the dept. the cost of which is debitabale to the public works Grant and for communication works. (ii) Rs. 35000 for such miscellaneous works belonging to this Dept. the cost of which is inclusive of water-supply, works grant, electric installations. (iii) For additions, improvements and alteration to existing work (a) Rs.35000 for water supply or sanitary installation (b) Rs. 15000 for Electric installation
2	To accord Administrative approval to estimates for projects or work for Residential buildings	(i)Rs. 50000 for residential buildings occupied by officers of his dept. the cost of which is debitabale to the Public Works Grant. (ii) For additions, improvements and alteration to existing work (a) Rs.25000 for water supply or sanitary installation (b) Rs. 10000 for Electric installation
3.	Power to accord technical sanction for land required for construction of buildings, ordinary repairs and special repairs	Full power
4.	Power to accord Technical sanction to original works	Full power within the limits assigned in the Budget estimates
5.	Sanctioning excess over estimates sanctioned by themselves or higher authority.	To pass all excess of not more than 20 per cent of the amounts of original estimates sanctioned by him or by a higher authority
6.	Sanctioning excess over estimates on all other works.	Up to a limit of Rs. 10000 in respect of the total of the sanctioned estimates.
	Sanctioning excess over annual repair Estimates	Full powers – subject to the provision that total expenditure under the primary unit repairs including the excess is within the available grant.
7.	Tools and Plants	Full powers within the limits assigned in the estimates
8.	To sanction the write off irrecoverable losses due to the disposal of surplus, stores by public auction or otherwise	Full powers- subject to condition that the reasons should be reported in writing to the PWD, Finance Dept. and The AG Jharkhand.

9.	Power to accept tenders	Up to Rs.2.50 crores beyond which power vests in a committee chaired by the Engineer-in-chief
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Superintending Engineer:

1.	To accord Administrative approval to estimates for projects or work for non Residential buildings	(i) Rs. 35000 for such buildings belonging to the dept. the cost of which is debitale to the public works Grant and for communication works. (ii) Rs. 20000 for such miscellaneous works belonging to this Dept. the cost of which is inclusive of water-supply, works grant, electric installations. (iii) For additions, improvements and alteration to existing work (a) Rs.20000 for water supply or sanitary installation (b) Rs. 10000 for Electric installation
	To accord Administrative approval to estimates for projects or work for Residential buildings	(i)Rs. 35000 for residential buildings occupied by officers of his dept. the cost of wich is debitale to the Public Works Grant. (ii) For additions, improvements and alteration to existing work (a) Rs.10000 for water supply or sanitary installation (b) Rs. 5000 for Electric installation
2.	Lump sum provision for annual repairs to Electric Installations in civil works	Rs.15,000
3.	Power to accord Technical sanction/Technical Approval to estimates for works including Electric works	Rs. 50 lakh
4.	Tools and Plants	Rs. 1.5 lakh for each estimate for new supplies and for repairs within the limit assigned to his circle in the budget assigned
5.	Sanctioning excess over estimates sanctioned by themselves or higher authority.	To pass all excess of not more than 20 per cent of the amounts of original estimates sanctioned by him or by a higher authority
6.	Sanctioning excess over estimates on all other works I	Up to a limit of Rs. 5000 in respect of the total of the sanctioned estimates.
7.	To sanction the write off irrecoverable losses	Upto Rs 3500 losses due to fraud or negligence of individuals and Rs. 4000 losses due to stores lost, destroyed or damaged by fraud.
8.	Power to accept tenders	Rs. 50 lakh

Executive Engineer:

1.	Power to accord sanction to estimates/ Technical for works including electric works, original and supplementary approval of BOQ	25 Lakh
2.	To sanction estimates for special repairs	Rs. 1 Lakh
3.	Lump sum provision for annual repairs to Electric Installations in civil buildings	Rs.15,000/-
4.	Power to accord Technical sanction to original works	Rs. 15 lakh
5.	Toos and Plants	15000
6.	Sanctioning excess over estimates sanctioned by themselves or higher authority.	To pass all excess of not more than 20 per cent of the amounts of original estimates sanctioned by him or by a higher authority t

7.	To sanction execution of work departmently	Rs. 1 lakh upto a maximum of 5 lakh
8.	To purchase item directly and pass its vouchers.	Rs. 25000
9.	Power to accept tenders	Rs. 10.00 lakh

Duties and responsibilities of Divisional Accountant/ Divisional Senior Accounts Officer :

3.28 The duties of the Divisional Accountant / Divisional Senior Accounts Officer have been set forth in Chapter – IV of the BPWA Code adopted by Government of Jharkhand. The Divisional Accountant / Divisional Senior Accounts Officer should not be allowed to prepare contractor/ suppliers bill.

3.29 To assist the Divisional Officer in the discharge of their responsibilities referred to in Paragraph 21 of Chapter IV of BPWA Code adopted by Government of Jharkhand, the Accountant General will post a Divisional Accountant to each Divisional Office.

3.30 (a) The functions of the Divisional Accountant are three fold –

- (i) an accountant i.e. as the compiler of the accounts of the division in accordance with the prescribed rules and from the data furnished to him.
- (ii) as primary auditor charged with the responsibility of applying certain preliminary checks to the initial accounts, vouchers, etc and
- (iii) as financial assistant i.e. as the general assistant and adviser to the Divisional Officer in all matters relating to the accounts and budget estimates, or to the operation of financial rules generally.

(b) In the discharge of these duties he is required to keep himself fully conversant with all sanctions and orders, passing through the office and with other proceedings of the Divisional Officer and his subordinates which may affect the estimate for accounts of actual or anticipated receipts and charges. He should advise the Divisional Officer on the financial effect of all proposals for expenditure and keep a watch, as far as possible, over all liabilities against the grants of the divisions as they are incurred.

(c) The Divisional Officer should see that he is given the fullest opportunity of becoming conversant with these sanctions, orders and proceedings. To enable him to discharge his duties efficiently, the Divisional Accountant is treated as the senior member of the office establishment of the division, though his position is analogous to that of a Sub divisional Officer of the Public Works Departmental code.

(Authority : Para 22 of BPWA Code adopted by Government of Jharkhand)

3.31 The Divisional Accountant is expected to see that the rules and orders in force are observed in respect of all the transactions of the division which come within his sphere of duties. If he considers that any transaction or order affecting receipts or expenditure is such as would be challenged by the Accountant General if the primary audit entrusted to the Accountant were applied by the former, it is his duty to bring this fact to the notice of the Divisional Officer with a statement of his reasons and to obtain the orders of that officer. It will then be his duty to comply with the orders of the Divisional Officer but if he has been overruled and is not satisfied with the decision, he should at the same time make a brief note of the case in the Register of Divisional Accountant's Audit objections, and to lay the register before the Divisional Officer, so that the latter have an opportunity either of accepting the Divisional Accountant's advice on reconsideration and ordering action accordingly, or of recording, for the information of the Accountant General, his reasons for disregarding that advice .An objection entered in this register should not be considered as finally disposed of ;until it has been reviewed by the Accountant General, for whose inspection the register should be available at all times.

(Authority : Para 23 of BPWA Code adopted by Government of Jharkhand)

- 3.32** (i) The Divisional Accountant is responsible for arrangements for checking the computed tenders i.e. for seeing that satisfactory and efficient arrangements are made for checking;
- (ii) he should conduct personally a test check of the computed and checked tenders sufficient to satisfy himself reasonably that the checking work has been properly done and
- (iii) he should see that the comparative statement correctly incorporates the totals as checked on the individual tenders.

(Authority : Para 24 of BPWA Code adopted by Government of Jharkhand)

- 3.33(a)** The Divisional Accountant should bring to the Divisional Officer's notice all instances in which subordinate officers exceed the financial limitations on their powers placed by the Divisional Officer or higher authority.
- (b) He may further be required by the Divisional Officer to undertake on his behalf, such other scrutiny of the accounts of the receipts and disbursements of subordinate officers falling within the Divisional Officer's own powers of sanction, as the latter may consider necessary.
- (c) The Divisional Accountant should not be required to receive or pay out cash but in cases where the monetary transactions at the headquarters; of the Divisional Office are not large, either in number or in amount, the Divisional Officer may, on his own responsibility and with the previous consent of the Accountant General entrust the receipt and disbursement of cash to the Divisional Accountant

(Authority : Para 25 (a), (b) and (c) of BPWA Code adopted by Government of Jharkhand)

3.34 The Divisional Accountant is further required to inspect periodically under the orders ;of the Divisional Officer, the accounts records of sub divisional offices and to check a percentage of the initial accounts. The defects noticed should be reported to the Divisional officer for orders, but the Divisional Accountant will be responsible, as far as possible, for personally explaining the defects of procedure and imparting necessary instructions there on to the sub divisional officers and their staff.

The results of these inspection should be placed on record for the inspection of the Accountant General, but serious financial irregularities should be reported at once for the information of that officer, even though set right under the orders of competent authority. With the exception noted below, any defalcation or loss of public money, stores or other property should be reported immediately to the Accountant General and other authorities concerned even when such loss has been made good by the person or persons responsible for the same. On receipt of a report of embezzlement of public money involving amounts exceeding Rs.500 the PWD will examine the matter and submit the same to the Chief Minister through the Chief Secretary after consideration by the Minister in charge but before the issue or orders.

(Authority : Para 26 of BPWA Code adopted by Government of Jharkhand)

3.35 The Divisional Officer has a right to seek the advice of the Accountant General in all matters connected with the accounts of his division or the application of financial rules and orders, concerning which there may be any doubt. It will usually be desirable, however, that he shall first obtain the advice of the Divisional Accountant who is specially trained for this duty, and this should be done in writing in all cases of importance.

(Authority : Para 27 of BPWA Code adopted by Government of Jharkhand)

Chapter – IV

Auditing Standard

Basic Postulates

4.1 Introduction

The Comptroller and Auditor General of India (CAG) who is the head of Supreme Audit Institution of India (SAI India) discharges his constitutional functions through the Indian Audit and Accounts Department. The Constitution of India provides for the Comptroller and Auditor General of India who is appointed by the President of India by warrant under his hand and seal. The Constitution provides that the salary and other conditions of service as well as the duties and powers of CAG may be determined by Parliament by law. In pursuance of these provisions, the Parliament enacted the CAG's (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act) to determine the conditions of service of the CAG and to prescribe his duties and powers. In exercise of powers conferred by the DPC Act, as amended from time to time, the CAG framed the Regulations on Audit and Accounts, 2007, which provide the overarching governance framework for both accounting and auditing functions. The CAG's Auditing Standards constitute the next layer of the audit governance framework and set out the professional standards of auditing for the organisation as well as for its personnel - the individual auditors. As an ongoing initiative for continuous improvement and benchmarking, these standards are periodically reviewed, restructured and updated.

4.2 Purpose and Authority of the Standards

These standards establish the norms which are applicable to all public sector audit engagements, irrespective of their form or context. These standards incorporate the Prerequisites for the functioning of Supreme Audit Institutions and Fundamental Auditing Principles of the International Standards of Supreme Audit Institutions, which have been suitably adapted with due consideration of the audit mandate and rules applicable to SAI India. These standards determine the audit procedures that shall be applied in audit and constitute the criteria or benchmark against which the quality of audit results is evaluated. These Auditing Standards are effective from 1 April 2017. All audit engagements as per the audit mandate of SAI India on or after this date shall be conducted in accordance with these standards.

4.3 Audit Mandate

The audit mandate is laid down in the Constitution of India, DPC Act and specific legislations enacted over time by the Parliament and State Legislatures.

4.3.1 Article 149 of the Constitution of India envisages that CAG shall perform such duties and exercise such powers in relation to the accounts of the Union and of the States and of any other authority or body as may be prescribed by or under any law made by Parliament. Article 151 envisages that the reports of the CAG relating to the accounts of the Union shall be submitted to the President, who shall cause them to be laid before each House of Parliament and that the reports relating to the accounts of a State shall be submitted to the Governor, who shall cause them to be laid before the Legislature of the State. Additionally, Article 279 envisages that 'net proceeds' in relation to any tax or duty means the proceeds thereof reduced by the cost of collection and that the net proceeds of any tax or duty, or of any part of any tax or duty, in or attributable to any area shall be ascertained and certified by the CAG, whose certificate shall be final. Further, the Sixth Schedule of the Constitution of India also envisages audit of accounts of District and Regional Councils of autonomous regions.

4.3.2 The general provisions relating to audit are elaborated in Sections 13 to 21 and 24 of the DPC Act. There are also other legislations providing for audit of specific entities by the CAG. The audit mandate of CAG extends to bodies or authorities such as statutory corporations, government companies, autonomous bodies constituted as societies, trusts or not for profit companies, urban and rural local bodies and also to any other body or authority whose audit may be entrusted to CAG under law. To fulfil its mandate, SAI India undertakes financial audit, compliance audit, performance audit and combination of such audits.

4.4 Prerequisites for functioning

The pre-requisites constitute the principles that are essential for the functioning of SAI, India and for proper practice of public sector auditing within the SAI.

- Independence
- Accountability and Transparency
- Ethics
- Quality assurance

4.4.1 Independence

An adequate degree of independence from both the Legislative and Executive branch of the Government is essential for the conduct of audit and for the credibility of its results. Independence of a Supreme Audit Institution (SAI) is secured through certain principles and conditions that are institutionalised through established mechanisms and processes. The principles and conditions that define an independent SAI are elaborated below.

4.4.1.1 The existence of an appropriate and effective constitutional/statutory/legal framework and its application. This framework shall establish provisions that secure the functional independence of the Head of the SAI including security of tenure. The Constitution of India stipulates that the CAG shall only be removed from office in like manner and on like grounds as a Judge of the Supreme Court of India. The other terms for appointment and demitting of office of the CAG are provided under the DPC Act that ensures due autonomy and security of tenure.

4.4.1.2 SAI shall have a sufficiently broad mandate and full discretion in the discharge of its functions

While conforming to the Constitutional provisions and laws enacted by the legislatures, SAI India has the functional and organisational autonomy required for carrying out its mandate and is free from direction or interference from the Legislature or the Executive in the:

- a) selection of audit issues;
- b) planning, programing, conduct, reporting and follow up of audits;
- and c) organisation and management of its office.

SAI India may accept specific requests for audits made by Legislature as expressed as a whole or through one of its committees or by the Government while retaining its right to decline such requests. SAI India may be consulted by the Executive in matters such as financial legislations, accounting standards and policies, public accounts, form of financial statements and for draft laws or rules affecting its competence or authority ensuring, however, that rendering such advice or assistance does not either implicitly or explicitly impair independent exercise of its audit mandate.

4.4.1.3 SAI shall have unrestricted access to information

The DPC Act empowers SAI India to inspect any office of accounts under the control of the Executive and to require the production of all necessary documents and information necessary for the proper discharge of its statutory responsibilities. SAI India thus shall have access to premises, operations, systems including Information Technology systems and records of auditable entities¹ which include the implementing arms of Government and to obtain relevant information from persons or entities possessing it.

4.4.1.4 SAI shall have the freedom to decide the form, content and timing of audit reports, to publish and disseminate them

SAI India shall be free to decide the form and content of its audit reports and to make observations and recommendations therein, taking into consideration, the views of the audited entity. SAI shall be free to decide the timing of its audit reports except where specific reporting requirements are prescribed by law. It is also free to disseminate its reports once they have been formally tabled in the appropriate legislature as required by law.

4.4.1.5 There shall exist effective follow up mechanisms on SAI's recommendations

SAI India may submit its reports to the Legislature or an audited entity's governing body as appropriate for follow up of specific recommendations for corrective action. SAI India shall have its own follow up procedures to monitor and report on the action taken by the Executive on its observations and implementation of recommendations made in its reports as well as those made by the Legislature or the audited entity's governing board, as appropriate.

4.4.1.6 SAI shall have financial and managerial/administrative autonomy and the availability of appropriate human, material and monetary resources

The Constitution provides that the conditions of service of persons serving in the Indian Audit and Accounts Department and the administrative powers of the CAG shall be such as may be prescribed by rules made by the President after consultation with the CAG. Thus, SAI India shall have the necessary empowerment to manage the human and budgetary resources available to it. The Legislature is responsible for ensuring that SAI India has the resources necessary to fulfil its mandate.

¹ Regulation 2 of the Regulation of Audit and Accounts, 2007 defines an auditable entity as 'office, authority, body, company, corporation or any other entity subject to audit by the CAG'

SAI India's functional autonomy does not preclude arrangements with auditable entities in regard to matters such as personnel management, property management or common purchasing of equipment and stores.

4.4.2 Accountability and Transparency

Accountability and transparency are two important elements of good governance. Accountability refers to the legal and reporting framework, organisational structure, strategy, procedures and actions to ensure that the SAI meets its legal obligations with regard to its audit mandate and reporting and that the SAI and its personnel can be held responsible for their actions.

Transparency refers to the SAI's timely, reliable, clear and relevant public reporting on its status, mandate, strategy, activities and performance as also of the audit findings, conclusions and public access to information about the SAI. The principles of accountability and transparency are as under:

4.4.2.1 SAI shall perform its duties under a legal framework that provides for accountability and transparency.

SAI India shall perform its duties in accordance with the constitutional and statutory framework which cover the audit authority, jurisdiction and responsibilities, conditions for appointment and removal of the CAG, publishing of audit reports, oversight of activities and balance between public access to information and confidentiality of audit evidence and other information.

4.4.2.2 SAI shall make public its mandate, mission and responsibilities.

The mandate, mission and responsibilities of SAI India shall be in public domain.

4.4.2.3 SAI shall adopt audit standards, processes and methods that are objective and transparent.

The standards and methodologies adopted by SAI India shall be consistent with the fundamental auditing principles elaborated under the International Standards of Supreme Audit Institutions (ISSAIs) of International Organisation of Supreme Audit Institutions (INTOSAI). While conducting its audits, SAI India shall communicate the criteria on which opinions would be based to the auditable entities and keep them informed about the audit objectives, methodology and findings. SAI India shall also communicate the scope of audits undertaken as part of the reporting process. Its audit findings and recommendations shall be subject to procedures of comment, discussion and responses from the audited entity.

4.4.2.4 SAI shall manage its operations economically, efficiently, effectively and in accordance with laws and regulations and report publicly on these matters.

SAI India shall employ sound management practices including appropriate internal controls over its financial management and performance and reports on all areas of performance including various audits carried out covering compliance, performance and financial audits. SAI India's financial statements are open to Parliamentary review and its budget, financial resources and use of resources are in the public domain.

4.4.2.5 SAI shall report publicly on the results of audits and on conclusions regarding overall public sector activities

The audit reports of SAI India that include its conclusions and recommendations resulting from its audits shall be tabled in the concerned Legislature or presented to the audited entity's governing body as required and shall thereafter be in the public domain.

4.4.2.6 SAI shall communicate timely and widely on its activities and audit results through the website, media and other means.

Once the Audit Reports are tabled in the concerned legislature, SAI India shall communicate audit results through website and other means and may communicate with the media or other stakeholders on matters included in the reports thereby enhancing transparency and accountability of the audit work. Public and academic interest in important conclusions shall be encouraged. Its reports shall be made understandable to the wide public through various means e.g. summaries, graphics, video presentations and press releases.

4.4.3 SAI shall apply high standards of integrity and ethics for staff of all levels.

SAI India shall have a Code of Ethics that is aligned with the Code of Ethics (ISSAI 30) elaborated under the ISSAIs. The fundamental principles of ethics are integrity, independence, objectivity and impartiality, confidentiality and competence. SAI India shall ensure transparency and legality of its operations and actively promotes ethical behaviour throughout the organisation.

4.4.4 Quality Assurance and Quality Control

As an over-riding objective SAI India shall consider the risks to the quality of its work and establish a system of quality control that is designed to mitigate such identified risks. The risks to quality control depend upon the mandate and functions, conditions and environment under which it operates.

4.4.4.1 SAI shall establish policies and procedures designed to promote an internal culture recognising that quality is essential in performing all of its work. The Head of SAI shall retain overall responsibility for the system of quality control.

SAI India shall strive to achieve a culture that recognises and rewards high quality work throughout the SAI. It shall ensure that sufficient resources are available within the organisation to maintain the system of quality control.

4.4.4.2 SAI shall establish policies and procedures designed to provide it with reasonable assurance that the SAI, including all personnel and any parties contracted to carry out work for the SAI comply with the relevant ethical requirements.

SAI India shall recognize the importance of meeting relevant ethical requirements in carrying out its work. Policies and procedures shall be in place to reinforce the fundamental principles of ethics as defined in the code of ethics including rotation of key audit personnel to reduce the risk of familiarity with the entity being audited and to ensure that they remain and appear to remain objective obviating any possibility of conflict of interests. All personnel of SAI India and any parties engaged to carry out any task for the SAI shall have to demonstrate appropriate ethical behaviour.

4.4.4.3 SAI shall establish policies and procedures designed to provide reasonable assurance that its audits and other work are carried out in accordance with relevant standards, applicable legal and regulatory requirements, that SAI issues reports that are appropriate in the circumstances and that it has sufficient resources with the competence, capabilities and commitment to ethical principles as required to carry out its range of work.

SAI India shall have an Audit Quality Management Framework that establishes appropriate quality control policies and procedures such as supervision and review responsibilities and ensures tools such as audit methodologies for all work carried out. It shall ensure that applicable standards are followed in all work carried out and if any requirement in a standard is not followed, the reasons are appropriately documented, approved and reported.

SAI India may draw on a number of different sources to ensure that it has the necessary skills and expertise to carry out its range of work. It may collaborate with academic/ research institutions in order to avail of the experienced members of the profession at large and may enter into formal relationships with professional bodies provided the relationships do not inhibit its independence and objectivity. As resources are limited, SAI India may prioritise its work in a manner that takes into account the need to maintain quality.

4.4.4.4 SAI shall establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant and adequate and is operating effectively.

SAI India shall ensure that its quality control system includes independent monitoring of the range of controls within the SAI. SAI India may invite external independent assessment of its activities and implementation of standards through a peer review. Where appropriate, SAI India may consider other means of monitoring the quality of its work which may include but not be limited to independent academic review, stakeholder surveys and follow up reviews of recommendations or feedback from audited entities. There are procedures for dealing with complaints about the quality of work performed by SAI.

General Standards

4.5.1 Public Sector Auditing and its Objectives

4.5.1.1 Public sector⁶ audit environment is that in which governments and other entities exercise responsibility for the use of national wealth, natural resources, resources derived from taxation and other sources in the delivery of services to citizens and other recipients. These entities are accountable for their management, performance and use of resources, both to those providing the resources and to those, including citizens, who depend on the services delivered using those resources. Public sector auditing helps to create suitable conditions and reinforce the expectation that public sector entities and public servants will perform their functions effectively, efficiently, ethically and in accordance with the applicable laws and regulations.

⁶ Public sector refers to the sector that is controlled by Central, State and Local Governments. Public sector entities include all Central and State Public sector Ministries, Departments, Directorates /Commissionerates, and all other entities/bodies wholly or partially owned/controlled by the Central and/or State Governments or entities engaged in delivery of public goods and services.

4.5.1.2 In general, public sector auditing can be described as a systematic process of objectively obtaining and evaluating evidence to determine whether information or actual conditions conform to established criteria. Public sector auditing is essential in that it provides legislature and oversight bodies, those charged with governance and the general public with information, independent and objective assessments concerning the stewardship and performance of public sector policies, programmes or operations.

4.5.1.3 All public sector audits start from objectives, which may differ depending on the type of audit being conducted. However, public sector auditing contributes to good governance by:

- a) providing the intended users with independent, objective and reliable information,
conclusions or opinions based on sufficient and appropriate evidence relating to public sector entities;
- b) enhancing accountability and transparency, encouraging continuous improvement and
sustained confidence in the appropriate use of public funds and assets and the performance of public administration;
- c) reinforcing the effectiveness of those bodies that exercise general monitoring and corrective functions over public sector and those responsible for the management of publicly funded activities; and
- d) creating incentives for change by providing knowledge, comprehensive analysis and well-
founded recommendations for improvement.

4.5.2 Types of Public Sector Audits

Public sector audits can generally be categorised into one or more of the three main types – Financial audits, Compliance audits and Performance audits. The objectives of any given audit will determine which standards apply. The three main types of public sector audit are defined as follows:

4.5.2.1 Financial Audit: focuses on determining whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework. This is accomplished by obtaining sufficient and appropriate audit evidence to enable the auditor to express an opinion as to whether the financial information is free from material misstatement due to fraud or error.

4.5.2.2 Compliance Audit: focuses on whether a particular subject matter is in compliance with the criteria. Compliance auditing is performed by assessing whether activities, financial transactions and information are, in all material aspects, in compliance with the applicable authorities which include the Constitution, Acts, Laws, rules and regulations, budgetary resolutions, policy, contracts, agreements, established codes, sanctions, supply orders, agreed terms or the general principles governing sound public sector financial management and the conduct of public officials.

4.5.2.3 Performance Audit: focuses on whether interventions, programmes and institutions are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. Performance is examined against suitable criteria and the causes of deviations from those criteria or other problems are analysed. The aim is to answer key audit questions and to provide recommendations for improvement. SAI, India may carry out audits or engagements on any subject of relevance to the responsibilities of executive and those

charged with governance and the appropriate use of public resources, within its given mandate. These engagements may include, but not be restricted to, reporting on the quantitative outputs and outcomes of the auditable entity's service delivery activities, sustainability reports, future resource requirements, and adherence to internal control standards, near real time audits or other matters. It may also conduct combined audits incorporating financial, performance and /or compliance aspects.

4.5.3 Elements of Public Sector Auditing

Public sector auditing is indispensable for the public administration, as the management of public resources is a matter of trust. Responsibility for the management of public resources in line with intended purposes is entrusted to an entity or person who acts on behalf of the public. Public sector auditing enhances the confidence of the intended users by providing information and independent and objective assessments concerning deviations from accepted standards or principles of good governance. All public sector audits have the same basic elements:

- a) The three parties
- b) Subject matter, criteria and subject matter information
- c) Types of engagement

4.5.3.1 The Three Parties

Public sector audits involve at least three separate parties: the auditor, the responsible party and intended users. The relationship between the parties should be viewed within the context of the specific arrangements for each type of audit.

The auditor: In public sector auditing the role of auditor is fulfilled by SAI, India and by its personnel delegated with the task of conducting audits. .

The responsible party: In public sector auditing, the relevant responsibilities are determined by constitutional or legislative arrangement. The responsible parties may be responsible for the subject matter information, for managing the subject matter or for addressing recommendations and may be individuals or organizations. Generally, auditable entities and those charged with governance of the auditable entities would be the responsible parties.

Intended users: The intended users are the individuals, organizations or classes thereof for whom the auditor prepares the audit report. The intended users may be legislative or oversight bodies, those charged with governance or the general public. The intended user is primarily the Parliament or the Legislature which represents the citizens by determining the priorities of public finance, purpose and content of public spending and income.

4.5.3.2 Subject Matter, Criteria and Subject Matter Information

Subject matter refers to the information, condition or activity that is measured or evaluated against certain criteria. It can take many forms and have different characteristics depending on the audit objective. An appropriate subject matter is identifiable and capable of consistent evaluation or measurement against the criteria, such that it can be subjected to procedures for gathering sufficient and appropriate audit evidence to support the audit opinion or conclusion.

The criteria are the benchmarks used to evaluate the subject matter. Each audit shall have criteria suitable to the circumstances of that audit. In determining the suitability of criteria the auditor considers their relevance and understandability for the intended users, as well as their completeness, reliability and objectivity (neutrality, general acceptance and comparability with criteria used in similar audits). The criteria used may depend on a range of factors, including the objectives and the type of audit. Criteria can be specific or more general and may be drawn from various sources, including the Constitution of India, laws, regulations, standards, sound

principles and best practices. They shall be made available to the intended users to enable them to understand how the subject matter has been evaluated or measured.

Subject matter information refers to the outcome of evaluating or measuring the subject matter against the criteria. It can take many forms and have different characteristics depending on the audit objective and audit scope.

4.5.3.3 Types of Engagement

There are two types of engagement: Attestation Engagements and Direct Reporting Engagements.

In attestation engagements, the responsible party measures the subject matter against the criteria and presents the subject matter information, on which the auditor then gathers sufficient and appropriate audit evidence to provide a reasonable basis for expressing a conclusion.

In direct reporting engagements, it is the auditor who measures or evaluates the subject matter against the criteria. The auditor selects the subject matter and criteria, taking into consideration risk and materiality. The outcome of measuring the subject matter against the criteria is presented in the audit report in the form of findings, conclusions, recommendations or an opinion. The audit of the subject matter may also provide new information, analyses or insights.

Financial audits are always attestation engagements, as they are based on financial information presented by the responsible party. Performance audits and compliance audits are generally direct reporting engagements.

4.5.4 Confidence and Assurance in Public Sector Auditing

Audit has to provide reliable and relevant information to the intended users based on sufficient and appropriate evidence. Auditors shall perform procedures to reduce or manage the risk of reaching inappropriate conclusions.

4.5.4.1 Forms of providing assurance

Depending on the audit and the users' needs, assurance can be communicated in two ways:

- a) **Through opinions and conclusions:** which explicitly convey the level of assurance. This applies to all attestation engagements and certain direct reporting engagements.
- b) **In other forms:** In some direct reporting engagements the auditor does not give an explicit statement of assurance on the subject matter. In such cases, the auditor provides the users with the necessary degree of confidence by explicitly explaining how findings, criteria and conclusions were developed in a balanced and reasoned manner, and why the combinations of findings and criteria result in a certain overall conclusion or recommendation.

4.5.4.2 Levels of assurance

Assurance can be either reasonable or limited. Reasonable assurance is high, but not absolute, given the inherent limitations of an audit, the result of which is that most of the audit evidence obtained by the auditor will be persuasive rather than conclusive. In reasonable assurance the audit conclusion is expressed positively, either explicitly or in other forms conveying the necessary degree of confidence as stated at para 4.2.4.1 above.

A limited assurance conveys the limited nature of the assurance provided and the audit conclusion is expressed in a negative manner stating that based on the procedures performed, nothing has come to the auditor's attention to cause the auditor to believe that the subject matter is not in compliance with the applicable criteria. The procedures performed in a limited assurance audit are limited compared with what is necessary to obtain reasonable assurance, but the level of assurance is expected, in the auditor's professional judgement, to be meaningful to the intended users.

4.5.5 Principles of Public Sector Auditing

Auditing is a cumulative and iterative process. The principles of public sector auditing constitute the general standards that apply to SAI India's personnel as auditors and are fundamental to the conduct of all types of public sector audits. The principles to be observed by all individual auditors are categorized into two distinct groups as shown in the diagram below.

- General principles**
- Principles related to the audit process**

4.5.5.1 General Principles

General principles relate to the basic audit concepts, which shall be considered by auditors prior to commencement and at more than one point during the audit process and comprise the following:

4.5.5.1.1 Ethics and Independence

Auditors shall comply with the relevant ethical requirements and be independent

Ethical principles shall be embodied in an auditor's professional behaviour and the auditors shall comply with SAI India's code of ethics. Auditors shall remain independent so that their reports are impartial and be seen as such by the intended users.

4.5.5.1.2 Professional Judgement, Due Care and Scepticism

Auditors shall maintain appropriate professional behaviour by applying professional scepticism, professional judgment and due care throughout the audit. The auditor's attitude shall be characterised by professional scepticism and professional judgement, which are to be applied when forming decisions about the appropriate course of action. Auditors shall exercise due care to ensure that their professional behaviour is appropriate.

Professional scepticism refers to maintaining professional distance, an alert and questioning attitude when assessing the sufficiency and appropriateness of evidence obtained throughout the audit. It also entails remaining open-minded and receptive to all views and arguments. Professional judgement implies the application of collective knowledge, skills and experience to the audit process. Due care denotes that auditors shall plan and conduct audits in a diligent manner. Auditors shall avoid any conduct that might discredit their work.

4.5.5.1.3 Quality Control

Auditors shall perform the audit in accordance with professional standards on quality control. Auditors shall comply with professional standards on quality control, the aim being to ensure that audits are conducted at a consistently high level. Quality control procedures shall cover

matters such as the direction, review and supervision of the audit process and the need for consultation in order to reach decisions on difficult or contentious matters.

4.5.5.1.4 Audit Team Management and Skills

Auditors shall possess or have access to the necessary skills

The audit team shall collectively possess the knowledge, skills expertise and competence necessary to successfully complete the audit. This includes an understanding and practical experience of the type of audit being conducted, familiarity with the applicable standards and legislation, an understanding of the entity's operations and the ability and experience to exercise professional judgement. Auditors shall maintain their professional competence through ongoing professional development.

Where relevant or necessary, and in line with SAI India's mandate and applicable legislation, the auditor may use the work of internal auditors, other auditors or experts. The auditor's procedures shall provide a sufficient basis for using the work of others, and in all cases the auditor shall obtain evidence of other auditors' or experts' competence, independence and the quality of work performed. However, SAI, India has the sole responsibility for any audit opinion or report it might produce on the subject matter and that responsibility is not reduced by its use of work done by other parties.

SAI, India may use the work of other auditors at state, provincial, regional, district or local level, or of public accounting firms that have completed audit work related to the audit objective. Audits may require specialised techniques, methods or skills from disciplines not available within SAI, India. In such cases, experts may be used to provide knowledge or carry out specific tasks or for other purposes.

4.5.5.1.5 Audit Risk

Auditors shall manage the risks of providing a report that is inappropriate in the circumstances of the audit

The audit risk is the risk that the audit report may be inappropriate. The auditor performs procedures to reduce or manage the risk of reaching inappropriate conclusions, recognising that the limitations inherent to all audits mean that an audit can never provide absolute certainty of the condition of the subject matter. When the objective is to provide reasonable assurance, the auditor shall reduce audit risk to an acceptably low level given the circumstances of the audit. The audit may also aim to provide limited assurance, in which case the acceptable risk that criteria are not complied with is greater than in a reasonable assurance audit. A limited assurance audit provides a level of assurance that, in the auditor's professional judgment, will be meaningful to the intended users.

4.5.5.1.6 Materiality

Auditors shall consider materiality throughout the audit process

Materiality is relevant in all audits. A matter can be judged material if knowledge of it would be likely to influence the decisions of the intended users. Determining materiality is a matter of professional judgement and depends on the auditor's interpretation of the users' needs. This judgement may relate to an individual item or to a group of items taken together. Materiality is often considered in terms of value, but it also has other quantitative as well as qualitative aspects. The inherent characteristics of an item or group of items may render a matter material by its very nature. A matter may also be material because of the context in which it occurs. Materiality shall

be considered for the purposes of planning, evaluating the evidence obtained and reporting, though the materiality levels could differ for each of the processes. Materiality considerations affect decisions concerning the nature, timing and extent of audit procedures and the evaluation of audit results. Considerations may include stakeholder concerns, public interest, regulatory requirements and consequences for society.

4.5.5.1.7 Documentation

Auditors shall prepare audit documentation that is sufficiently detailed to provide a clear understanding of the work performed, evidence obtained and conclusions reached.

Audit documentation shall include an audit strategy and audit plan. It shall record the procedures performed and evidence obtained and support the communicated results of the audit. Documentation shall be sufficiently detailed to enable an experienced auditor, with no prior knowledge of the audit, to understand the nature, timing, scope and results of the procedures performed, the evidence obtained in support of the audit conclusions and recommendations, the reasoning behind all significant matters that required the exercise of professional judgement and the related conclusions. Adequate audit documentation is important for several reasons. It will:

- a) confirm and support the auditor's opinions and reports;
- b) serve as a source of information for preparing reports or answering any enquiries from the audited entity or any other party;
- c) serve as evidence of the auditor's compliance with the auditing standards;
- d) facilitate planning, supervision and review; help with the auditor's professional development;
- e) help to ensure that delegated work has been satisfactorily executed; and
- f) provide evidence of work done for future reference.

Further requirements relating to documentation in the following areas also need to be met: (i) the timely preparation of documentation;

(ii) the form, content and extent of documentation;

(iii) documentation requirements where the auditor judges it necessary to depart from a relevant requirement in the applied auditing standards;

(iv) documentation requirements where the auditor performs new or additional audit procedures or draws new conclusions after the date of the auditor's report;

and

(v) the assembly of the final audit file.

4.5.5.1.8 Communication

Auditors shall establish effective communication throughout the audit process

It is essential that the entity being audited be kept informed of all matters relating to the audit. This is key to developing a constructive working relationship. Communication shall include obtaining information relevant to the audit and providing management/ those charged with governance with timely observations and findings throughout the engagement. It is important to promote effective two-way communication throughout the engagement. Written communication is vital for significant audit findings, which auditors are required to communicate to those charged with governance. The auditor may also have a responsibility to communicate audit-related matters to other stakeholders, such as legislative and oversight bodies.

4.5.5.2 Principles related to the audit process

Principles related to the audit process relate to the specific steps in the audit process and comprise the following:

4.5.5.2.1 Planning an audit

Auditors shall ensure that the terms of the audit have been clearly established. Most of the audits undertaken by SAI, India are as per the constitutional mandate, which may not require formal agreement with the auditable entities on terms of audit. In some cases, such as in case of an entrusted audit, there is a need for arriving at an agreement on the terms of audit with the auditable entity. Important information like the subject, scope and objectives of audit, access to data, the audit process, roles and responsibilities of different parties to the engagement shall be firmed up before audit is carried out.

a) Auditors shall obtain an understanding of the nature of the entity/programme to be audited

This includes understanding the relevant objectives, operations, regulatory environment, internal controls, financial and other systems and business processes, and researching the potential sources of audit evidence. Knowledge can be obtained from interaction with management, other relevant stakeholders and experts. Documents (including earlier studies and other sources) shall be examined in order to gain a broad understanding of the subject matter to be audited and its context.

b) Auditors shall conduct a risk assessment or problem analysis and revise this as necessary in response to the audit findings

The nature of the risks identified will vary according to the audit objectives. The auditor shall consider and assess the risk of different types of deficiencies, deviations or misstatements that may occur in relation to the subject matter. Both general and specific risks shall be considered. This can be achieved through procedures that serve to obtain an understanding of the entity or programme and its environment, including the relevant internal controls. The auditor shall assess the management's response to identified risks, including its implementation and design of internal controls to address them. In a problem analysis the auditor shall consider actual indications of problems or deviations from what should be or is expected. This process involves examining various problem indicators in order to define the audit objectives. To facilitate the process of risk assessment or problem analysis data from multiple sources may be collated and/or combined to gain insights and discern patterns. Technology and data analytical techniques may be appropriately utilised in the process. The identification of risks and their impact on the audit shall be considered throughout the audit process.

c) Auditors shall identify and assess the risks of fraud relevant to the audit objectives

The primary responsibility for the prevention and detection of fraud rests with the entity's management and those charged with governance. It is important that management, under the oversight of those charged with governance, strongly emphasise fraud prevention (limiting opportunities for fraud to take place) and fraud deterrence (dissuading individuals from committing fraud because of the likelihood of detection). Fraud is a broad legal concept and the auditor does not make legal determination of fraud. Auditors shall make enquiries and perform procedures to identify and respond to the risks of fraud

relevant to the audit objectives. They shall maintain an attitude of professional scepticism and be alert to the possibility of fraud throughout the audit process.

d) Auditors shall plan their work to ensure that the audit is conducted in an effective and efficient manner

Planning for a specific audit includes strategic and operational aspects. Strategically, planning shall define the audit scope, objectives and approach. The objectives refer to what the audit is intended to accomplish. The scope relates to the subject matter and the criteria which the auditors will use to assess and report on the subject matter and is directly related to the objectives. The approach will describe the nature and extent of the procedures to be used for gathering audit evidence. The audit shall be planned to reduce audit risk to an acceptably low level. Professional judgement shall be exercised to decide on a suitable sampling methodology depending upon the subject matters, audit objectives being pursued and the envisaged scope of audit.

Operationally, planning entails setting a timetable for audit and defining the nature, timing and extent of the audit procedures. During planning, auditors shall assign the members of their team as appropriate and identify other resources that may be required, such as subject experts. Audit planning shall be responsive to significant changes in circumstances and conditions. It is an iterative process that takes place throughout the audit.

4.5.5.2.2 Conducting an Audit

a) Auditors shall perform audit procedures that provide sufficient and appropriate audit evidence to support the audit report

The auditor's decisions on the nature, timing and extent of audit procedures will impact on the evidence to be obtained. The choice of procedures will depend on the risk assessment or problem analysis. Audit evidence is any information used by the auditor to determine whether the subject matter complies with the applicable criteria. Evidence may take many forms, such as electronic and paper records of transactions, written and electronic communication with outsiders, and observations by the auditor and oral or written testimony by the audited entity. Methods of obtaining audit evidence can include inspection, observation, inquiry, confirmation, recalculation, re-performance, analytical procedures and/or other research techniques.

Evidence shall be both sufficient (quantity) to persuade a knowledgeable person that the findings are reasonable, and appropriate (quality) – i.e. relevant, valid and reliable. The quantity of evidence required depends on the risk of material misstatement or non-compliance of the subject matter information (the greater the risk, the more evidence is likely to be required) and on the quality of such evidence (the higher the quality, the less may be required). Accordingly, the sufficiency and appropriateness of evidence are interrelated. However, merely obtaining more evidence does not compensate for its poor quality. The reliability of evidence is influenced by its source and nature, and is dependent on the specific circumstances in which the evidence was obtained. While recognizing that exceptions may exist, the following generalizations about the reliability of evidence may be useful:

- a) Evidence is more reliable when it is obtained from sources external to the responsible party.

- b) Evidence that is generated internally is more reliable when the related controls are effective
- c) Evidence obtained directly by the auditor (for example, through observation of the application of a control) is more reliable than evidence obtained indirectly or by inference (for example, through inquiry into the application of a control).
- d) Evidence is more reliable when it exists in documentary form, whether paper, electronic, or other media (for example, a simultaneous written record of a meeting is more reliable than a subsequent oral report of what was discussed).
- e) Evidence provided by original documents is more reliable than evidence provided by photocopies or facsimiles.

The auditor's assessment of the evidence shall be objective, fair and balanced. Preliminary findings shall be communicated to and discussed with the entity being audited to confirm their validity. The auditor must respect all requirements regarding confidentiality.

b) Auditors shall evaluate the audit evidence and draw conclusions

After completing the audit procedures, the auditor will review the audit documentation in order to determine whether the subject matter has been sufficiently and appropriately audited. Before drawing conclusions, the auditor reconsiders the initial assessment of risk and materiality in the light of the evidence collected and determines whether additional audit procedures need to be performed. The auditor shall evaluate the audit evidence with a view to obtaining audit findings. When evaluating the audit evidence and assessing materiality of findings the auditor shall take both quantitative and qualitative factors into consideration. Based on the findings, the auditor shall exercise professional judgement to reach a conclusion on the subject matter or subject matter information.

4.5.5.2.3 Reporting and Follow-up

a) Auditors shall prepare a report based on the conclusions reached.

The audit process involves preparing a report to communicate the results of the audit to stakeholders, others responsible for governance and the general public. The purpose is also to facilitate follow-up and corrective action. Reports shall be easy to understand, free from vagueness or ambiguity and complete. They shall be objective and fair, only including information which is supported by sufficient and appropriate audit evidence and ensuring that findings are put into perspective and context. The form and content of a report will depend on the nature of the audit, the intended users, the applicable standards and legal requirements. The reports can appear in short form or long form. Long-form reports generally describe in detail the audit scope, audit findings and conclusions, including potential consequences and constructive recommendations to enable remedial action. Short-form reports are more condensed and generally in a more standardized format.

i. Attestation engagements

In attestation engagements the audit report may express an opinion as to whether the subject matter information is, in all material respects, free from

misstatement and/or whether the subject matter complies, in all material respects, with the established criteria. In an attestation engagement the report is generally referred to as the Auditor's Report.

ii. Direct reporting engagements

In direct reporting engagements the audit report needs to state the audit objectives and describe how they were addressed in the audit. It includes findings and conclusions on the subject matter and may also include recommendations. Additional information about criteria, methodology and sources of data may also be given, and any limitations to the audit scope shall be described. The audit report shall explain how the evidence obtained was used and why the resulting conclusions were drawn.

b) Opinion or conclusion

When an audit opinion or conclusion is used to convey the level of assurance, the opinion or conclusion shall be in a standardised format. It may be unmodified or modified. An unmodified opinion/conclusion is used when either limited or reasonable assurance has been obtained. A modified opinion or conclusion may be:

- Qualified** (except for) – where the auditor disagrees with, or is unable to obtain sufficient and appropriate audit evidence about certain items in the subject matter which are, or could be, material but not pervasive;
- Adverse** – where the auditor, having obtained sufficient and appropriate audit evidence,
concludes that deviations or misstatements, whether individually or in the aggregate, are both material and pervasive;
- Disclaimed** – where the auditor is unable to obtain sufficient and appropriate audit evidence due to an uncertainty or scope limitation which is both material and pervasive. Where the opinion or conclusion is modified the reasons shall be put in perspective by clearly explaining, with reference to the applicable criteria, the nature and extent of the modification. Conveying an opinion is generally related to financial audits and expression of conclusion is relevant to compliance audits. Depending on the type of audit, recommendations for corrective action and any contributing internal control deficiencies may also be included in the report.

c) Follow-up

SAI India shall monitor action taken by the responsible party in response to the matters raised in an audit report. Follow-up focuses on whether the audited entity has adequately addressed the matters raised. Insufficient or unsatisfactory action by the audited entity may call for a further report by SAI India.

Specific Standards

4.6.1 Introduction

The general principles relating to the basic audit concepts and those relating to the audit process applicable to all types of public sector audits constituting the general standards have been

described in Chapter 2. In addition, this section contains the specific considerations regarding their applicability to financial, compliance and performance audits, which the auditors shall observe as specific standards during the conduct of these audits.

4.6.2 Financial Audit

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 an applicable financial reporting framework, or – in the case of financial statements prepared in accordance with a fair presentation financial reporting framework – whether the financial statements are presented fairly, in all material respects, or give a true and fair view, in accordance with that framework.

4.6.2.1 In conducting an audit of financial statements, the overall objectives of the auditor are:

- a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and
- b) To report on the financial statements, and communicate the result of the audit in accordance with the auditor’s findings.

The objectives of financial audit in public sector are often broader than expressing an opinion on the financial statements. The audit mandate arising from legislations, regulation and government policy requirements may result in additional objectives.

4.6.2.2 Financial Reporting Frameworks

Financial reporting frameworks may be for general or specific use. A framework designed to meet the information needs of a wide range of users is referred to as a general-purpose framework, while special-purpose frameworks are designed to meet the specific needs of a specific user or group of users.

a) General Purpose frameworks: The International Public Sector Accounting Standards (IPSASs), International Financial Reporting Standards (IFRSs), the Indian Accounting Standards, or other national financial reporting frameworks for use in public sector constitute general purpose frameworks. A complete set of financial statements for a public sector entity prepared in accordance with such a financial reporting framework, normally consists of:

- (i) a statement of financial position;
- (ii) a statement of financial performance;
- (iii) a statement of changes in net assets/equity;
- (iv) a cash flow statement;
- (v) a comparison of budget and actual amounts – either as a separate additional financial statement or as a reconciliation;
- (vi) notes, comprising a summary of significant accounting policies and

other explanatory information.

- (vii) In certain environments a complete set of financial statements may also include other reports, such as reports on performance and appropriation reports.

If the financial statements are prepared in accordance with a framework for other accounting bases, such as modified accrual or cash basis (e.g. Indian Government Accounting Standards – IGAS), a complete set of financial statements may not include all of the above.

b) Special-Purpose Frameworks: In addition to preparing general-purpose financial statements, a public sector entity may prepare financial statements for other parties (such as governing bodies, the legislature or other parties with an oversight function), which may require financial statements tailored to meet their specific information needs. In some environments financial statements of this kind are the only financial statements prepared by the public sector entity. Special-purpose frameworks relevant to the public sector may include:

- (i) the cash receipts and disbursements, basis of accounting for cash flow information that an entity may be required to prepare for a governing body;
- (ii) the financial reporting provisions established by an international funding organization or mechanism;
- (iii) the financial reporting provisions established by a governing body, the legislature or other parties that perform an oversight function to meet the requirements of that body; or
- (iv) the financial reporting provisions of a contract, such as a project grant.

c) Frameworks prescribed by law or regulation: Frameworks prescribed by law or regulation will often be deemed acceptable by the auditor. Such frameworks invariably require presentation of original and final budget amounts and actual amounts on a comparable basis to complete the accountability cycle by enabling users of financial statements to identify whether the resources were obtained and used in accordance with the approved budget.

The accounting base, basis of classification, the level of aggregation of budget heads for presentation in financial statements are determined by law, rules and regulations. Such financial reporting frameworks are thus invariably governed by standards, which are rule based and could be different from the principles envisaged in general purpose frameworks. The Government Accounting Rules, 1990, General Financial Rules, 2005, Delegation of Financial Powers Rules, 1978 and List of Major and Minor Heads, Annual Appropriation Acts,

Finance and Accounts Codes and rules that govern preparation and compilation of finance and appropriation accounts of the Union and the States constitute the rule based standards. These auditing standards would apply to audits of such frameworks with appropriate modifications.

4.6.2.3 Materiality

The auditor shall apply the concept of materiality in an appropriate manner when planning and performing the audit.

A misstatement is material, individually or when aggregated with other misstatements, if it could reasonably be expected to influence the decisions taken by users on the basis of the financial statements. When planning the audit strategy, the auditor shall assess materiality for the financial statements as a whole. However, where one or more classes of transactions, account balances or disclosures could reasonably be expected to influence the decisions of users on the basis of the financial statements, the auditor shall also determine the materiality level or levels for the classes of transactions, account balances or disclosures concerned.

Even while the auditor's opinion deals with the financial statements as a whole, the auditor shall still identify and document quantitative –non- material misstatements, as they may be material due to their nature or when aggregated. Misstatements trivial in nature need not be considered. The auditor therefore considers not only the size but also the nature of uncorrected misstatements (e.g. if it is a result of fraud or corruption) and the particular circumstances of their occurrence when evaluating their effect on the financial statements. The auditor also considers the nature and extent of misstatements identified in previous audits, sensitive nature of certain transactions or programmes, public interest, the need for effective legislative oversight and regulation and other qualitative factors while assessing materiality, which is a matter of auditor's judgement.

4.6.2.4 Audit risk

The audit risk in an audit of financial statements is the risk that the auditor will express an inappropriate conclusion if the subject matter information is materially misstated. The auditor will reduce the risk to an acceptably low level in the circumstances of the audit to obtain reasonable assurance as the basis for expressing a conclusion in a positive form. In general, the audit risk depends on the inherent risk and control risk, which constitute the risks of material misstatement and the detection risk:

- a) **Inherent risk** – the susceptibility of the subject matter information to material misstatement, assuming that there are no related controls;
- b) **Control risk** – the risk that a material misstatement could occur and will not be prevented or detected and corrected at the appropriate time by related controls. Some control risk will always exist due to the limitations inherent in the design and operation of internal controls.
- c) **Detection risk** – the risk that the auditor will not detect a material misstatement.

The risk assessment is a matter of professional judgement and is not capable of precise measurement. The degree to which the auditor considers each element of risk will depend on the circumstances of each audit.

4.6.2.5 Risk Assessment

The auditor shall assess the risks of material misstatement at the financial statement level and the assertion level for classes of transactions, account balances and disclosures so as to provide a basis for designing and performing further audit procedures.

For this purpose, the auditor needs to:

- a) identify risks throughout the process of obtaining an understanding of the entity being audited and its environment, by examining relevant controls that relate to the risks and considering the classes of transactions, account balances and

disclosures in the financial statements;

- b) assess the risks identified and evaluate whether they relate more pervasively to the financial statements as a whole and could potentially affect many assertions;
- c) relate the risks identified to what could go wrong at the assertion level, taking account of relevant controls that the auditor intends to test; and
- d) consider the likelihood of misstatement, including the possibility of multiple misstatements, whether the potential for misstatement is such as to render it material.

As part of the risk assessment, the auditor determines whether any of the risks identified is, in the auditor's judgment, significant. When judging which risks are significant, the auditor needs to consider at least the following:

- (i) risk of fraud;
- (ii) recent significant economic, accounting or other developments, which requires specific attention;
- (iii) the complexity of transactions;
- (iv) significant transactions with related parties;
- (v) the degree of subjectivity in the measurement of financial information related to the risk, especially measurements which involve a wide range of measurement uncertainty;
- (vi) significant transactions that are outside the entity's normal course of business, or that otherwise appear to be unusual; and
- (vii) compliance with laws and regulations.

The auditor shall act appropriately to address the assessed risks of material misstatement in the financial statements. Responses to assessed risks include designing audit procedures that address the risks, such as substantive procedures and test of controls. Substantive procedures include both tests of details and substantive analysis of classes of transactions, account balances and disclosures.

4.6.2.6 Going Concern Considerations

The auditor shall consider whether there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Financial statements are normally prepared on the assumption that the entity is a going concern and will continue to meet its statutory obligations for the foreseeable future. In assessing whether the going-concern assumption is appropriate, those responsible for preparation of the financial statements take into account all available information for the foreseeable future. General-purpose financial statements are typically prepared on a going-concern basis.

The going-concern concept may have little or no relevance for public-sector entities such as those funded through appropriations on the public sector budget. When such organizations are abolished or merged with others, their liabilities and assets are usually taken over by other public-sector entities. For some other types of entities, such as public sector business enterprises and joint ventures with other principals (including private sector entities operating in legal forms that provide for limited owner liability), this may not be the case. The responsibility for implementing public sector programmes may also be contracted out to private sector organizations, such as NGOs and private companies, but the programmes may still be audited by

SAI, India, making the going-concern concept and the auditor's judgement in this regard relevant to public-sector financial audit.

4.6.2.7 Considerations Relating to Fraud in an Audit of Financial Statements

The auditor shall identify and assess the risks of material misstatement in the financial statements due to fraud, shall obtain sufficient and appropriate audit evidence regarding the assessed risks of material misstatement due to fraud and shall respond appropriately to fraud or suspected fraud identified during the audit.

The auditor is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor is whether the action resulting in a misstatement was intentional or unintentional. Fraud is a broad legal concept and the auditor does not make legal determination of fraud. The auditor is concerned only with fraud that causes a material misstatement in the financial statements. Two types of intentional misstatements are relevant to the auditor - misstatements resulting from fraudulent financial reporting and those resulting from the misappropriation of assets.

Areas in which auditors shall be alert to fraud risks leading to material misstatement may include procurement, grants, privatisations, intentional misrepresentation of results or information and misuse of authority or power. Auditors shall also consider that the use of public monies tends to raise the profile of fraud. As a result auditors may need to be responsive to public expectations regarding fraud detection.

4.6.2.8 Considerations Relating to Laws and Regulations in an Audit of Financial Statements

The auditor shall identify the risks of material misstatement due to direct and material non-compliance with laws and regulations.

The auditor shall obtain sufficient and appropriate audit evidence regarding compliance with the laws and regulations such as the Appropriation Acts (which prescribe budgetary allocations against which expenditures are incurred and are subject to audit) that are generally recognised to have a direct and material effect on the determination of material amounts and disclosures in financial statements. However, the auditor is not responsible for preventing non-compliance and cannot be expected to detect all breaches of laws and regulations.

The effect of laws and regulations on the financial statements varies considerably. The provisions of some laws or regulations have a direct effect on the financial statements in that they determine the nature of reported amounts and disclosures while other laws or regulations, which are to be complied with by management, may not have a direct effect on the entity's financial statements. Non-compliance with laws and regulations may result in fines, litigation or other consequences for the audited entity that may have a material effect on the financial statements. Matters involving non-compliance with laws and regulations that come to the auditor's attention during the course of the audit shall be communicated to management/those charged with governance, save where the matters are clearly inconsequential.

4.6.2.9 Consideration of Subsequent Events

The auditor shall obtain sufficient and appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require an adjustment to, or disclosure in, the financial statements have been identified.

Financial statements may be affected by certain types of subsequent events (those occurring after the date of the financial statements). Many financial reporting frameworks specifically refer to such events. Ordinarily, two types of events are identified:

- a) Events that provide evidence of conditions that existed at the date of the financial statements; and
- b) Events that provide evidence of conditions that arose after the date of the financial statements.

Procedures shall be designed, as nearly as possible, to cover the period from the date of the financial statements to the date of the auditor's report. The auditor is not, however, expected to perform additional audit procedures on matters to which previous audit procedures have provided satisfactory conclusions. Procedures for obtaining sufficient and appropriate audit evidence may include:

- (i) steps to obtain an understanding of any procedures established by management to ensure that subsequent events are identified;
- (ii) inquiries of management;
- (iii) scrutiny of minutes of the Board / those charged with governance;
- (iv) scrutiny of the entity's most recent interim financial statements, if any
- (v) written confirmation from the management /those charged with governance.

The auditor is under no obligation to perform any audit procedures on the financial statements after the date of the auditor's report. However, if, after the date of the auditor's report but before the financial statements have been issued, a fact becomes known to the auditor that, had it been known at the date of the auditor's report, might have caused an amendment to the report, appropriate action shall be taken. Such action may include:

- 1) discussing the matter with the management and, where appropriate, those charged with governance,
- 2) determining whether the financial statements need amendment and, if so,
- 3) inquiring how the management intends to address the matter in the financial statements.
- 4) obtaining written confirmation from the management.

If the management does not take the necessary steps and does not amend the financial statements, the auditor shall notify the management and those charged with governance that the auditor will seek to prevent future reliance on the auditor's report. This may entail seeking legal advice and reporting to the appropriate statutory body.

4.6.2.10 Evaluating Misstatements

Uncorrected misstatements shall be evaluated for materiality, individually or in aggregate, to determine their effect on the opinion to be given in the auditor's report.

The auditor needs to determine whether uncorrected misstatements are material, individually or in the aggregate. To this end, the auditor shall consider

- a) the size and nature of the misstatements, in relation both to particular classes of transactions, account balances or disclosures and to the financial statements as a whole, and the particular circumstances of their occurrence; and
- b) the effect of uncorrected misstatements from prior periods on the relevant

classes of transactions, account balances or disclosures, and on the financial statements as a whole.

The auditor shall invite the management to correct misstatements, and if the management refuses to correct some or all communicated misstatements the auditor shall ascertain the reasons. When evaluating whether the financial statements as a whole are misstated, the auditor shall consider the reasons given for not making corrections. Those charged with governance shall be notified of uncorrected misstatements and the effect that they may have, individually or in aggregate, on the opinion in the auditor's report. The auditor's notification shall individually identify uncorrected material misstatements in classes of transactions, account balances or disclosures. Misstatements that are clearly trivial need not normally be communicated, save where the auditor is required by mandate to report all misstatements.

4.6.2.11 Forming an Opinion and Reporting on the Financial Statements

The auditor shall form an opinion based on an evaluation of the conclusions drawn from the audit evidence obtained, as to whether the financial statements as a whole are prepared in accordance with the applicable financial reporting framework. The opinion shall be expressed clearly in a written report that also describes the basis for the opinion.

In order to form an opinion, the auditor must first conclude whether reasonable assurance has been obtained as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. The conclusion shall take into account:

- a) Whether sufficient and appropriate evidence has been obtained;
- b) Whether uncorrected misstatements are material, individually or in aggregate; and c) The auditor's evaluations of the financial statements. .

i) Form of Opinion

The auditor shall express an unmodified opinion if it is concluded that the financial statements are prepared, in all material respects, in accordance with the applicable financial framework. If the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement, or is unable to obtain sufficient and appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor shall modify the opinion in the auditor's report. Auditors may provide three types of modified opinions: a qualified opinion, an adverse opinion and a disclaimer of opinion as envisaged in para 4.2.5.2.3 of this Chapter.

ii) Determining the type of modification to the auditor's opinion - The decision regarding which type of modified opinion is appropriate depends upon:

- a) The nature of the matter giving rise to the modification – that is, whether the financial statements are materially misstated or, in the event that it was impossible to obtain sufficient and appropriate audit evidence, may be materially misstated; and
- b) The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.

If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor shall discuss the matter with the management and, depending on the requirements of the applicable

financial reporting framework and how the matter is resolved, determine whether it is necessary to modify the audit opinion.

iii) Expression of opinion in the Auditor's Report - The expression of opinion in the Auditor's Report shall use one of the following equivalent phrases when expressing an unmodified opinion on the financial statements prepared in accordance with a fair presentation framework:

- a) The financial statements present fairly, in all material respects... in accordance with
[the applicable reporting framework]; or
- b) The financial statements give a true and fair view of ... in accordance with
[the applicable financial reporting framework]

When expressing an unmodified opinion on financial statements prepared in accordance with a compliance framework, the auditor's opinion shall be that the financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework]. When expressing a modified opinion, the auditor shall also modify the heading to correspond with the type of opinion expressed.

Apart from the section that contains the Opinion, Auditor's Report may include separate sections on a) responsibility of Management for the financial statements, stating that the management is responsible for the financial statements in accordance with the applicable financial reporting framework, b) responsibility of Auditors, stating that the responsibility of the auditor is to express an opinion based on the audit of the financial statements and describing the scope of audit and audit procedures carried out, c) Emphasis of Matter and Other Matters paragraphs and d) other regulatory and reporting responsibilities of auditors.

iv) Emphasis of Matter and Other Matters Paragraphs in the Auditor's Report

If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that is of such importance that it is fundamental to their understanding of the financial statements, but there is sufficient and appropriate evidence that the matter is not materially misstated in the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report. Emphasis of Matter paragraphs shall only refer to information presented or disclosed in the financial statements.

If the auditor considers it necessary to communicate a matter, other than those that are presented or disclosed in the financial statements, which, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, and provided this is not prohibited by law or regulation, this shall be done in a paragraph with the heading "Other Matter," or another appropriate heading. This paragraph shall appear immediately after the opinion and any Emphasis of Matter paragraph.

4.6.2.12 Comparative information – 'Corresponding figures and comparative financial statements Comparative information' refers to amounts and disclosures included in the financial statements in respect of one or more prior periods. The auditor shall evaluate whether:

- a) the comparative information agrees with the amounts and other disclosures that were presented in the prior period or, where appropriate, have

been restated; and

b) the accounting policies reflected in the comparative information are consistent with those applied in the current period or, if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed.

If the auditor becomes aware, during the current period, of a possible material misstatement in the comparative information, the auditor shall perform such additional audit procedures as are necessary in the circumstances to obtain sufficient and appropriate audit evidence as to whether a material misstatement exists.

4.6.2.13 Special Considerations – Audits of financial statements prepared in accordance with Special-Purpose Frameworks

The auditor is required to determine the acceptability of the financial reporting framework that was applied when preparing the financial statements. In an audit of special-purpose financial statements, the auditor shall obtain an understanding of:

- a) the purpose for which the financial statements are prepared;**
- b) the intended users; and**
- c) the steps taken by management to determine that the applicable financial reporting framework is acceptable in the circumstances.**

In planning and performing an audit of special-purpose financial statements, the auditor shall determine whether the circumstances of the engagement require special consideration to be given to application of these standards. When forming an opinion and reporting on special-purpose financial statements, the auditor shall comply with the same requirements as for general-purpose financial statements. The auditor's report on special-purpose financial statements shall:

- (i) describe the purpose for which the financial statements have been prepared; and**
- (ii) make reference to the management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances where the management has a choice of frameworks to use in preparing the financial statements.**

The auditor shall include an Emphasis of Matter paragraph alerting users to the fact that the financial statements have been prepared in accordance with a special-purpose framework and that, as a result, they may not be suitable for another purpose.

4.6.2.14 Special Considerations – Audits of single financial statements and specific elements, accounts or items of a financial statement

In the case of an audit of a single financial statement, or of a specific element of a financial statement, the auditor shall first determine whether the audit is practicable. These standards also apply to audits of a single financial statement, or of a specific element of a financial statement, irrespective of whether the auditor is also engaged to audit the entity's complete set of financial statements.

The auditor shall consider whether the expected form of opinion is appropriate in the circumstances of the engagement, and shall adapt the reporting requirements as necessary. If the auditor is engaged to report on a single financial statement, or on a specific element of a financial statement, in conjunction with an engagement to audit the entity's complete set of financial statements, the auditor shall express a separate opinion for each engagement.

If the opinion in the auditor's report on an entity's complete financial statements is modified, or the report includes an Emphasis of Matter paragraph or Other Matter paragraph, the auditor shall determine the effect this may have on the auditor's report on a single financial statement or a specific element of a financial statement. Where appropriate, the auditor shall modify the auditor's report on the single financial statement or specific element of a financial statement.

4.6.2.15 Considerations relevant to audits of Consolidated Financial Statements (including Whole of Public Sector Financial Statements)

While auditing the group financial statements, auditors shall obtain sufficient and appropriate audit evidence regarding the financial information of all components and the consolidation process to express an opinion as to whether the Consolidated Financial Statements (including whole-of-public sector financial statements) are prepared, in all material respects, in accordance with the applicable financial reporting framework.

In situations where the audit is of consolidated financial statements, such as whole-of-public sector accounts, specific requirements and considerations may apply. The auditor carrying out an audit of consolidated financial statements is referred to as the principal auditor. The principal auditor shall establish a consolidated audit strategy and develop a consolidated audit plan. The principles for understanding the entity shall include an understanding of the group, its components and their environments, including group-wide controls, as well as the consolidation process. The understanding thus obtained shall be sufficient to confirm or revise the initial identification of components that are likely to be significant for the consolidated financial statements, and to assess the risks of material misstatement, whether due to fraud or error, of the consolidated financial statements.

4.6.3 Performance Audit

4.6.3.1 Performance audit is an independent, objective and reliable examination of whether public sector undertakings, systems, operations, programmes, activities or organizations are operating in accordance with the principles of economy, efficiency and effectiveness. **The main objective of performance audit is to constructively promote economical, effective and efficient governance. It also contributes to accountability and transparency.** Performance audit promotes accountability by assisting those charged with governance and oversight responsibilities to improve performance through an examination of whether:

- a) decisions by the legislature or the executive are efficiently and effectively prepared and implemented and
- b) tax payers or citizens have received value for money.

It does not question the intentions and decisions of the legislature, but examines whether any shortcomings in the implementation of the law and framing of regulations have prevented the specified objectives from being achieved. Performance audit focuses on areas in which it can add value for citizens and which have the greatest potential for improvement. It provides constructive incentives for the responsible parties to take appropriate action. Performance audit promotes transparency by affording all stakeholders an insight into the management and outcomes of different public sector activities. It thereby directly contributes to providing useful information to the citizen, while also serving as a basis for learning and improvements.

4.6.3.2 Perspective of Performance Audit

Performance audits undertaken by SAI, India may have overlaps with other audit types (or combined audits) and in such circumstances the following points shall be considered:

- a) Elements of performance audit can be part of a more extensive audit that also covers compliance and financial auditing aspects.
- b) In the event of an overlap, the primary objective of the audit shall guide the auditors as to which standards to apply.

In determining whether performance considerations form the primary objective of the audit engagement, it should be borne in mind that performance auditing focuses on activity and results rather than reports or accounts, and that its main objective is to promote economy, efficiency and effectiveness rather than report on compliance.

4.6.3.3 Type of Engagement and Assurance

Performance audits are essentially direct reporting engagements where the auditor measures or evaluates the subject matter against the criteria. Performance audits are not normally expected to provide an overall opinion, comparable to the opinion on financial statements, on the audited entity's achievement of economy, efficiency and effectiveness. The degree of economy, efficiency and effectiveness achieved may be conveyed in the performance audit report in different ways:

- a) either through an overall view on aspects of economy, efficiency and effectiveness,
where the audit objective, the subject matter, the evidence obtained and the findings reached allow for such a conclusion;
- b) or by providing specific information on a range of points including the audit objective, the questions asked, the evidence obtained, the criteria used, the findings reached and the specific conclusions.

Performance audits are designed to provide a reasonable assurance with a set of conclusions and, if applicable, a single overall conclusion and to present a balanced report by taking into account all relevant viewpoints.

4.6.3.4 Audit Risk

Auditors shall actively manage audit risk, which is the risk of obtaining incorrect or incomplete conclusions, providing unbalanced information or failing to add value for users. Many topics in performance auditing are complex and sensitive. The risk that an audit will fail to add value ranges from the likelihood of not being able to provide new information or perspectives to the risk of neglecting important factors and consequently not being able to provide users of the audit report with knowledge or recommendations that would make a real contribution to better performance. Important aspects of risk may include not possessing the competence to conduct sufficiently broad or deep analysis, lacking access to quality information, obtaining inaccurate information (e.g. because of fraud or irregular practices), being unable to put all findings in perspective, and failing to collect or address the most relevant arguments. Auditors shall therefore actively manage risk. Dealing with audit risk is embedded in the whole process and methodology of performance audit.

4.6.3.5 Selection of topics

Auditors shall select audit topics through the strategic planning process by analysing potential topics and conducting research to identify risks and problems.

Determining which audits will be pursued is usually part of SAI India's strategic planning process. If appropriate, auditors shall contribute to this process in their respective fields of expertise. They may share knowledge from previous audits, and information from the strategic planning process may be relevant for the auditor's subsequent work. In this process, auditors shall consider that audit topics are sufficiently significant as well as auditable and in keeping with SAI India's mandate. The topic selection process shall aim to maximise the expected impact of the audit while taking account of audit capacities (e.g. human resources and professional skills). Formal techniques to prepare the strategic planning process, such as risk analysis or problem assessments, can help structure the process but need to be complemented by professional judgement to avoid one-sided assessments. Performance auditing generally requires that audit-specific, substantive and methodological knowledge be acquired before the audit is launched ("pre-study/ pilot study").

4.6.3.6 Audit design

Auditors shall plan the audit in a manner that contributes to a high-quality audit that will be carried out in an economical, efficient, effective and timely manner and in accordance with the principles of good project management.

In planning an audit, it is important to consider:

- a) the background knowledge and information required for an understanding of the audited entities so as to allow an assessment of the problem and risk, possible sources of evidence, auditability and the significance of the area considered for audit, consultation with stakeholders, if necessary, including domain specialists or experts in the field to build up proper knowledge
- b) the audit objectives, questions, criteria, subject matter and methodology (including techniques to be used for gathering evidence and conducting the audit analysis);
- c) the necessary activities, staffing and skills requirements (including the independence of the audit team, human resources and possible external expertise), the key project timeframes and milestones and the main points for control.

The planning phase shall also involve research work aimed at building knowledge, testing various audit designs and checking whether the necessary data are available. This may involve combining and comparing data from different sources, drawing preliminary conclusions and compiling findings in order to build hypotheses that can be tested, if necessary, against additional data. This makes it easier to choose the most appropriate audit method. Technology and data analytics may be optimally utilised to facilitate this process.

4.6.3.7 Audit approach

Auditors shall choose a result, problem or system-oriented approach, or a combination thereof, to facilitate the soundness of audit design.

It determines the nature of the examination to be made and defines the necessary knowledge, information, data and the audit procedures needed to obtain and analyse them. Performance auditing generally follows one of three approaches:

- a) a system-oriented approach, which examines the proper functioning of management systems, e.g. financial management systems;
- b) a result-oriented approach, which assesses whether outcome or output objectives have been achieved as intended or programmes and services are operating as intended;
- c) a problem-oriented approach, which examines, verifies and analyses the causes of particular problems or deviations from criteria.

All three approaches can be pursued from a top-down or bottom-up perspective. Top-down audits concentrate mainly on the requirements, intentions, objectives and expectations of the legislature and central public sector. A bottom-up perspective focuses on problems of significance to people and the community.

4.6.3.8 Audit procedures

When planning the audit, the auditor shall design the audit procedures to be used for gathering sufficient and appropriate audit evidence.

The methods chosen shall be those which best allow evidence to be gathered in an efficient and effective manner. This can be approached in several stages:

- a) deciding on the overall audit design (which questions to ask, e.g. explanatory /descriptive/evaluative);
- b) determining the level of observation (e.g. looking at a process or individual files) and methodology (e.g. full analysis or sample);
- c) specific data-collection techniques (e.g. analysis of records, questionnaire, interview or focus group). Data-collection methods and sampling techniques shall be carefully chosen.

While the auditors shall aim to adopt best practices, practical considerations such as the availability of data may restrict the choice of methods. It is therefore advisable that planning be flexible and pragmatic. For this reason, performance audit procedures shall not be overly standardised. Excessive prescriptiveness may hamper the flexibility, professional judgement and high levels of analytical skills that are required in a performance audit. In certain cases – where, for example, the audit requires data to be gathered in many different regions or areas or the audit is to be conducted by a large number of auditors – there may be a need for a more detailed audit plan in which audit questions and procedures are explicitly defined.

When planning an audit, auditors shall also assess the risk of fraud. If this is significant within the context of the audit objectives, the auditors shall obtain an understanding of the relevant internal control systems and examine whether there are signs of irregularities that hamper performance. The overall aim at the planning stage is to decide, by building up knowledge and considering a variety of strategies, how best to conduct the audit.

Auditors shall establish suitable criteria which correspond to the audit questions and are related to the principles of economy, efficiency and effectiveness. Diverse sources can be used to identify criteria, including performance measurement frameworks. The criteria shall be discussed with the auditable entities, but it is ultimately the auditor’s responsibility to select suitable criteria. While defining and communicating suitable criteria during the planning phase may enhance their reliability and general acceptance, in audits covering complex issues it is not always possible to set criteria in advance and instead they will be defined during the audit process.

4.6.3.9 Quality Control

Auditors shall 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.

In the conduct of performance audits the following specific issues need to be addressed:

- a) Performance audit is a process in which the audit team gathers a large amount of audit-specific information and exercises a high degree of professional judgement and discretion concerning the relevant issues. This must be taken into account in quality control. The need to establish a working atmosphere of mutual trust and responsibility and provide support for audit teams shall be seen as part of quality management.
- b) In performance auditing, even if the report is evidence-based, well-documented and accurate, it might still be inappropriate or insufficient if it fails to give a balanced and unbiased view, includes too few relevant viewpoints or unsatisfactorily addresses the audit questions. These considerations shall therefore be an essential part of measures to safeguard quality.
- c) As audit objectives vary widely between different audit engagements, it is important to define clearly what constitutes a high-quality report in the specific context of an audit engagement. General quality control measures shall therefore be complemented by audit-specific measures.

No quality control procedures at the level of the individual audit can guarantee high-quality performance audit reports. It is equally important for auditors to be – and remain – competent, motivated and willing to innovate. Control mechanisms shall therefore be complemented by support, such as on-the-job training and guidance for the audit team.

4.6.3.10 Reporting

Auditors shall strive to provide audit reports which are comprehensive, convincing, timely, reader-friendly and balanced.

To be comprehensive, the report shall include information about the audit objective, audit questions and answers to those questions, the subject matter, criteria, methodology, sources of data, any limitations to the data used, and audit findings. The audit findings shall be put into perspective. It shall clearly answer the audit questions or explain why this was not possible. To be convincing, it shall be logically structured and present a clear relationship between the audit objective, criteria, findings, conclusions and recommendations. All relevant arguments shall be addressed. The report shall explain why and how problems observed in the findings hamper performance in order to encourage the audited entity or the user to initiate corrective action. It shall, where appropriate, include recommendations for improvements to performance. The report shall be as clear and concise as the subject matter permits and phrased in unambiguous language. As a whole it shall be constructive, contribute to better knowledge and highlight any necessary improvements.

Being balanced means that preparation of the report needs to be impartial in content and tone. In preparing a balanced and constructive report the auditors shall strive to present (i) findings objectively and fairly. The facts shall be presented and interpreted in neutral terms, avoiding biased information or language that can generate defensiveness and opposition (ii) different perspectives and viewpoints. Where different interpretations of the evidence can legitimately be made, they need to be presented to ensure fairness and balance and (iii) both positive and negative aspects and give credit where it is due.

4.6.3.11 Recommendations

Auditors shall seek to provide constructive recommendations that are likely to contribute significantly to addressing the weaknesses or problems identified by the audit. Recommendations shall be well-founded and add value. They shall address the causes of problems and/or weaknesses. However, they shall be phrased in such a way that avoids truisms or simply inverting the audit conclusions and they shall not encroach on the management's responsibilities.

It shall be clear who and what is addressed by each recommendation, who is responsible for taking any initiative and what the recommendations mean – i.e. how they will contribute to better performance. Recommendations shall be practical and be addressed to the entities which have responsibility and competence for implementing them. Recommendations shall be presented in a logical and reasoned fashion. They shall be linked to the audit objectives, findings and conclusions. Together with the full text of the report, they shall convince the reader that they are likely to significantly improve the conduct of public sector operations and programmes, e.g. by lowering costs, simplifying administration, enhancing the quality and volume of services, or improving effectiveness, impact or the benefits to society.

4.6.3.12 Follow-up

Auditors shall follow up previous audit findings and recommendations wherever appropriate. Follow-up shall be reported appropriately in order to provide feedback to the legislature together, if possible, with the conclusions and impacts of all relevant corrective action.

Follow-up refers to the auditors' examination of corrective action taken by the audited entity, or another responsible party, on the basis of the results of a performance audit. It is an independent activity that increases the value of the audit process by strengthening the impact of the audit and laying the basis for improvements to future audit work. Follow-up is not restricted to the implementation of recommendations but focuses on whether the audited entity has adequately addressed the problems and remedied the underlying situation after a reasonable period of time.

When conducting follow-up of an audit report, the auditor shall concentrate on findings and recommendations that are still relevant at the time of the follow-up and adopt an unbiased and independent approach. Follow-up results may be reported individually or as a consolidated report, which may in turn include an analysis of different audits, possibly highlighting common trends and themes across a number of reporting areas.

4.6.4 Compliance Audit

4.6.4.1 Compliance audit is the independent assessment of whether a given subject matter is in compliance with applicable authorities identified as criteria. Compliance audits are carried out by assessing whether activities, financial transactions and information comply in all material respects, with the authorities which govern the audited entity. Compliance auditing may be concerned with

- a) Regularity - adherence of the subject matter to the formal criteria emanating from relevant laws, regulations and agreements applicable to the entity
- b) Propriety - observance of the general principles governing sound financial management and the ethical conduct of public officials

While regularity is the main focus of compliance auditing, propriety is equally pertinent in the public-sector context, in which there are certain expectations concerning financial management and the conduct of officials.

4.6.4.2 Objectives of Compliance Audit

Compliance audit promotes transparency by providing reliable reports as to whether funds have been administered, management exercised and citizens' rights to due process honoured as required by the applicable authorities. It promotes accountability by reporting deviations from and violations of authorities, so that corrective action may be taken and those accountable may be held responsible for their actions. It promotes good governance both by identifying weaknesses and deviations from laws and regulations and by assessing propriety where there are insufficient or inadequate laws and regulations. Fraud and corruption are, by their very nature, elements which counteract transparency, accountability and good stewardship. Compliance audit therefore also considers the risk of fraud in relation to compliance.

The objective of compliance auditing, therefore, is to enable assessment of whether the activities of auditable entities are in accordance with the authorities governing those entities in order to express a conclusion designed to enhance the degree of confidence of the intended users.

4.6.4.3 Perspectives of Compliance Audit

Compliance audit can be part of a combined audit that may also include other aspects. Though other possibilities exist, compliance auditing is generally conducted either:

- in relation with the audit of financial statements, or
- separately as individual compliance audits, or
- in combination with performance auditing

4.6.4.4 Compliance Audit in relation with the audit of Financial Statements

The legislature, as an element of public democratic process, establishes the priorities for public-sector income and expenditure and for the calculation and attribution of expenditure and income. The underlying premises of legislative bodies, and the decisions they take are the source of the authorities governing cash flow in the public sector. Compliance with those authorities constitutes a broader perspective alongside the audit of financial statements in budgetary execution.

Laws and regulations are important both in compliance auditing and in the audit of financial statements. Which laws and regulations apply in each field will depend on the audit objectives. Compliance audit focusses on obtaining sufficient and appropriate evidence regarding compliance of a given subject matter with applicable authorities identified as criteria. Whereas, in the audit of financial statements, only those laws and regulations with a direct and material effect on the financial statement are relevant, in compliance auditing any law and regulation relevant to the subject matter may be relevant for audit.

4.6.4.5 Compliance Audit conducted separately

Compliance audits may be planned, performed and reported on separately from the audit of financial statements and from performance audits. Such audits may be conducted separately on a regular basis, as distinct and clearly-defined audits each related to a specific subject matter.

4.6.4.6 Compliance Audit in combination with Performance Auditing

When compliance audit is part of a performance audit, compliance is seen as one of the aspects of economy, efficiency and effectiveness. Non-compliance may be the cause of, an explanation

for, or a consequence of the state of the activities that are the subject of performance audit. In combined audits of this kind, auditors shall use their professional judgement to decide whether performance or compliance is the primary focus of the audit and whether to apply the performance audit standards, compliance audit standards or both.

4.6.4.7 Type of Engagement in Compliance Audit

Compliance audits can be conducted as direct reporting engagements or attestation engagements. An auditor performs procedures to reduce or manage the risk of providing incorrect conclusions, recognising that, owing to the inherent limitations in all audits, no audit can ever provide absolute assurance of the condition of the subject matter. In most cases, a compliance audit will not cover all elements of the subject matter but will rely on a degree of qualitative or quantitative sampling. Compliance auditing enhances the confidence of the intended users in the information provided by the auditor or another party.

4.6.4.8 Audit Risk

Consideration of audit risk is relevant in both attestation and direct engagements.

The auditor shall consider three different dimensions of audit risk – inherent risk, control risk and detection risk – in relation to the subject matter and the reporting format, i.e. whether the subject matter is quantitative or qualitative and whether the audit report is to include an opinion or a conclusion. The relative significance of these dimensions of audit risk depends on the nature of the subject matter and whether it is a direct reporting or an attestation engagement.

4.6.4.9 Materiality

Materiality in compliance auditing has both quantitative and qualitative aspects, although the qualitative aspects generally play a greater role in the public sector.

Materiality shall be considered for the purposes of planning, evaluating the evidence obtained and reporting. An essential part of determining materiality is to consider whether reported cases of compliance or non-compliance (potential or confirmed) could reasonably be expected to influence decisions by the intended users. Factors to be considered within this judgment assessment are mandated requirements, public interest or expectations, specific areas of legislative focus, requests and significant funding. Issues at a lower level of value or incidence than the general determination of materiality, such as fraud, may also be considered material. The assessment of materiality requires comprehensive professional judgement on the part of the auditor and is related to the audit scope.

4.6.4.10 Risk assessment

Auditors shall perform a risk assessment to identify risks of non-compliance. In the light of the audit criteria, the audit scope and the characteristics of the audited entity, the auditor shall perform a risk assessment to determine the nature, timing and extent of the audit procedures to be performed. In this process, the auditor shall consider the risks that the subject matter will not comply with the criteria. Non-compliance may arise due to fraud, error, the inherent nature of the subject matter and/or the circumstances of the audit. The identification of risks of non-compliance and their potential impact on the audit procedures shall be considered throughout the audit process. As part of the risk assessment, the auditor shall evaluate any known instances of non-compliance in order to determine whether they are material.

4.6.4.11 Risk of fraud, abuse and non-compliance

Auditors shall consider the risk of fraud, abuse and non-compliance. If the auditor comes across instances of non-compliance which may be indicative of fraud, the auditor shall exercise due professional care and caution so as not to interfere with any future legal proceedings or investigations.

Fraud in compliance auditing relates mainly to the abuse of public authority, but also to fraudulent reporting on compliance issues. Abuse occurs when the conduct of the entity, program, activity or function falls far short of societal expectations for prudent behaviour. Non-compliance comprises violation of laws, rules and regulations, provisions of contracts and other agreements. Instances of non-compliance with authorities may constitute deliberate misuse of public authority for improper benefit. The execution of public authority includes decisions, non-decisions, preparatory work, advice, information handling and other acts in the public service. Improper benefits are advantages of a non-economic or economic nature gained by an intentional act by one or more individuals among management, those charged with governance, employees or third parties. While detecting fraud is not the main objective of compliance audit, auditors shall include fraud risk factors in their risk assessments and remain alert to indications of fraud.

4.6.4.12 Reporting

Auditors shall prepare a report based on the principles of completeness, objectivity, timeliness and a contradictory process.

The principle of completeness requires the auditor to consider all relevant audit evidence before issuing a report. The principle of objectivity requires the auditor to apply professional judgement and scepticism in order to ensure that all reports are factually correct and that findings or conclusions are presented in a relevant and balanced manner. The principle of timeliness implies preparing the report in due time. The principle of a contradictory process implies checking the accuracy of facts with the audited entity and incorporating responses from responsible officials as appropriate. In both form and content, a compliance audit report shall conform to all these principles.

Reporting may vary between various forms of conclusions, presented in short or long form. However, the report shall be complete, accurate, objective, convincing and as clear and concise as the subject matter permits. The conclusion may take the form of a clear written statement on compliance or may be expressed as a more elaborate answer to specific audit questions. While a conclusion is common in attestation engagements, the answering of specific audit questions is more often used in direct reporting engagements.

4.6.4.13 Follow-up

Auditors shall follow up instances of non-compliance when appropriate.

A follow-up process facilitates the effective implementation of corrective action and provides useful feedback to the audited entity, the users of the audit report and the auditor (for future audit planning). The need to follow up previously reported instances of non-compliance will vary with the nature of the subject matter, the non-compliance identified and the particular circumstances of the audit.



Chapter – V

State Civil Works

5.1 Charged and Voted Expenditure : Expenditure subject to the vote of the legislature are treated as voted and the expenditure that are not subject to the vote of the legislature are treated as charged. Expenditure in the PWD not subject to the vote of the legislature comprised the following:

- (i) expenditure on official residences of the state
- (ii) Expenditure on the High Court of Judicature at Ranchi
- (iii) Expenditure on Public Service Commission
- (iv) Any other item as may be specifically declared by the legislature of the state by law to be so charged

Audit Objective and the scope

5.2 The main objectives of PWD audit are to see that

- (i) initial accounts, vouchers etc. have been received in a complete state
- (ii) all sums received/ paid have been credited/ debited to the proper heads of account
- (iii) all charges are covered by sanctions and allotments
- (iv) all vouchers and accounts are properly prepared, arithmetically correct and are correctly classified and
- (v) claims admitted for payment are valid according to the rates sanctioned by the competent authority

(Authority paragraph 4.1.1 of MSO Audit 2002)

5.3 The following are the source documents to be checked at different stages of works audit:

- (i) Monthly Accounts including Scheduled dockets
- (ii) Vouchers
- (iii) Cash and Stock Accounts
- (iv) Sanctions
- (v) Estimates of works
- (vi) Computed tenders
- (vii) Works Register
- (viii) Transfer Transaction of Sub-Divisions and Divisions

(Authority paragraph 4.1.2 of MSO Audit 2002)

Points to be seen during Inspection:

5.4 The file of rejected tenders and contract agreements etc. should be scrutinized to see:

- (i) that tenders are called for in all cases of works estimated to cost above Rs. 2.50 lakh or more.

(Rule 158a of JPWD Code 2012)

- (ii) that tenders have been invited in the most open and public manner possibly allowing sufficient time for publicity

(Rule 159 of JPWD Code 2012)

- (iii) In supersession of the provisions made by paragraph 163(a) of JPWD Code 2012 for rejection of the tenders quoted below 10% of the BOQ amount has been waived now and the tenders quoted below 10% of the BOQ amount shall also be valid now. For

the tenders quoted below 10% of the BOQ amount Additional Performance Security will have to be provided.@

- (i) 20% for the tenders quoted below 10% to 20% of the BOQ amount and
- (ii) 30% for the tenders quoted below 20% of the BOQ amount

This provision will be accommodated in Paragraph 172 (a) of the JPWD code 2012. All the provisions made by previous Code/Rules/Circulars in this regard will be superseded upto that extent.

(Authority: GoJ, RCD circular No. 2146 (s) dated 9.9.2020 applicable for all the Work departments of Government of Jharkhand)

झारखंड लोक निर्माण संहिता की कंडिका -163;द्ध द्वारा कृत प्रावधान को अवकमित करते हुए 10 प्रतिशत की न्यूनतम अधिसीमा को समाप्त किया गया है । अब 10 प्रतिशत से नीचे के दर की निविदाएं अनुमान्य होंगी । 10 प्रतिशत से न्यून निविदाओं के लिए Additional Performance Security के क्रम में परिमाण विपत्र की राशि से (i) 10 से 20 प्रतिशत इमसवू तक की राशि का 20: तथा (ii) 20 प्रतिशत से अधिक इमसवू की राशि का 30: अतिरिक्त जमानत का प्रावधान लामू होगा। यह झारखंड लोक निर्माण संहिता की कंडिका -172 (a) के रूप में समाहित होगा । पूर्व के संहिता/नियम/ परिपत्र द्वारा कृत सभी प्रावधान अवकमित समझे जाएंगे A

(Authority: झारखंड सरकार, पथ निर्माण विभाग संकल्प संख्या 2146(S) दिनांक 9.9.2020 झारखंड सरकार के सभी कार्य विभागों में लागू)

(iv) that if any comments are necessary, they are dealt with separately from the Inspection Report and communicated confidentially to the DAG, AMG-I for further action being taken with the Chief Engineer and the State Government if necessary

(v) that security for due fulfilment of contract is taken unless specially ordered otherwise by competent authority

(Authority: Paragraph 172 of JPWD Code 2012)

(vi) that the disposal of tenders has been made as expeditiously as possible.

(Authority: Note 4 c below Paragraph 163 of JPWD Code 2012)

(vii) In the case of equal and valid tenders received the tenders will be finalized through lottery in a transparent manner by the competent authority for the disposal of tenders. This provision will be accommodated in the Paragraph 163(e) of the JPWD Code 2012 and all the provisions made by previous Code/Rules/Circulars in this regard will be superseded upto that extent.

(Authority: GoJ, RCD circular No. 2146 (s) dated 9.9.2020 applicable for all the Work departments of Government of Jharkhand)

वैध एवं समान दर की निविदाओं के मामले में निविदा नि पादन के प्रधिकार द्वारा पारदर्शी तरीके से लॉटरी की पद्धति अपनाई जाएगी । यह प्रावधान झारखंड लोक निर्माण संहिता की कंडिका -163;मद्ध के रूप में समाहित होगा तथा उक्त हद तक पूर्व के संहिता/नियम/ परिपत्र द्वारा कृत सभी प्रावधान अवकमित समझे जाएंगे ।

(Authority: झारखंड सरकार, पथ निर्माण विभाग संकल्प संख्या 2146;द्ध दिनांक 9.9.2020 झारखंड सरकार के सभी कार्य विभागों में लागू)

(viii) that where tenders have been invited prior to the sanction of an estimate the current schedule of rates of the division form the basis of tender

(ix) that contracts are executed on standard forms in each case.

(Authority: Paragraph 169 a (iii) of JPWD Code 2012)

(x) that agreement have been accepted by competent authority before the liability is incurred. Notice inordinate delay in their acceptance

(Authority: Paragraph 3.7.2 (iv) of MSO 2002)

- (xi) that in cases where tenders are received substantially lower in amount than the estimated cost of the work, the estimates are, as a rule is revised by the Divisional Officer.
- (xii) that fresh quotations are always called for where more than six months have elapsed between the quotation and the final receipt of the tender. But in any particular case when more than six months have elapsed, if the Divisional Officer does not consider it necessary to call for fresh quotation, he should certify that it was not necessary to do so giving reasons for the same.
- (xiii) that when estimates provide for using old and new materials in a certain proportion, the agreement should show different rates for works with new and that with old materials.
- (xiv) that in case of non-tender works when materials are supplied departmentally and value recovered from bills, the contractors' profit, if any, included in the rates is deducted
- (xv) that corrections in agreements are attested by both the parties
- (xvi) that the rates paid are corresponding to those agreed to in the concerned contracts or agreements

(Authority: Para-2.4.4 (ii) of MSO-2002)

- (xvii) that agreements are not revised on the score that market rates have risen up after the agreements are accepted
- (xviii) that if materials are to be supplied by Government, the materials to be supplied the place or places of delivery and the rates to be charged to contractors are specified in the contracts and that such rates do not differ from those notified in the notice calling for tenders

(Para 261 of BPWA Code adopted by Jharkhand)

- (xix) that contracts are free from ambiguities, that rates to be allowed are definitely stated (Authority: Paragraph 3.7.2 (i) of MSO 2002) and that if contract provide for the payment for work done at a specified percentage below or above the estimate or other rates it is stated in clear terms in the contracts that such percentages will be calculated on the gross and not net amount of the bills for work done
- (xx) that no work has been started prior to the acceptance of the agreement by the competent authority

(Authority: Paragraph 3.7.2 (iii) of MSO)

- (xxi) that transactions relating to two or more separate working estimates are not covered by a single contract. But in exceptional cases where more that one working estimate is covered by a single contract, the contract agreement is not split up but the estimates are consolidated
- (xxii) that the terms of contracts and the penalties for non-fulfillment of any of the terms are duly enforced in practice have been obtained from the contractors prior to the grant of mobilization, secured advances in all cases
- (xxiii) Clause 51.1 of Section-3 (Conditions of Contract) of SBD regarding Mobilization Advance has been changed as below:

“The Employer shall make advance payment to the Contractor of the amounts stated in the Contract Data by the date stated in the Contract Data, against provision by the Contractor of an Unconditional Bank Guarantee in a form and by a bank acceptable to the employer in amounts and currencies equal to

the advance payment. But the amount of guarantee shall be progressively reduced by the amounts repaid by the Contractor. Interest will be charged @ 10% quarterly compounded.

The interest will be charged with the installment of recovery of mobilization advance.”

(vide RCD, GOJ resolution no. 3211 (S) dated 5.6.2018)

(xxiv) Interest @ 10% is to be charged on the Mobilization Advance as well as on Equipment Advance by all the works department. Quantum and modus operandi for recovery of these Advances will be as per RCD, GOJ resolution no. 3211 (S) dated 5.6.2018

(Authority : RCD, GOJ resolution no. 2146(S) dt 9.9.2020)

Recording of reasons for not accepting lowest tenders

5.5 (i) When ever the lowest tender is not accepted by the authority accepting the tender, he should immediately communicate the reasons for the same to his immediate superior officer confidentially.

(Authority : Rule 238 Bihar Financial Rules adopted by Government of Jharkhand and Paragraph 163 (b) of JPWD code 2012)

(ii) If the superior officer agrees with the reasons for not accepting the tender, he should separately record his decision and intimate the same to the authority accepting the tender

(Authority : Paragraph 163 (b) of JPWD code 2012)

(iii) the papers on which the reasons are recorded should be destroyed after accounts for the relevant period have been inspected by an Audit Officer and the Audit Note has been finally disposed off.

(iv) If in course of his inspection, the Inspecting Officer wants to see any particular case or cases the reasons for not accepting the lowest tender for the approval of the immediate superior officer thereto, the necessary papers should be shown to him

(Authority : Paragraph 163 (b) of JPWD code 2012).

5.6 Cases in which audit had challenged the acceptance of other than the lowest tender as improper exercise of discretion by the authority accepting the tenders should be mentioned in the Appropriation Report giving reasons for holding that such discretion was improperly exercised.

When bringing such cases to notice, it may inter-alia be indicated whether their ratio to the total number of cases examined points to the conclusion that there merely be individual lapses or are indicative of a more wide spread general tendencies.

5.7 If a case of improper acceptance of other than the lowest tender is noticed in the course of inspection the Inspecting Officer should mention the number of such cases noticed and the no. of contracts investigated by him in the inspection report to enable the central office to draft the necessary paragraph for the audit report of the subject.

Cash book

5.8.1 General examination of cashbook is conducted to ensure that it is being maintained properly in the prescribed form and the provisions of the 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 cashbook if not checked by the officer-in-charge of the cash book are verified by a responsible subordinate other than the writer of the cashbook who initials it as correct.
- (iii) The cash book is closed and balanced on the prescribed dates.
- (iv) Bank reconciliation statement has been prepared by the auditee unit in each month.
- (v) 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 the cash actually found at the time of verification and whether the same tallies with the balance appearing in the cash book.
- (vi) There are no erasures or interpolations and that errors are rectified properly.
- (vii) 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.
- (viii) 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.
- (ix) A complete account of the permanent advance held, if any, is available in the cashbook, full details of the cash in hand and unrecouped vouchers are being worked out and clearly recorded whenever the cashbook has been closed.
- (x) The expenditure has not been incurred in excess of the permanent advance by spending irregularly from departmental receipts of other undisbursed balances of amounts drawn from treasury for different specific purposes.
- (xi) 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 cashbook has been closed.
- (xii) In case of undisbursed amount of pay and allowances, if paid in cash, the dates of their withdrawals are recorded and no item is held in hand undisbursed for more than three months.
- (xiii) There is no evidence of removal of or tampering with the pages of the cashbook, and that its pages are duly machine numbered; that the certificate of the pages contained in a cashbook is recorded under the signatures of the head of the Office in the fly leaf before bringing the same in use
- (xiv) The expenditure has not been incurred in excess of the permanent advance by spending from the departmental receipts which is a serious irregularity.
- (xv) When the cashbook 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.
- (xvi) In case of annual audit of accounts having annual periodicity, in addition to the detailed check of accounts of the month, arithmetic accuracy of cash book should be checked for one more month selected as heretofore, at random. This should include checking of the opening balance for proper carry forward from the closing balance of the months selected for the scrutiny to the next month. In the case of biennial or triennial audits and audit in arrears, checking of arithmetical accuracy of the cash book may be confirmed to two months selected for test check.

(Authority- O/o C&AG of India vide letter no. 1474/CR/Coordn. /Instruction for AR/235/2017 dated 15/11/2017)

5.8.2 In addition to the checks prescribed in para 40 of (Secret Memo of instruction of - (CAG) it should be seen-

- (i) that the cash book is properly written up and maintained in accordance with the instructions given in the notes on PWA form
- (ii) that all cash recoveries since last inspection are paid into the treasury promptly and duly acknowledged in the Treasury Remittance Book or challan and notice undue delays in remittance

Note- In addition to checking the cash book, for selected months accounts, arithmetically accuracy should be checked for one more month selected at random. If the Division is inspected half yearly, arithmetical accuracy of the cash book should be checked for selected month reach time. Other checks as prescribed in para 40 of CAG's SMI should be followed. This will also include the checking of Sub-Divisional cash book

(CAG's Secret D.O. letter No.770-T A.I/117/74 dated 7.9.1974)

- (iii) that private cash or account of member of the department or un disbursed balances of cash obtained from treasuries on bills for pay allowances of establishment are not accounted for through the cash book or mixed with regular cash balance

(Authority: Paragraph 59 of BPWA Code adopted by Jharkhand)

- (iv) that there is evidence in the cash book of verification of all entries of receipts and payments and of the actual balance of cash in chest and that any deficit or surplus in actual cash balance as compared with the book balance is accounted for as indicated in paragraph 95 of BPWA Code and Paragraph 86 (iii) & (iv) of Bihar Treasury Code-I adopted by Jharkhand.

- (v) that vouchers taken from the Audit Office agree with the entries in the Divisional and Sub-Divisional Cash books and Imprest Accounts

- (vi) that there are no habitual or undue delays in the submission of sub divisional cash books or copies thereof with all vouchers to the divisional office

(Authority: Paragraph 508 and Paragraph 509 of BPWA Code adopted by Jharkhand)

- (vii) that there are no erasures or interpolations and that errors in posting are rectified properly.

- (viii) that there is no tendency to keep an unduly large cash balance in hand

- (ix) that the provisions of paragraphs 105 to 108 of BPWA Code adopted by Jharkhand are duly observed with the regard to the custody of the cash.

- (x) that in the case of time expired, lost and cancelled cheques the procedure indicated in paragraph Rule 69 and 70 of BPWA Code adopted by Jharkhand is followed.

- (xi) that copies of remittance slips are received in the Divisional Office from the Sectional Officers whenever revenue collected by a sectional officer is remitted by him to the Sub-Divisional or other near superior officer having a cash book (that the same are checked with the receipt entries appearing the copy of the Sub Divisional Cash book).

(Authority: Paragraph 74, Paragraph 93 of BPWA Code and Note 3 there under).

- (xii) that monthly statements containing full particulars of amounts collected and remitted by sectional officers during a month, are received in the Sub-Divisional office and that these statements are verified with reference to the entries in the cash book and prompt and efficient action is taken in regard to discrepancies, if any

(Authority: Paragraph 75, Paragraph 93 of BPWA Code and Note 3 there under).

- (xiii) that cheques are not drawn and deposited in the cash chest at the close of the year for the purpose of showing the full amount of grant as utilized

(Authority: note below paragraph 80 of BPWA Code)

(xiv) that the cash balances with the sub ordinates are checked occasionally by the Sub-Divisional Officer.

(xv) that a certificate of actual cash balance submitted by each drawing officers has been filled in the Divisional Office and they have been properly prepared

(Authority: Paragraph 94 and Paragraph 108 of BPWA Code)

(xvi) that the unpaid amounts of temporary advances returned to chest by the disbursing officers do not indicate that there was any laxity in estimating the anticipated payments of labour while on tour

(xvii) that accounts of temporary advances are closed as soon as possible (Authority: Note below Paragraph 100 of BPWA Code) and that these are granted specially for the purposes indicated in paragraph 6.6.12 of C.P.W.A Code. Any delay in adjustment should be specially noticed and commented upon.

(xviii) that final acquittance for private cheques and drafts on local banks is not given to the remitter until they have been cleared.

(Authority : Note 2 below Paragraph 71 of BPWA Code adopted by Jharkhand)

Check of foils of paid cheques

5.9 (a) Subject to a minimum of 10 percent, the foils of paid cheques of the selected month should be checked in detail with counterfoils, cash books and vouchers with a view to see that payments have actually been made to the persons entitled to them vide Para 35 of C&AG 's S.M.I.

(b) In scrutinizing the paid cheques, the endorsements thereon should be connected with the acquittance on the voucher or vouchers and it should be seen inter alia that no divisional employee figures in them.

(c) In case in which the paid cheques have to be obtained from another audit circle it is left to the discretion of the Dy. Accountant general to call for them or not for the purpose of scrutiny.

(d) The fact of the above check having been effected should be recorded in the office notes relating to the inspection.

(e) It may be left to the inspecting officer to decide whether the check in question should be made himself personally or by staff.

Cheque & Receipt Books (Paragraph 101 to 104 BPWA Code)

5.10 In addition to the check of foils of cheques it should be seen :-

(i) that the corrections, if any, on the counterfoils or the memoranda of the balances on their back do not disclose any financial irregularity or overdrawal.

(Authority:Para-562 (C) of BPWA Code adopted by Jharkhand),

(ii) that the counterfoils of used cheque books are returned promptly to the Divisional office for record and bear the check certificate of the Divisional Accountant and they are destroyed after 5 years

(Authority:Para-104 of BPWA Code adopted by Jharkhand), and.

(iii) that no receipt in form 3 is signed before the receipt of money has been recorded in the cash book

(Authority: Paragraph 71 of BPWA Code adopted by Jharkhand)

(iv) that the foil of sub-ordinate's receipt in Form-D is pasted to counterfoil of receipt book in form 'A' and vice versa

(v) that all books on receipt are entered in to the register of cheque and receipt books (P.W.A. form 52) and that the register is maintained and reviewed periodically

(Authority: Para-562 (b) of BPWA Code adopted by Jharkhand),

(vi) that the counterfoils of used books are returned promptly to the Divisional Office for record and bear the certificate of check of the Divisional Accountant

(Authority: Paragraph 104 and Para 564 of BPWA Code)

(vii) that the certificate of count of the number of forms is duly recorded on the fly leaf of each book and signed by the disbursing officer

(Authority: Paragraph 102 of BPWA Code)

(viii) what stock of blank cheque and receipt books is in hand?

(ix) whether these are in the personal custody of the drawing officer?

(Authority: Paragraph 103 of BPWA Code)

(x) that no cheque is drawn unless it is to be paid away at once.

(Authority: Paragraph 80 of BPWA Code)

(xi) that time expired, cancelled or lost cheques are properly dealt with

(Authority: Paragraph 69, Paragraph 70 of BPWA Code and Rule 47 & Rule 48 of CGA Receipts and Payments Rules 1983)

(xii) that the paid cheques are traceable in the treasury pass book maintained.

(xiii) the counterfoils of cheques are initialed by the Executive Engineer and the memorandum on the reverse of the counterfoils of cheques shows the upto date expenditure of the month, and that the dates of the counterfoils correspond with dates as shown in the cash book.

5.11 Contractors Ledger (Paragraph 321 to 332 of BPWA Code)

The contractor's ledger should be generally examined to see that it is properly maintained and kept up to date. It should also be seen:-

(i) that adequate reasons exist for delay in adjusting secured advances outstanding for over 6 months.

(ii) that adequate action has been taken in the case of old outstanding accounts for the submission of a subsequent running bill or the final bill in the case of entries relating to running bill in column 10 of the ledger not bearing the initials of the Divisional Accountant under paragraph 10.7.8(b) of CPWA Code and Paragraph 331 of BPWA code adopted by Jharkhand.

(iii) that the Divisional Accountant has effected agreement month by month between the balances detailed in the work abstracts and the corresponding balances of the accounts in the ledger

(Authority : Paragraph 330 of BPWA Code adopted by Jharkhand)

(iv) that debits for value of stock supplied during the selected month are made from the original receipts given by the contractors which should agree with the entries in the monthly abstract of stock issues and with the rate stipulated in the agreement.

(Authority : Paragraph 324 of BPWA Code adopted by Jharkhand)

(v) that all the hand receipts obtained from the contractors in support of issue of materials for use, in the works bear contractors dated acknowledgement and are properly filled.

5.12 Deposit Register (Paragraph 428 of BPWA Code)

It should be seen:-

(i) that reference to agreements of security deposits is quoted in the deposit register

(Authority : Paragraph 415 of BPWA Code adopted by Jharkhand) and

(ii) that there are no avoidable delays in the adjustment of long standing items.

5.13 Imprest Accounts

A few of the Imprest and temporary advance accounts should be examined and it should be seen:-

(i) that Imprest and advances when first granted are correctly entered in the cash book and that all subsequent increases and decreases are noted in red ink therein.

(Authority : Paragraph 98 of BPWA Code adopted by Jharkhand)

(ii) that Imprest accounts are regularly closed on due dates and promptly recouped before the cash book for the account month concerned is closed

(Authority : Paragraph 97 of BPWA Code adopted by Jharkhand and Paragraph 6.6.9 of CPWA Code)

(iii) that they are properly examined by the recouping officer and recouped by a formal pay order and that they are abstracted and incorporated in the cash book

(Authority : Paragraph 98 of BPWA Code adopted by Jharkhand and Paragraph 6.6.10 of CPWA Code)

(iv) that special sanction of Government exists for permanent imprest exceeding Rs.1,000/-

(Authority : Paragraph 96 of BPWA Code adopted by Jharkhand)

(v) that the Sub-Division officers do not enhance or permanently reduce or close imprests without the orders of the Divisional Officer.

(Authority : Paragraph 97 of BPWA Code adopted by Jharkhand)

(vi) that certificates of count of cash balances in the Imprest accounts are given after actual count.

- (vii) that receipts from the imprest holders have been obtained and filed for imprests outstanding on 31st March.
- (viii) that payments from Imprest holders private cash is not made for Government liabilities or charges before the imprest cheque is cashed.

5.14 Indent Books

It should seen:-

- (i) that indents are approved by the Sub-Divisional Officer prior to the issue of materials from stores or receipt of the same from the supplier.
(Authority : Paragraph 119 of BPWA Code adopted by Jharkhand)
- (ii) that there is proper authority for the receipt, by the storekeeper of materials brought on stock
(Authority : Paragraph 117 of BPWA Code adopted by Jharkhand)
- (iii) that there is proper record of the detailed count or measurement in accordance with the paragraphs 230 and 231 of the BPWA code
(Authority : Paragraph 118 of BPWA Code adopted by Jharkhand)
- (iv) that while making entries in the Register of Stock Issued, full particulars have been recorded by the storekeeper or sectional officer in the columns headed “To whom issued” and “Head of account”
(Authority : Paragraph 122 of BPWA Code adopted by Jharkhand)
- (ii) that indents are returned at once to the indenting officer and the signature of the officer receiving the materials are obtained on the invoice attached to the indent according to the supplies made.
(Authority : Paragraph 121 of BPWA Code adopted by Jharkhand)
- (iii) that evidence exists that the lists of surplus of stores in the Division are referred to before indents are placed for articles.

5.15 Materials At Site Accounts

It should be seen:-

- (i) that the value of materials at site of each major work as at the end of last month according to the Register of Works agrees with the balances shown in Form 33 (Sch. XLV Form no.144)
(Authority : Paragraph 282, Paragraph 308 b and Paragraph 309 of BPWA Code adopted by Jharkhand).
- (ii) that materials at site of completed works including those transferred to surplus lists from completed works are scrutinized as to the circumstances under which they were obtained in excess of requirements or in advance of requirements and become surplus, owing to change of design etc. and that instances indicating lack of fore thought , etc. are noticed
- (iii) that in the case of any surplus materials brought to site by contractors and taken over by Government the conditions laid down in Paragraph 268 of BPWA Code, are

fulfilled and that adequate action has been taken towards the disposal of any longstanding items.

(iv) that in the case of materials on which there have been no transactions for a long period adequate reasons exist for obtaining them in advance of requirements.

(v) that issue of materials to works are correctly classified under "Issue to contractors" and "Issue direct to works" that issue to contractors are promptly debited to their ledger accounts and value recovered. Notice unusual delays in obtaining unstamped receipts from the contractors or in debiting the value to the ledger or in effecting recoveries from the next running account bill concerned.

(vi) that proper numerical accounts of the receipt issues, and balances of surplus materials at site of completed works or of dismantled materials (not immediately transferred to stock or work in progress) are maintained in sub-divisional and divisional offices, pending their eventual disposal by sale or otherwise.

(vii) that there are no undue delays in the submission by sub-divisional officers of materials at site accounts of Major and Minor Works (the accounts of which are kept by sub-heads) and Annual Reports of verification of materials at site or work.

(viii) that materials are not issued in excess of requirements as per date.

(ix) that the unused balances of materials at site of works are verified (i) once a year (ii) on the completion of a work and (iii) when a Gazetted officer or a subordinate in direct charge of a work is transferred before the accounts of it are closed

(Paragraphs 276, Paragraphs 278 to Paragraphs 280 of BPWA Code adopted by Jharkhand).

(x) that the materials account of any of the big Major works is not utilized as a temporary stock account for materials for other works in the division.

5.16 Measurement Books.

It should be seen:-

(i) that books outstanding for over 2 years from the date of issue are duly called for re-issue in case any book is found to contain a large number of blank pages or for record in Divisional Office,

(Authority : Paragraph 2f of Appendix 6 to the BPWA code adopted by Jharkhand)

(ii) that sanction of Superintending Engineer is forthcoming for missing measurement books.

Note:- The Inspecting Officer should investigate cases of measurement books lost since the last inspection and report the result of his inspection with comments as regards:-

(a) Action taken against the person responsible for the loss, in the case the loss was not merely accidental.

(b) Adequacy of the measures adopted to ensure that works entered in the lost measurement book and already paid for, are not paid a second time.

(Authority : Paragraph 231 and 232 BPWA code adopted by Jharkhand)

(iii) that the stock of unused measurement books agrees with the book balance,

(Authority : Paragraph 230 of BPWA code adopted by Jharkhand and notes thereunder)

(iv) that the fact of destruction of measurement books after the expiry of prescribed period of preservation is recorded in the register,

(Authority : Paragraph 230 of BPWA code adopted by Jharkhand and notes thereunder)

(v) the forward references are invariably noted in the measurement books with a view to prevent double payments

(vi) that measurement books are generally reviewed to see that the entries are made in accordance with instructions on the fly-leaf of measurement books and that no entries are made by officers other than those empowered to do so under paragraph 10.2.9 of CPWA Code.

(Authority : Paragraph 231 of BPWA code adopted by Jharkhand and notes thereunder)

(vii) that acknowledgements are taken from responsible persons whenever measurement books change hands,

(Authority : Paragraph II (2) g of Appendix 6 below Para 231 of BPWA code adopted by Jharkhand)

(viii) that remarks made by the sub-divisional officer or the Executive Engineer and corrections in rates made after check measurements do not indicate that irregular and incorrect measurements have been made worthy of serious considerations.

(Authority : Appendix 6 below Paragraph 231 of BPWA code adopted by Jharkhand)

(ix) that works of excavations etc. liable to submersion such as closing breaches, clearing silt, brush wood filling in river margin, are check measured in time by sub-divisional officers and reasons in exceptional cases are given concisely and clearly in the remarks column of the measurement book by sub-divisional officers,

(Authority : Appendix 6 below Paragraph 231 of BPWA code adopted by Jharkhand)

(x) that the dates of measurements of any outstation works are correctly traceable in the T.A. Bills of the officials concerned.

(xi) that by comparing the date of measurement with the date of payment, inevitable payments are not postponed at the end of the year with a view to avoid excess over appropriation.

(xii) that in the case of cancelled measurements, the cancellation is supported by the dated initials of the officer ordering the cancellation and also full reasons for the same.

(Authority : Para II (3) f of Appendix 6 below Paragraph 231 of BPWA code adopted by Jharkhand)

(xiii) that check measurement is conducted with discretion and method and that the items of work easily susceptible of fraud or which would most seriously affect the total amount of the bill, if inaccurate, are selected for check-measurements,

(Authority : Note 2 below Para I of Appendix 6 below Paragraph 231 of BPWA code adopted by Jharkhand)

(xiv) that measurements are recorded and signed by the Senior Officer when measurements are taken jointly by 2 or more officers.

(xv) that the register of measurement books is signed by the Executive Engineer on the occasion of each fresh supply of measurement books and by both the relieving and relieved officers on every occasion of transfer of charge of the division.

(Authority : Note below Paragraph 230 of BPWA code adopted by Jharkhand)

Note:- (1) The Inspecting Officer should examine the note books of officers taking measurements in respect of lump sum contracts to satisfy himself that payments on account are made after suitable rough measurements have been taken.

- (2) It has been decided by the Chief Engineer that final measurements of earth work should be taken before the concerned pits are ploughed or obliterated by flood, etc. i.e. before the commencement of the rainy season.

5.17 Register Of Rents Of Buildings And Lands (Form 158 to 158 (A) and (B))

Register of Revenues and Register of Rents should be scrutinised since the date of the last inspection. It should be seen that they are correctly maintained and are periodically reviewed by the Divisional Officers (vide Paragraph 561 of BPWA Code adopted by Jharkhand and paragraph 22.4.31 of CPWA Code), special attention being given to the following points;

- (i) that prescribed rents are recovered in all cases excepting when accommodation is allowed rent free or at reduced rates under the special orders of a competent authority.
- (ii) that no building or site is removed from the register on the plea that it is intended to be occupied rent free

(vide paragraph 215 of BPWA Code adopted by Jharkhand).
- (iii) that necessary additions to the list of rentable buildings are made in the register as new properties are acquired and that action to revise the standard rents is taken as additions and improvements are made to any buildings and for this purpose a comparison should be made with the Register of Buildings and Lands.
- (iv) that action has been taken to revise the rent of buildings.

5.18 Register Of Miscellaneous Revenue Receipts.

The records maintained under paragraph 524 of BPWA Code adopted by Jharkhand and paragraph 22.2.9 of CPWA Code showing the assessment in respect of all items of revenue, the progress of recovery and the outstanding debits due to Government should be examined to see :-

- (i) that proper action is taken in each case.
- (ii) that the register is submitted monthly to the divisional office for review and when not submitted, reasons for non-submission is recorded in the register against the month under the signature of the sub-divisional officer.
- (iii) that all properties included therein, have been duly leased under the rules prescribed.
- (iv) that lease agreements where required exist in all cases.
- (v) that realizations are made on the due dates and that there are no long outstanding dues.
- (vi) that adequate reasons are on record for short realizations or fall of revenue as compared with the previous years,
- (vii) that no items of revenues due to Government are written off without the orders of competent authority.
- (viii) that in the case of the sub-division selected for test audit, recoveries as noted in this register are traceable in the cash book.
- (ix) that in the case of term rent , the register shows all terms available for occupation in the sub-division, that recoveries are made in advance and statements of rents in the P.W.D. Form No-48 are maintained in the sub-division.
- (x) in the case of water taken for Industrial purposes, that the scale of rates and recoveries made are in order.

- (xi) that the amount in the column “Amount realizable” has been correctly filled in as per the sale list and approved lease agreements.
- (xii) that the right to collect tolls on government road is leased out by public action or by inviting sealed tenders and that special sanction of Chief Engineer, exists if proposed to run departmentally.
- (xiii) that auctions for the sale of lac, fishing rights and Tank Bed cultivation etc. involving large amount of Government revenue are held by responsible officers personally whenever possible.

5.19 Muster Rolls (Form – 21 and T.C Form 49 of BPWA Code)

It should be seen :-

- (i) that a few muster rolls paid in test audit month selected at random by the Inspecting Officer are checked arithmetically,
- (ii) that muster rolls are maintained in Form – 21 and T.C Form 49 of BPWA Code accordance with the instructions contained in paragraph 226 of BPWA Code adopted by Jharkhand and paragraph 10.2.3 of CPWA Code.
- (iii) that payment is made through Muster Rolls only to the day labourers and never to permanent or temporary employees whose pay is chargeable to the head “ESTABLISHMENT” or (b) members of the work charged establishment employed upon the actual execution of specific work or upon the subordinate supervision of departmental labour, stores etc.
- (iv) that payment of labour engaged through a contractor is not made or authorized on a muster roll as in such cases the use of the muster roll is not permissible (vide paragraph 228 of BPWA Code adopted by Jharkhand and Note below Para 10.2.5 of CPWA Code)
- (v) that there are no unusual delays in payment.

(Authority : Note- ‘d’ below paragraph 227 of BPWA Code adopted by Jharkhand)

- (vi) that a systematic record is maintained of the unpaid items and of their payment and that wages remaining unpaid, for 3 months are regularly reported to the Divisional Officer vide Note- ‘e’ below paragraph 227 of BPWA Code adopted by Jharkhand and paragraph 10.2.4.(f) of CPWA Code, and are not there after paid without his special orders,
- (vii) that casual labour rolls, if any, are maintained only in exceptional and urgent cases and the payments on them are made only by a Gazetted officer or an Upper subordinate

(Authority : Note- ‘h’ below paragraph 227 of BPWA Code adopted by Jharkhand and paragraph 10.2.4.(h) of CPWA Code)

- (viii) that duplicate copies of muster rolls are not prepared and that separate rolls exist for period of each payment

(Authority : Note- ‘a’ below paragraph 227 of BPWA Code adopted by Jharkhand and paragraph 10.2.4.(a) of CPWA Code).

- (ix) whether daily wages disbursed in anticipation of the sub-divisional officers, scrutiny and countersignature to the Muster Rolls by any subordinate who have not been authorized by the Superintending Engineer to make such payments.

5.20 Surprise Check Of Daily Labour

The Supervising staff of the Public Works Department should occasionally make surprise check of daily labour employed departmentally and the following rules have been framed for recording such check:-

- (i) A check every other day by the Sectional Officer who should sign the daily reports on the spot.

(Authority : Note- 'i' below paragraph 227 'c' of BPWA Code adopted by Jharkhand)

- (ii) Frequent check by the Sub-Divisional Officers who should initial daily reports either on the spot or when they come into sub-divisional offices

(Authority : Note- 'ii' below paragraph 227 'c' of BPWA Code adopted by Jharkhand)

- (iii) Check as often as convenient by Executive Engineer. The sub-divisional officer should initial the muster roll against the dates on which the check is exercised. The Executive Engineer should also initial the same against the dates he checked after consulting his note book.

(Authority : Note- 'iii' below paragraph 227 'c' of BPWA Code adopted by Jharkhand)

It should be seen at the time of Annual Inspection of the office that this rule is followed.

5.21 Register Of Appropriations

It should be seen :-

- (i) that the register is kept up to date;
- (ii) that the re-appropriation within the powers of divisional officer are not authorized after the expiry of the year.

(Authority :Paragraph 38 of BPWA Code adopted by Jharkhand)

- (iii) that distribution of lump sum appropriation placed at the divisional officers disposal by individual works or by sub-divisions is clearly shown in the register.

(Authority :Paragraph 48 (b) of BPWA Code adopted by Jharkhand)

- (iv) that the monthly statements of expenditure against appropriations are duly prepared to watch the progress of expenditure and that proper arrangements exist for taking early steps to obtain extra funds or surrender probable savings as may be necessary.

(Authority :Paragraph 48 (b) (i) and Paragraph 48 (c) of BPWA Code adopted by Jharkhand)

5.22 Register Of Buildings And Lands

Each Superintending Engineer will keep a register of all buildings in charge of the department within his Circle and each Executive Engineer, a similar register of all the buildings within his division. In these registers, the value of all land comprised in a property will be shown separately from the value of building or buildings thereon, the value of each separate structure being also shown Separately. For a purchased property, the price paid will be apportioned between the various items comprising the property, e.g., land, main building, servants' quarters, compound wall, well etc.

(Authority : Paragraph 232 of JPWD Code).

This register should be generally scrutinized with a view to see :-

- (i) that the register is kept in CPWA Form NO-49 and corrected up to date.
- (ii) that the value of land, fittings and installations is shown therein separately from that of the building or buildings thereon.

5.23 Check Measurement

During inspection it should be seen whether the following rules have been duly observed with regard to check measurement of works.

Rules framed by the State Government under paragraph 231 and Appendix-6 thereunder or paragraph 10.2.9 of CPWA Code for test check of measurements by the Superior Officers of the Public Works Department.

Subject always to the discretion of the officer concerned in the matter of selection of works and items thereof for the purpose, the following rules must invariably be observed by all concerned.

- (i) A Sub-Divisional Officer preparing a bill must satisfy himself that work has been actually done in accordance with the claim preferred. He should personally inspect all works of any magnitude before authorizing final payments in connection therewith.

(Authority : paragraph 244 of BPWA Code adopted by Jharkhand).

- (ii) The Sub-Divisional officer is expected to take all final measurement of important works himself. He will also check not less than 50 *per cent* of the measurements (judged by their money value) made by the Junior Engineer. 50% of the measurement of important and costly items should also be check measured. This check should cover both running and final bills.

(Authority : paragraph I (i) of Appendix 6 to BPWA Code adopted by Jharkhand).

- (iii) Similarly, the divisional officer is expected to check and measure not less than 10 *per cent* of the measurements (judged by their money value) made by his subordinates. This check should not be less than 10 per cent of total number of bills prepared in any year.

(Authority : paragraph I of Appendix 6 to BPWA Code adopted by Jharkhand)

- (iv) So far as check measurement of stores are concerned, apart from the check measurement of actual quantity, the quality of material should be tested in the Control and Testing Laboratory where necessary, to ascertain if the stores are as per prescribed specifications. The Sub-Divisional Officer should check measure materials in respect of 50 *per cent* of the bills received during financial year subject to the condition that the check so exercised should not be less than 50 *per cent* of the quantity of materials received during the year. The Divisional Officer should check measure materials in respect of 10 *per cent* of the bills. This is subject to the proviso that he should check measure at least 10 *per cent* of the quantity of materials received during a financial year.

In respect of stores Sub-Divisions the Sub-Divisional Officer should check measure cent percent of the quantity of materials received during a financial year. The Divisional Officer who is exclusively in-charge of stores division should check measure the quantity of materials in respect of 20 *per cent* of the bills, subject to condition that the checks so exercised should not be less than 20 *per cent* of the quantity of materials received during a financial year.

(Appendix -6 of BPWA Code)

(v) The check measurements referred to above should so far as possible be carried out before payment is made.

(Authority : paragraph I (3) of Appendix 6 to BPWA Code adopted by Jharkhand)

Note:- It should be seen that the check measurements are done at frequent intervals and not rushed through towards the close of the year with a view to secure the prescribed limits fixed for the purpose.

(vi) The individual items checked should be clearly shown in the measurement book and the result recorded by the officer concerned on the date of check under his dated initials, all entries to be made in ink or indelible pencil.

(Authority : paragraph I(4) of Appendix 6 to BPWA Code adopted by Jharkhand)

(vii) A collective record of all the checks carried out from time to time will also be prepared at the end of each measurement book in the following form.

Date of check	Pages of measurements subjected to test check	Value of measurements checked	Result of the check exercised	Dated initials and designation of the checking officer
1	2	3	4	5

(Authority : paragraph I(5) of Appendix 6 to BPWA Code adopted by Jharkhand)

Note:- (1) This result will be indicated by the word “SATISFACTORY” or “UN-SATISFACTORY” as judged at the time on the merits of each case.

(Authority : paragraph I(5) of Appendix 6 to BPWA Code adopted by Jharkhand)

(2) It should be seen that the extent and results of check measurement are not such as to indicate laxity of financial control.

Standard Measurement book

To facilitate the preparation of estimate for periodical repairs a standard measurement book should be kept in office of the each Executive engineer, showing the detailed measurements of each kind of works which is usually subject to renewal in each work under his charge, vide paragraph 232 of the Bihar/Jharkhand Public Works Account Code.

(paragraph 202 of JPWD Code 2012).

If standard measurement books of buildings are maintained in order to facilitate the preparation of estimates for periodical repairs they may be utilized for the purpose of preparing contractors' bills for such repairs, subject to such subsidiary instructions as may have been laid down by the Administrative Ministry/Administration concerned in consultation with the Chief Controller of Accounts for the efficient maintenance of the books, so that it may not be necessary to take detailed measurements on each occasion

(Authority: paragraph 232 of BPWA Code and paragraph 10.2.10 of CPWA Code).

The Divisional Officer should periodically certify that all the standard books of the division have been inspected by him, that entries therein have not been tampered with and that all corrections due to additions and alterations in the buildings have been made in the books and the latter are reliable and upto date records

(Authority : paragraph 232 (3) of BPWA Code and paragraph 10.2.10 (iii) of CPWA Code)

5.24 Registers Of Contractors Bills (Rule 236 and 237 of BPWA Code adopted by Jharkhand

It should be seen:-

- (i) that it is reviewed regularly by the Divisional Officer at frequent intervals.
- (ii) that there are no undue delays in their disposal.

- (iii) that every bill received in the Divisional Office for pre-audit is accompanied by Measurement Books concerned and is systematically checked by the Divisional Accountant with the agreements.
- (iv) that payment of bills for work done is not delayed for want of approved agreement, sanction to revised estimate or work slips or similar reasons.
- (v) that a tabular statement showing the maximum intervals permissible at the several stages between the measurement of a work and the payment of the bills, as fixed by the Superintending Engineer is hung in the room of the Divisional Accountant for his reference and compliance of the orders.

5.25 Register Of Interest Bearing Securities (Rule 431 of BPWA Code)

Transactions connected with interest bearing securities don not pass through the cash book and consequently the regular accounts of the divisions, unless any cash actually passes through the hands of officers of the department, which should be avoided as far as possible.

(Authority : Rule 431 of BPWA Code).

In addition it should be seen:-

- (i) that security as per scale laid down by the State Government is furnished by store clerks, cashiers and other officials in charge of cash and stores.
- (ii) that security deposits are covered by a proper agreement setting forth, the conditions under which the security is held, and that reference to such agreements is given in the proper register.
- (iii) that the rules relating to interest bearing securities as indicated in paragraph 431 of BPWA Code are observed and the register of their receipt and disposal in P.W.A. Form 85 and 86 is correctly maintained.
- (iv) that the securities certified in the last Annual Account rendered in P.W.A. Form 86 as being on hand and also these received subsequently, actually exists.

Note:- In respect of the securities not produced for inspection either the original acknowledgements, of the depositors bearing dates subsequent to the dates of the last account, or the acknowledgements of the authorized custodians as the case may be should be forthcoming.

- (v) that there is evidence on record that the checks prescribed as per (iii) and (iv) above, were applied by the Divisional Accountant at his last inspections of the Sub-Divisional Offices
- (vi) that cash security deposits of contractors and employees have been paid into the savings bank or converted into interest bearing securities at the cost of the depositors when the depositors have expressly desired this in writing.

(Paragraph 419 of BPWA Code)

- (vii) that Government paper tendered as security is taken as its face value or market price which ever is less at the time of deposit and in the event of its subsequent appreciation or depreciation in value a re-adjustment is made and that the security is returned or re-transferred only after the lapse of the stipulated period in the bond of agreement, and
- (viii) that post office 5 year cash certificates are accepted as security for the amounts at which the certificates were purchased but not for their face value.

The post office savings bank pass book should be examined to see:-

- (i) that they are in the name of the depositors and are hypothecated to Divisional or Sub-Divisional Officers.
- (ii) that they are sent to the post office as soon as possible after the 15th June each year to have interest written upto date.
- (iii) that they are kept in the custody of the officer to whom they are pledged.

(Paragraph 418 of BPWA Code and Note thereunder)

(iv) that in the case of security deposit recovered in installments and deposited in the post office savings bank no entries are made in respect of it in the register until the security has been fully paid up.

(v) that such recoveries by installments are watched through the register of special recoveries.

(Note – 1 below Para 431 of BPWA Code)

(vi) that recoveries on account of security deposits of employees are made in cash when their pay is disbursed and credited in the subsidiary cash book and then remitted in to the post office.

5.26 Register Of Special Recoveries

The register of special recoveries prescribed in Paragraph 523 of BPWA Code should be examined to see:-

- (i) that the register is properly maintained and regularly reviewed.
- (ii) that orders regarding recoveries to be made from contractors or other persons which cannot be watched through a suspense or other account are promptly entered in the register.
- (iii) that in the case of works the accounts of which are not kept by sub-heads the credits anticipated in the estimates for works for recoveries of expenditure, etc. are posted in the register immediately on receipt of sanctions to estimates,
- (iv) that the timely realization of each item is correctly and carefully watched

(Paragraph 524 of BPWA Code) and

(v) that there is evidence on record that all marked deviations from the provision for credits in the estimates of works are duly investigated.

(Paragraph 524 of BPWA Code)

5.27 Register Of Review Of Measurement Books By Divisional Accountants (Appendix 6 below Rule 231 of BPWA Code)

It should be seen:-

- (i) that a Register in the prescribed form Form 92(XLV Form no. 211) has been maintained properly and all measurement books in use in sub-divisions are entered therein.

(Authority : Para II 2(a) in Appendix 6 below Rule 231 of BPWA Code adopted by Government of Jharkhand)

(ii) that there is a uniform flow of measurement books to the Divisional Office for review.

(Authority : Para II 2(a) and (e) in Appendix 6 below Rule 231 of BPWA Code adopted by Government of Jharkhand)

(iii) that due dates have been fixed by the Executive Engineer for receipt and return of measurement books.

(iv) that all the books in use have been subjected to a percentage check (not less than 10 *per cent*), by the Divisional Accountant and certified accordingly)

(Authority : Para II 2(b) in Appendix 6 below Rule 231 of BPWA Code adopted by Government of Jharkhand)

(v) that the results of check are properly conveyed through audit memoranda

(Authority : Para II 2(c) in Appendix 6 below Rule 231 of BPWA Code adopted by Government of Jharkhand)

(vi) that a register is maintained in the Sub-Divisional Office also for noting the progress of receipt, review and return of Measurement Books

(Authority : Para II 2(a) in Appendix 6 below Rule 231 of BPWA Code adopted by Government of Jharkhand)

5.28 Register Of Works

It should be seen:-

(i) that the register are maintained in accordance with the rules in paragraph 308 to 311 and paragraph 316 of BPWA Code adopted by Government of Jharkhand.

(ii) that there are two forms of Register of works, Form 40 (Sch XLV Form no. 151) for major and Form 41 (Sch XLV Form no. 152) minor and petty works

(Authority: paragraph 308 of BPWA Code adopted by Government of Jharkhand).

(iii) that in the case of Major Works the rates of cost are struck monthly under each sub-head unless this is dispensed with under the written orders of the Divisional Officer for specified reasons vide paragraph 313 (h) of BPWA Code.

(iii) that the register of works are posted monthly from Works Abstracts and a separate folio or set of folios of Form 40 have been assigned to each major work.

(Authority: paragraph 309 of BPWA Code adopted by Government of Jharkhand).

(iv) postings are examined and attested under the dated initials of the Divisional Officer

(Authority: paragraph 310 of BPWA Code adopted by Government of Jharkhand).

(v) that the sanctioned amount of estimate have been entered in respect of each work and when supplementary estimates are sanctioned the additional amounts sanctioned are also entered below the corresponding amounts of the original estimate and both are totaled. When a revised estimate is sanctioned, it should also be seen that the register of the original estimate has been closed and the revised estimate has been entered on fresh folio, prominently marked "Revised Estimate" in red ink, and a reference to the folio on which the original estimate was posted has been entered thereon

(Authority: paragraph 309 (b) of BPWA Code adopted by Government of Jharkhand).

vi) that all liabilities and assets are settled and suspense accounts cleared before the accounts of a work are closed

(Authority: paragraph 311 to paragraph 314 of BPWA Code adopted by Government of Jharkhand).

(vii) that the note of completion of work is recorded in the register under the signature of the Divisional Officer as indicated in Paragraph 311 of BPWA Code and paragraph 37 and paragraph 186 (a) of JPWD Code 2012.

(vii) that a detailed completion reports is submitted in all cases where required under paragraphs 186 (b) of JPWD Code 2012 and Paragraph 317 of BPWA Code adopted by Government of Jharkhand

(ix) that action prescribed in paragraph 319 of BPWA Code adopted by Government of Jharkhand for correction of errors is taken where necessary.

(x) that the sub-head "ADDITIONAL CHARGES FOR MATERIALS ISSUED TO CONTRACTORS" has been opened in the accounts of any major works as per Paragraph 291 of BPWA Code adopted by Government of Jharkhand, a few charges falling under this category should be examined to see that they were correctly debitible to Government and to the contractors concerned

(Authority : Paragraph 314 of BPWA Code adopted by Government of Jharkhand).

(xi) that "SUSPENSE" item as shown in the register of works are traceable

(a) in the Contractor's Ledger as regards amounts due to or from contractors.

(b) in the register of arrears of wages and the agreement certified by the SDO in the works abstract.

(xii) that the postings in the register of works can be readily traced from the works abstract

(Authority : Paragraph 309 of BPWA Code adopted by Government of Jharkhand).

(xiii) that a special sub-head is opened for the receipt of any receipt or recoveries creditable to the account of a Major Works and that all marked deviations from this sub-head are investigated;

(Authority : Paragraph 524 of BPWA Code adopted by Government of Jharkhand).

(xiv) that no new sub-head is opened additional to the sanctioned sub-heads of estimate without the sanction of the competent authority.

(Authority : Paragraph 524 of BPWA Code adopted by Government of Jharkhand).

(xv) whether a systematic record is kept showing the authority for each person to whom advance is given, the amount advanced and the recoveries made each month and that there is no delay in recovering these advances.

(xvi) that in cases of probability of excess of actual over estimated cost of work, work slips in Form P.W.A. 39, have been prepared and submitted to the Superintending Engineer when necessary

(Paragraph 310 of BPWA Code)

(xvii) whether materials modifications or deviations from the sanctioned estimates of large works or projects have received the sanction of competent authority.

Note: Cases of the above kind should be reported separately for investigation by Higher Audit Department.

(xviii) that no up-profitable expenditure has occurred due to abandonment of works.

(xix) all cases of expenditure on demolition, restoration or re-building of works in connection with buildings structures irrespective of the amount involved or of the date of the original construction should be investigated with reference to the reports on estimates, etc. in order to see.

- (a) that the original expenditure has not proved unnecessary or fruitless.
- (b) that the new expenditure is not due to lack of foresight or neglect either in the arrangements for original construction or in those of maintenance after construction;
- (c) that the original and the new expenditure had reasonable justification.

Note: the results of this investigation (in case it is considered to be important) should be placed before the Higher Audit Department for examination and necessary action before they are included in the Inspection Report.

(xx) If any closed accounts of completed or abandoned works were reopened, the debits or credits booked against the reopened account should be specially scrutinized to see that no irregularity has been committed.

(xxi) The following points should receive attention:-

- (a) Ex-gratia payments to Contractors e.g. for importing labour for rapid execution of works for damages sustained by floods or fire etc.
- (b) compensation to contractors for delay in starting a work or its abandonment or for variation from the estimate.
- (c) payments for clearance of site, water required for construction when these are not specifically provided in the contract.
- (d) any extraordinary charge to the works.

5.29 Analysis Of The Accounts Of The Selected Major Or Minor Works

The accounts of the selected major work or minor works should be subjected to the prescribed checks. They should be analysed completely and examined in detail. The following points should be particularly looked into:-

- (a) The estimate of the work concerned should be studied together with the relevant correspondence and all charges carefully examined to see whether any of them does not fall beyond the scope of sanction. Quantities should be compared with the quantities of work actually done with a view to verifying that savings due to abandonment or otherwise have not been utilised for additional work or that there have been no material alternations or modifications in the sanctioned design without the sanction of competent authority.
- (b) All payments and supplies and materials etc. should be made strictly in accordance with the contract agreements indicating no laxity in any of the terms. The rates provided in these contracts should be specially scrutinized with reference to the sanctioned estimates and the schedule of rates to see that they do not allow any concession detrimental to the financial interest of the Government.
- (c) Quantities of the materials required for the work actually done should be worked out on the basis of the analysis given in the estimate or other established formulas and compared with the actual issues both in the case of direct issue to works or issued to contractors to investigate the difference if substantial.

- (d) It should also be seen :-
- (i) that the accounts exhibit accurately the actual cost of work done relating to the particular object for which the particular estimate was sanctioned.
 - (ii) that all recoverable charges have been made good to Government by an equivalent cash recovery or short payment of dues.
 - (iii) that the contractors, etc. on whose behalf the recoverable charges are incurred do not get the benefit of any concessions to which they would not have been entitled to, if they had themselves incurred the charges.
 - (iv) that generally there has been no irregularity in the up keep of the accounts including the initial records relating to them.

5.30 Transfer Entries (Paragraph 180 to 186 of BPWA Code).

All transfer entries involving the rectification of errors should be examined to see that they do not indicate any defect in the system of accounting or any of the following irregularities:

- (i) Expenditure is deliberately charged to wrong estimate, because the correct estimate has not been sanctioned.
- (ii) Materials are issued unnecessarily to works merely to utilize grants and are retransferred to stock later on.
- (iii) To hide excess over estimate.
- (iv) To conceal the fact that certain materials have been too long lying at the site of a work without being used.
- (v) no transfer has been made from one sub-head to another, in the account of a work, except on the authority of a formal Transfer Entry Order approved by the Divisional Officer.

(Authority : Paragraph 186 of BPWA Code).

Transfer entries of March and March supplementary should be scrutinized with special care.

5.31 Road – Metal – Returns (Rule 268 of BPWA Code)

The Road Metal Returns should be examined to see:-

- (i) that proper quantity accounts showing receipts, issues and balances, Km by Km. of road metal of each kind are maintained, in P.W.A. Form – 16 vide Paragraph 174 of BPWA Code.
- (ii) that the Road Metal Returns have been regularly and punctually submitted by the Sub-Divisional Officer monthly to the Divisional Officer and that the returns are checked in the Divisional Office and returned to the Sub-Divisional Officer in time.

(Paragraph 174 of BPWA Code)

- (iii) that writes off of metal are sanctioned by competent authority.

(Note 1 below Paragraph 174 of BPWA Code)

- (iv) that all unused balances are verified at least once a year and when an officer responsible for the balance of Road metal is transferred and the results of verification is submitted to the Executive Engineer.

(Paragraph 275 of BPWA Code)

(v) that the procedure prescribed in Paragraph 176 of BPWA Code, is followed surpluses and deficits in road materials

(vi) that if the maintenance of the statement of road metal has been dispensed with by the Divisional Officer in respect of metal required for new roads or for renewal purposes, detailed accounts are maintained in the Divisional Office as for materials purchased for major works

(Vide Paragraph 175 of BPWA Code)

(vii) that large minus balances in road metal returns are investigated to see if they indicate any irregularity in receipts and issues or serious errors in accounting.

(viii) that the road metal returns of subordinates are scrutinized to see that they are maintained as an important initial record of road materials,

(ix) that a rate book in P.W.A. Form-17 is properly maintained as per paragraph 177 of BPWA Code and

(x) that the receipts and issues of road materials, for the month of test audit are checked with reference to the vouchers.

5.32 Schedule Of Rates (Paragraph 320 of BPWA Code)

It should be seen :-

(i) that there is an up-to-date schedule of rates sanctioned by the Superintending Engineer.

(ii) that it is properly maintained,

(Paragraph 320 of BPWA Code)

(iii) that it is supported by detailed data showing analysis of these rates by labour and materials as far as practicable, and

(iv) that the rates paid in the month of test audit in bills not covered by agreements and muster rolls do not exceed the schedule rates.

5.33 Service Book

It should be seen :-

(i) that a service book is maintained for every non-Gazetted Government servant.

(Authority: Para 3.3.6 of MSO 2002)

(ii) that entries of all events in the official career of a Government servant are duly and promptly made in his service book and attested at the time of the event.

(Authority: Para 3.3.6 of MSO 2002 and Para 290 of Jharkhand Service Code)

(iii) that the entries on the first page of the service book are re-attested every five years.

(iv) that no alternation is made in the date of birth without the sanction of the State Government.

(v) that the books are kept under safe custody.

(Authority: Para 3.3.6 of MSO 2002)

(vi) that a register of service books is kept and that all books shown in the register were in the office at the time of Inspection.

(Authority: Para 3.3.6 of MSO 2002)

(vii) a few entries of pay and allowances are shown in the service books and rolls should be checked from and compared with those in the pay bills and in the office copy of the last annual establishment return.

(viii) that all leave entered in the leave account are noted in the service books also and vice versa.

(Authority: Para 3.3.7 of MSO 2002)

(ix) that the entries in the service book are verified once in a year and a certificate to that effect recorded over the signature of the head of the office.

(Authority: Rule 101 (i) of Jharkhand Financial Rules)

(x) that the increments granted to Grade IV servants are in order and they are checked with reference to their Service Books. The procedure for check of leave accounts should be strictly followed.

(xi) that the duplicate service books are properly maintained.

5.34 Register Of Undisbursed Salary And Travelling Allowance

It should be seen:-

(i) that the Register of undisbursed salary and T.A. is maintained in accordance with the rules.

(Authority : Rule 480, note thereunder Rule 59, note thereunder and Rule 100 of BPWA Code)

(ii) that the entries therein, bear evidence of having been checked by the Divisional Accountant.

(iii) that the register is maintained by a clerk other than the establishment clerk, and the cash balance is verified and the fact certified at the time of transfer of (1) the clerk concerned (2) Accountant and (3) Divisional Officer and

(iv) that the sub-divisional monthly returns are checked and compared with the Divisional Register to see if all remittances to the Sub-Division are acknowledged by the Sub-Divisional Officers and the amounts shown in the transit at the end of the month were really remitted too late for incorporation in the accounts of the month by the Sub-Divisional Officer.

General – The Acquittance Rolls recorded during the test audit month should be examined to see generally that the documents are carefully preserved, that payees acknowledgements are on record and that the arrangements for keeping a proper watch over undisbursed amounts are satisfactory.

5.35 Surplus Stores (Rule 109 to 114 of BPWA Code)

It should be seen:-

(i) that the issues from surplus stores borne without value are checked with reference to transfer entry orders.

- (ii) that the lists do not include any articles which are likely to deteriorate and
- (iii) that the articles in the lists are verified during the year and that all deficits and surplus found are duly accounted for.

5.36 Machineries And Equipment (Rule 155 to 163 of BPWA Code)

- (i) Notice undue delays in the submission of Sub-Divisional returns to the Divisional Office (Monthly Accounts of Receipts and Issues - Form 13)

(Authority: Rule 158 of BPWA Code)

- (ii) The ledger should be checked in full and in view of this, the instructions in Paragraph 47 of C.& AG 's S.M.I. should be observed. The actual transactions of all the months of the year as brought to account in P.W. A. Form-13 and 14 should be traced in Parts – I , II and III of the ledger to see that they are correctly posted. The monthly audited forms (No 13) should be taken from the Audit Office for checking the Annual Register.

Before taking up the actual audit, it should be seen :-

- (i) that the audited ledger of the previous year is complete in all respects and that no entries in it have been tampered with.
- (ii) that the register bears the necessary certificates of audit by the Divisional Accountants on due date.
- (iii) that in the Part – I of the register the articles are correctly grouped under the sub-heads prescribed in Rule 160 of the BPWA Code.
- (iv) that in the Part – II the entries are made separately for each contractor or other persons to whom the articles are lent , etc.
- (v) that the shortages and surpluses are brought out in Part-III and dealt with in accordance with the instructions in Rule 148 of the BPWA Code and
- (vi) that the certificate of count of the balances has been recorded by the Officer-in-charge and countersigned by the Sub-Divisional Officer
- (vii) the register when runs for the whole year from the 1st October to the 30th September should be seen to have been completed.
- (viii) All works abstracts for new supplies of Tools and Plant for the period of inspection and the relative vouchers not submitted to audit should be scrutinized to see that all items of receipts are traceable in the monthly returns.

5.37 Audit Of Annual Returns Of Bunglow Furniture And Crockery

The rules relating to audit of Tools and Plants hold good in the case of local audit of these returns except that Form No.s 13 which are audited by the Divisional Accountant and filed in the Divisional Office should be obtained for test audit. With a view to see that the audit of monthly returns has been satisfactorily done, the transactions during the month selected for test audit, should be traced with the relevant vouchers for receipts and survey reports, etc. for issues.

5.38 Treasury Pass Book

It should be seen:

(i) whether the instructions contained in Rule 529 of the BPWA Code are observed and whether there is any delay in sending the Pass Books to the Treasury and their returns.

(ii) whether the monthly certificates of agreement have been signed by the Executive Engineer himself,

(Authority : Rule 529 of the BPWA Code) and

(iii) that the identity and the amounts of the cheques entered as cashed in the Treasury Pass Book are examined by the Divisional Accountant and the Pass Book is initialed and dated by him in token of this check.

(Authority : Note 2 below Rule 529 of the BPWA Code)

5.39 Service Postage Stamp Account

The Inspection and Audit of service postage stamps are not the duties of Audit Office. All heads of departments should make their own arrangements for inspection and domestic audit of their stamp accounts.

(G.I.F.D. letter No.4639 dated 13.10.1924)

5.40 Work Charged Establishment (Rule 62A of JPWD Code 2012)

Rules relating to Work Charged Establishment (Rule 59 to 62 of JPWD Code applicable before 2012) have been deleted in JPWD Code 2012 and instead Rule 62A (Outsourcing) has been added

In order to meet the demand for various services, equipment etc. e.g transport, security, office support arising from time to time, outsourcing of such services, equipment etc. may be resorted to as per guidelines issued by the Government.

(Authority : Rule 62A of the JPWD Code)

The register of work charged establishment employed in a Division should be scrutinized to see:-

(i) that proper sanction exists for each post.

(ii) that provision for the purpose has been made in a separate sub-head of the sanctioned estimate.

(iii) that the pay of no such post exceeds the prescribed rates, in cases where such rates have been definitely prescribed by a higher authority for any particular classes of posts.

(iv) vouchers in support of payments to members of the work charged establishment, holding posts which the Divisional Officer is authorized to sanction are not required to be submitted to audit. Paid vouchers for payments made in the test audit month to work charged establishment should be specially scrutinized to see:

(a) that a proper acquittance is on record in respect of each such payment.

(Authority : Paragraph 255(b) of the BPWA Code)

(b) that the pay bill is prepared correctly and in proper form as laid down in BPWA Code., Paragraph 257.

(c) that a simple register is maintained as indicated in Paragraph 257 (a) *ibid* for wages remaining unpaid on the monthly bills.

- (d) that the pay of Ministry is not charged to a work when no work has been done and paid for.
- (e) that the postings in the register are made with reference to the instructions and footnotes on the form of register (P.W.A. Code Form No.58).

5.41 Works Abstract (Paragraph 282 of BPWA Code)

It should be seen:-

- (i) that works abstracts (Forms 33 and 34) are kept for major and minor works
(Authority:Paragraph 282 of BPWA Code)
- (ii) that the accounts of major works are maintained by sub-heads, but see also Note-3 to Paragraph 282 of the BPWA Code.
- (iii) that the charges are correctly allocated to the sub-heads concerned, and transfers from one sub-head to another are supported by a formal transfer entry order approved by the Divisional Officer.
- (iv) that in cases where provision is made for labour and materials separately the accounts of all materials issued to the work is kept as laid down in paragraphs 289 of BPWA Code.
- (v) that the balances under the suspense accounts, “Contractors” and Labourers” have been verified by the Divisional Accountant and Sub-Divisional Officer respectively and that in the case of test check, they agree with the balances shown in the contractor’s ledger and in the records of unpaid wages.
- (vi) that progress is recorded from the details furnished by authorized executive officials in charge of the work and not compiled from measurement books or vouchers etc. by members of the office establishment as required under paragraph 287 (c) of BPWA Code.
- (vii) that in respect of jobs undertaken by workshops of Divisions, the suspense head ‘Workshop’ if permitted to be opened with a view to watching the receipt of articles for which debits are raised under paragraph 409 of BPWA Code is cleared from time to time on receipt of the articles, and
- (viii) that no advance or recoverable payment is made to or on behalf of a contractor and no financial aid is given to him except in accordance with the terms of his contract and the relevant rules in paragraphs 252 to 254 of BPWA Code.
- (ix) That works abstracts of the month selected for Test Audit should be compared with the postings in the register of works, in order to see that they tally in all respects, and with the schedule of works expenditure for that month.

5.42 Rush Of Expenditure

Procedure for the examination of accounts in any month in which there has been exceptionally heavy expenditure :-

All expenditure brought to account in the Divisional Officer’s Accounts towards the close of a financial year should be scrutinised to see :-

- (a) that charges against the appropriation and estimates of the year as brought to account, are regular.
- (b) that the liabilities and assets of one year are not brought to account in another year, and

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

(1) The irregularities which often accompany exceptionally heavy expenditure are:-

(a) Unreal payments charged off in the accounts but not actually made to the parties concerned at the same time.

(b) Payments made before the work or service for which they are due is performed.

(c) Advance Payments: - Payments of secured advances, etc. on the last day of March should be specially examined with a view to see whether it has been done to avoid a lapse of the grant.

(2) Unreal Payments: - This irregularity can easily be detected in the audit office by noting instances in which acquittance are not received with the accounts and ascertaining the causes which lead to the delay in their submission. The facts ascertained should as far as possible be verified at the time of inspection, e.g. if it is urged that a contractor was not present at the station for receiving payment, his ledger account may be consulted and it may be seen if payments for any other works were made during the same period. If in such a test, it should be seen if the work was really carried out before the cheque was drawn.

(3) In some cases stamped bills are sent by firms in advance of the dispatch of stores but Bank Drafts are sent to them long afterwards after the stores are actually received. An inspection of the local records connected with the procuring of Bank Drafts will readily reveal such irregularities.

(4) Payments for work not done:- The schedule of expenditure against grant shows expenditure in March and for the whole year. From this a list should be made of all items in which the proportionate expenditure in March has been unduly high. The high expenditure may be either cash or stock expenditure.

(5) Stock: - At inspections the original records of stock transactions should be consulted to see how far the stock transactions in the accounts are bonafide. The indents for the stores issued should be inspected so as to ascertain the dates of issue of the indents. The actual date of receipt at site can be ascertained from the entry in the appropriate column in the receipts for the stores sent and can be checked with the dates on which payments are recorded, for incidental charges, if any, such cartage and freight charges. Such a check should bring to light all cases in which stock is shown as issued for the purpose of working up the grants.

(6) Cash: - The figures under this head may represent:

(i) Actual expenditure or

(ii) Adjustments for workshop debits etc.

(7) Actual cash expenditure: - From the vouchers received, a list in the following form should be prepared.

Voucher No. & date	Date of measurement	Measuring Officer	No. of the measurement books and pages	Place of measurement
1	2	3	4	5

(8) This list will show if there is a tendency to make an unduly large number of measurements towards the end of March. If this tendency be found, the fact that the measuring officer was, on the days specified at the particular place should be verified with reference to the T.A. Bills and journals. If it appears that the same officer is shown as having measured disproportionately large number of works in a given time, this fact should also be brought to notice. The above check would establish whether measurements were recorded on the spot. It

should also be seen that work shown as measured agrees as far as possible with the periodical progress reports submitted for the information of superior departmental officers.

(9) The comparison with the T.A. Bills should be locally in the case of lower subordinates and other officers for whom the journals are not sent to the audit office.

(10) Payment for Materials:- The cash payments may also be for 'Materials' supplied in which case the following additional checks may be applied. The materials may be kept 'at site' and a regular account in Form-35 may be maintained. In such cases the successive "SITE" account should be scrutinized to see when the materials were actually used. In some cases actual loss (Especially of perishable stores) may be noted in these accounts. Such instances should be pointed out.

(11) If the articles are not kept "AT SITE" and the payment forms an advance to contractors for supply of the materials, subsequent measurement books should be looked into to see when the materials were actually used.

(12) In the case of materials purchased it should also be seen if they were provided for in the estimates. Instances are not uncommon in which stores are charged off to some estimate in which there is savings, this debit being relieved as the stores are being used up in other works. It should also be seen that there is no irregular payment in respect of any materials received, e.g. payment before actual receipt of stores or of Railway Receipts (See Rue-2 to Paragraph 7.2.8 of CPWA Code), purchase long before actual requirement or in excess of requirement etc.

(13) The rates at which these heavy payments are made should also be scrutinized to see that the rates allowed are not higher than those justified.

(14) The transfer entry orders should be scrutinized and all facts clearly ascertained. If any transfer of materials is involved, the same check should be applied locally in verifying the transactions as in the case of stores supplied. The actual date of transfer should be ascertained and verified with the dates on which cartages and other charges, if any were incurred. The check of transfer entry orders, as indicated above, would disclose irregularities, if any, in the transfer of stores etc. merely to work up to the grant or to utilize savings.

(15) In the case of large workshop debits, the facts concerning the dates on which the order was placed with the shops and the articles were actually manufactured and dispatched should be verified from local records. It would bring to light adjustments made in anticipation of supply with a view to show the grants as spent.

(16) Besides the above, the following checks should be applied:-

(a) At inspections the dates of closing of the divisional and sub-divisional accounts should be verified. The causes of any delay in the submission of the sub-divisional cash or stock accounts should be enquired into.

(b) Whenever in course of audit an adjustment is met with, it should be seen if the original entry written back was made in March and if it is found that it was, the particulars connected therewith should be investigated so as to find out if any adjustments were made in March simply to work up to grants.

(c) It is also an ordinary device, often resorted to omit the usual percentage deductions on account of security from March Bills or to keep the deductions in deposits by debit to works. Such devices can be detected in auditing the accounts in the Central Office as well as during the inspection.

(17) (a) Whether the Inspecting Officer has to comment in his reports on the rush of expenditure in March as against that in the preceding eleven months of the financial year, he should give specific instances of expenditure incurred in March which would normally have been liquidated in the following months.

(b) As rush of expenditure in March may sometimes be due to late allotment of funds such cases should be examined with a view to see how far the rush can be accounted for by this cause. Cases in which allotments were sanctioned late in the year (say March) with no reasonable prospect of their being utilized in the year under normal conditions should be specially noted.

Similarly cases in which allotments were made even though estimates were not ready in a form suitable for the work should be brought to notice.

5.43 Special Machineries And Equipments (Annexure A of BPWD Code):

Audit and Accounting procedures on above materials have been described in Annexure A.

In addition to checks, the following checks should be exercised during local inspection:

(i) A complete inventory of such articles in order of prescribed categories is maintained up to date.

(ii) The cost of these materials has been correctly charged to special M. & Es.

(iii) It should be seen that capital and depreciation accounts of each of the special machineries are maintained.

(iv) Values of spares in respect of each category of these M & Es have been charged correctly as special M & E and dealt with accordingly.

(v) Depreciation charges have been calculated each month and allocated to works/sub-heads.

(vi)(a) Maintenance and operation estimates of these machineries and Equipments have been framed, taking into account all elements of such costs

(b) Estimates have been sanctioned by competent authority.

(c) Limits for incurring expenditure on maintenance and operation have been observed in all cases.

(d) Such expenditure in each case has been apportioned on the basis of working hours to works/sub-heads annually.

(vii) The prescribed accounting procedure has been followed by booking the expenditure and credits against the detailed heads "Gross Expenditure" and "Deduct Recoveries" respectively.

(viii) The Log Books have been properly maintained.

5.44 Log Books of the vehicles

It should be seen that:-

(i) The Log Books are maintained correctly.

(ii) Entries in the Log Books are made chronologically and attested by competent authorities.

- (iii) At the end of the month, the average mileage per litre is worked out in the event of any deviation from the normal mileage per litre, the reasons thereof are recorded in the Log Book itself, the Officer-in-charge has checked the same once a month and verified that the same is correct and the deviation, if any, has been suitably explained.
- (iv) It should be critically examined with reference to the entries in Log Book to ensure that (a) no manipulation has been done to understate the Government revenue and (b) Hire charges have been correctly assessed in BPWA Code.
- (v) The maintenance and repairs of different categories of vehicles are in accordance with the scales prescribed.
- (vi) In the case of officers claiming T.A. by payment of hire charges for vehicles used by them the entries in the Log Books should be linked with the officer's T.A. Bills and Tour Diary to see that there is no anomaly.
- (vii) Hire charges are recovered promptly from the parties concerned and no dues are allowed to fall into arrears.
- (viii) Condemnation and disposal of condemned vehicle have been done and sale proceeds have been credited to the appropriate head of account.

Rules framed under Paragraphs 82, 84, 85, 86, 231 and 232 to 251 of the BPWA Code for the guidance of Pubic Works Department Officers of the Government of Jharkhand for the preparation, examination and verification and passing for payment of bills or other demands and for the test check of measurements by the Divisional Accountant.

- (i) Standard measurement books will invariably be written legibly in ink only, and maintained by the P.W.D. for the purposes specified in Paragraph 231 of the BPWA Code. The work of preparing these books will ordinarily be undertaken in accordance with a programme for each sub-division or such other suitable unit as may be fixed by the Divisional Officer.

(Authority: Paragraph 232 a. of BPWA Code adopted by Jharkhand)

- (ii) All the standard measurement books thus maintained in a division will be numbered in a alphabetical series, so as to be readily distinguished from ordinary measurement books and a register of them maintained in the Divisional Office in P.W.A. Form No.92 (Part-II). A similar register should be maintained in each Sub-Division showing the books belonging to it and the registers kept under lock and key in the custody of the Divisional or the Sub-Divisional Officer concerned.

(Authority: Paragraph 232 b. of BPWA Code adopted by Jharkhand)

- (iii) In view of the fact that these books will form the basis of both the annual repair estimates and contractors bill for work done, they should be written up either by the Sub-Divisional Officer himself or by a member of the Subordinate Engineering Service under his orders. Each set of measurements taken by the latter class of officers should, however, be fully checked by the Sub-Divisional Officer concerned, after which it shall be examined by the Divisional Officer and declared in writing in the book itself as finally approved by him for one or both of the purposes specified above. Until this is done, the book will not be entered in the Register of standard measurement books not will a number be assigned to it.

(Authority: Paragraph 232 c. of BPWA Code adopted by Jharkhand)

- (iv) There after the standard measurement books will be brought up to date, under the supervision of the Sub-Divisional Officer with reference to any additions or alterations which may be carried out to the buildings or work concerned within one month of the

closing of the accounts of the estimates therefore. All such corrections will be duly attested by the sub-Divisional Officer.

(Authority: Paragraph 232 d. of BPWA Code adopted by Jharkhand)

(v) The Divisional Officer will also be expected to exercise a check over the completion of standard measurement books, from time to time, by personally examining each book at least once a year. To this end, the programme of work should ordinarily be as follows.

(a) As soon after the close of the official year as possible, the Sub-Divisional Officer concerned will arrange for a personal examination of those books with a view to satisfying himself that they have been brought up to date with reference to the additions, alterations or special repairs carried out in the building or work during the preceding year and ensuring their submission on such dates as maybe fixed for the purpose, for the inspection of the Divisional Officer

(b) On receipt in the Divisional Office the books will be compared with the register of standard measurement books in order to ensure that all books have been submitted for inspection. This will then be subjected to such scrutiny as the Divisional Officer may direct. A comparison of these books with the account of expenditure and the record of connected measurements, relating to estimates for additions, alterations or special repairs to buildings and works in the Division should however, form a feature of the check to be applied .

N.B.:- A record of the results of the scrutiny referred to should invariably be retained and produced if required for the Superintending Engineer's or the Accountant General's Inspection.

(c) Finally, a report should be made to the Superintending Engineer, so as to reach him not later than the 31st July of each year, to the effect :-

(i) that all the standard measurement books of the Division have been inspected by the Divisional Officer.

(ii) that the entries made therein have not been tampered with.

(iii) that all corrections due to additions or alterations to the buildings or work concerned have been carried out and

(iv) that the books are reliable and up to date records. A copy of this report should be furnished to the Audit Officer.

(Authority: Paragraph 232 e. of BPWA Code adopted by Jharkhand)

(vi) When a payment is based on standard measurements the following certificate should invariably be recorded on the bill and in the ordinary measurement book by the Gazetted Officer or subordinate preparing, examining, or verifying it:-

“Certified that the whole of the work billed for herein as per standard measurement book has been done and that it has not previously been billed for in any shape”.

(Authority: Paragraph 232 f. of BPWA Code adopted by Jharkhand)

During Inspection of a Public Works Division it should be seen generally whether the above rules are strictly observed.

5.45 Investigation Of Losses Due To Careless Or Dishonest Accounts

The cases enumerated below will illustrate how losses are sometimes caused to Government by careless or dishonest accounting:

- (i) Government Revenue is omitted to be claimed or when realized credit is not afforded in the Public Accounts.
- (ii) Work is estimated for at exorbitant rates.
- (iii) While the contract rate is for both labour and materials and the latter is supplied by Government the full rate is allowed to the Contractor, the materials being charged off direct to the estimate concerned..
- (iv) When the rate for a certain kind of work (e.g. brick work) is fixed on the assumption that the required materials will be available at a certain rate, full rate is allowed to the contractor though the Government supplies the materials at lower rate.
- (v) When the issue rate of stock is below the market rate more materials are issued to the contractor than are actually required.
- (vi) On account payment to contractors on hand receipt Form 113 before the equivalent of the work has been executed. Some times such payment is charged off finally to the sub-head of estimates instead of being recovered from the detailed bill of contractor.
- (vii) Incorrect measurements recorded for a work. Measurement paid for twice.
- (viii) The cost of departmental labour supplied to a contractor not recovered from him but finally charged to work.
- (ix) Payment on a muster roll for more men than are actually employed.
- (x) Collection of materials on a separate estimate for a particular work and charged to the same service head as the work before actual utilization. It sometimes happens that the main work is delayed but the materials are not brought on to any return.
- (xi) The above is by no means an exhaustive list, while it will be seen that in the majority of cases either the inspecting officer's or the Audit Officer's hold on them is far from effective. Besides trying any special means that each actual case might suggest, investigation on the foregoing points may be proceeded with, in the following way:-

(1) The revenue schedules for a couple of years may be looked into, to find out what sources of regular revenue examined to see whether such sources are duly recorded therein. The assessment should then be scrutinized in the manner explained in Paras 1.1.9 and 2.3.2 and 4.3.6 to 4.3.8 of MSO (A) 2nd edition.

Little control can, however, be exercised over casual revenue and it is only indirectly that such sources of revenue come to notice. Thus, if from any voucher it is seen that some jungle clearance has been done the manner in which the wood has been disposed of should be looked into. Again if the dismantlement of a building has been paid for the disposal of the materials should be investigated.

(2) In the case of a few estimates the rates may be tested by comparison with the schedule of rates, some of the rates being also checked by reference to the analysis of rates.

(3) When an item of stock appears as issued to a contractor the value thereof is in the ordinary course debited to the contractor's ledger account and chances of non-recovery thus obviated. But in cases where the stock is shown in the form as issued direct to work, it should be seen by reference to the bill in which the item of work for which the materials is used has been paid for, and to the accepted tender, if necessary whether the rate allowed is for labour only or for both labour and materials. In the latter case the result has been an over payment to the contractor. When materials are transferred from one work to another without

being issued to a contractor, the same test should be applied to see whether only the labour rate has been paid to the contractor. This point should also be looked into when materials are directly collected for a work and not passed through stock.

(4) Suppose the rate of brick work has been accepted at Rs.30/- per hundred cubic feet on the basis that bricks will be available at Rs.10/- per thousand. If now bricks are issued to the contractor from stock at the book value of Rs.8/- per thousand and full rate for brick work paid to him at the same time, it follows that the contractor gains at the expense of Government. In this case the value of the bricks should be recovered from the contractor at the higher rate of Rs.10/- per thousand. To detect such losses to Government the rates of some of the principal materials as shown in the analysis of rates should be compared with the stock rates of the Division and if the latter are found to be lower a few test cases should be examined to see whether the higher or the lower rate has been recovered from the contractor for materials issued.

(5) To take a concrete instance, 4000 bricks are issued to a contractor at a lower than the market rate for some particular work for which only 2000 bricks are actually required. It is true that the value of all 4000 bricks is recovered from the contractors at the book rate but the contractor makes a profit by selling the extra 2000 in the open market at a higher rate. In a few test cases of articles of which the market rate is more than the stock rate, an attempt may be made to find out by reference to the quantity required as shown in the analysis of rates if more than necessary quantity has been issued to a contractor. Of course, in such cases the Executive Engineer should be referred to as he is best judge as to the quantity of materials required.

(6) It is hardly possible for an Inspecting Officer to verify whether or not an advance payment is actually covered by the value of work done. If, however, the next bill or measurement of the contractor for the same work does not cover the amount so paid, it will lend colour to the presumption that the payment partook of the nature of an advance requiring the sanction of the State Government vide Paras 250 and 251 of BPWA Code. The Executive Engineer should however, be referred to before any conclusion is arrived at. In any case the adjustment of the payment against detailed bills should be carefully traced.

(7) In order to prevent incorrect measurement being recorded for a work the Executive Engineer is required to check measure less than 10 *per cent* of the measurements taken by his subordinates. The Inspecting Officer should see that there is record in the measurement book concerned of such checks being exercised by the Executive Engineer. It may also sometimes happen that second payment is made on the same measurement and entered again in a different measurement book. There is every likelihood of this double payment being lost sight of unless the test auditor can recollect the previous payment or an excess over sub-heads of estimate and the similarity of payment, as recorded in the works abstracts, give rise to suspicion.

(8) The cost of departmental labour is sometimes omitted to be recovered from the contractor though employed on his behalf. To detect this some test cases should be investigated where the nature of the work done by departmental labour e.g. rectifying defects of work, would point that the same is probably in connection with the work done by contractor. It may also be assumed that the pay of engine driver and fire man is ordinarily recoverable from the bills of contractors doing the work of road consolidation.

(9) To prevent such excess payment the test auditor should see that the quantity of work done is properly recorded and as far as possible try to gauge if the quantity of the work executed is altogether disproportionate to the number of men employed. Doubtful cases may be referred to the Executive Engineer.

(10) When such collection is for metalled roads, the materials collected are brought on the Road Metal Return and watched there. When however, the materials are for buildings etc. they are not borne on any site account until the main work has been started. It sometimes happens that the main work is abandoned or greatly delayed causing losses to Government amounting to many thousands of rupees on account of depreciation or other reasons. Whenever, therefore, such materials collections are noticed, it should be seen how the upkeep of the materials is watched and if any delay in their issue is anticipated it should be considered whether they should not be brought on to the stock return.

Special Audit

5.46 Special Audit of a programme, project or organization-regarding

Instructions related to Special Audits are contained in Regulation 13 and 14 of the Regulations on Audit and Accounts 2020. In recent years, requests for special Audits have also been received from Courts of Law. In the light of these developments and also because field offices have, on occasion, applied the extant instructions differently, it has been decided to reiterate the existing instructions (**summarised in the Para 5.47**), and also specify the procedure for approval of Special Audits as under:

- (i) Since the Regulations do not cover requests for Special Audit by Courts of Law, the field office receiving such requests should insist that these are received with the approval of the concerned Secretary to the Government. The field office should thereafter send the request, with recommendation, to the concerned functional wing in HQ, who will thereafter forward the requests, along with their views, to PPG Wing for taking a final decision in the matter in consultation with Legal Cell.
 - (ii) All other requests for Special Audit shall be examined by the Field audit offices as per extant instruction (summarised in annexure) and then forward, along with their views, to the concerned functional wing in HQ, who shall take a final decision under intimation to PPG.
 - (iii) Requests for Special Audit received in HQ directly from the concerned Government shall be forwarded to the field offices for taking necessary action in the manner as at (i) or (ii) above.
2. Requests for Special Audit of entities not within C&AG 's audit jurisdiction should be examined in a similar manner as the cases of entrustment of audit.
 3. For maintaining year wise data-base of the requests for Special Audit received and finally accepted/rejected, a centralized platform would be maintained by the Headquarters, wherein the field offices would be permitted to fill the details as warranted. As soon as the Centralised Platform becomes operational, instructions would be issued separately in this regard.
 4. This order is effective from the date of issue. (1st October'2019)

5.47 Existing instructions on Special Audit

- Central and State Governments who request for Special Audit by CAG should, in the first instance, be advised to have the audit performed by their own Internal Audit. Thereafter, if they still require Special Audit by CAG, they should inform

of the special reasons for such request and the specific areas which the Special Audit should focus on.

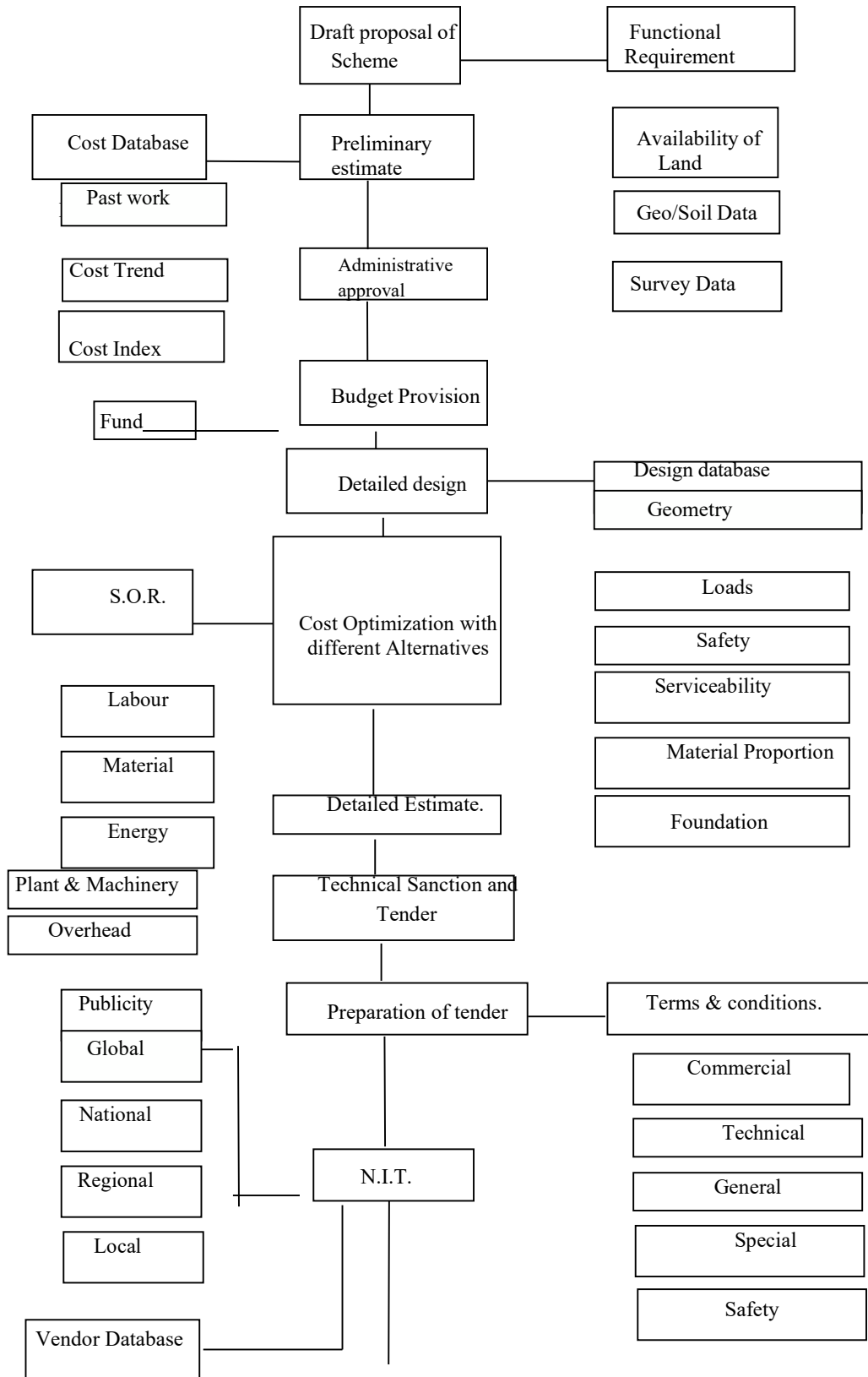
- Before undertaking any Special Audit engagement, it should be ensured that the CAG is not being asked to involve in tasks that rightfully the responsibility of the investigation agencies or departmental inspection authorities. If it is felt that preliminary or further investigation by departmental authorities is necessary before undertaking Special Audit, then, this should be done first. Only such cases that require exert scrutiny by the staff of IA&AD should be taken up in Special Audit.
- All Special Audits should have the following features:
 1. They should come under the audit jurisdiction of the concerned audit office;
 2. The request should be made with the approval of the concerned Secretary to Government;
 3. The request shall state the justification for Special Audit, including the result of any preliminary enquiry, investigation or study that may have already been conducted; and,
 4. Specify the period to be covered in the Special Audit.
- The decision of the Comptroller and Auditor General or any officer so authorized in this regard shall be final
- The results of the Special Audit shall be reported to the concerned Secretary to Government and to the Secretary, Finance Department/ Ministry.
- The Comptroller and Auditor General also reserves the right to communicate the results of any Special Audit to the Ministry of Finance, Government of India (Where the Special Audit related to any State Government or Union Territory with Legislature) and to include the results of any Special Audit in the Audit Report of the Centre or concerned State/UT.



Chapter VI

Stages prior to execution of work

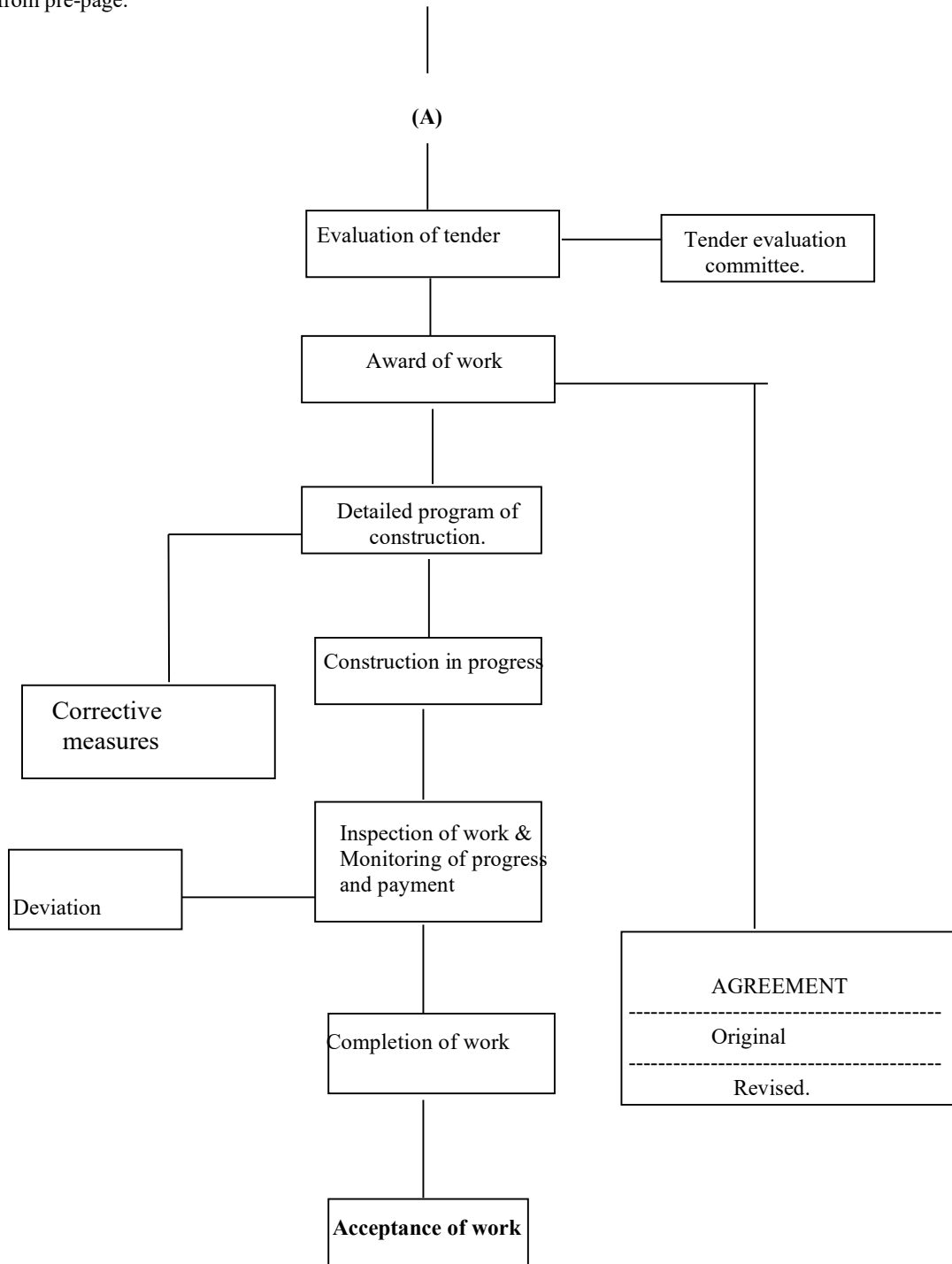
System Flow Chart



(A)

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- 6.1** Before execution of any work four items are basic pre-requisite
- (i) Administrative Approval
 - (ii) Expenditure Sanction
 - (iii) Technical Sanction
 - (iv) Appropriation or Re-appropriation of fund

6.2 Administrative Approval – For execution of every work concurrence of the competent authority from the administrative department requisitioning the work is required. Administrative approval is accorded on the basis of primary estimates.

(Rule 201 of Bihar Financial Rules adopted by GOJ and Rule 121 to 124 of JPWD Code 2012)

6.3 Expenditure sanction -- After the administrative approval is received from the administrative department, expenditure sanction to be accorded to indicate that funds for the projects have been provided and liability can be incurred.

(Rule 219 of BFR).

6.4 Technical Sanction – Except for the petty works upto Rs 25000 and annual repairs for which lump sum provision has been sanctioned by the Superintending Engineer under paragraph 204 of JPWD Code 2012, for every work proposed to be carried out, a properly detailed estimate must be prepared for the sanction of the competent authority. This sanction is known as Technical Sanction. This is accorded by the competent technical authority such as Secretary to the Government/ Chief Engineer/ Superintending Engineer/ Executive Engineer.

(Rule 223 of Bihar Financial Rules adopted by GOJ and 126 to 128 of JPWD Code 2012).

6.5 Appropriation and re-appropriation – Appropriation means allotment of a particular sum of money to meet specified expenditure out of funds placed at the disposal of the assigning authority. Re-appropriation means the transfer of funds from one unit of appropriation to another unit. As a fundamental principle, no outlay on a work should be incurred without funds having been allotted for it by appropriation and re-appropriation.

(Rule 129 of JPWD Code 2012)

Categories of work:

6.6 Original work –It indicates whether the construction work is a new work or additions and alterations to existing work of newly purchased, acquired or previously abandoned properties required to be brought in to commission again. Original Works are divided into three classes

- (i) Major Works – Works costing above Rs. 25 lakh
- (ii) Minor Works – Works costing above Rs. 25000 and upto Rs. 25 lakh
- (iii) Petty Works – Works costing up to Rs. 25000

(Rule 99 of JPWD Code 2012)

6.7 Repair and maintenance – It consists of four types of repair works:

- (i) Ordinary Repair
- (ii) Special Repair
- (iii) Major Repair
- (iv) Minor Repair

The principles of classification of works under categories are detailed in Footnote (35) of Appendix 2 to the Bihar/Jharkhand Public Works Account Code.

(Rule 98 of JPWD Code 2012)

Categories of work in Irrigation Projects

6.8 It is based on cultivable command areas. There are three types of irrigation works i.e. Major Project, Medium Project and Minor Schemes (Rule 207 of BFR) Note: For irrigation projects detailed rules are incorporated in the Bihar Irrigation Manual)

6.9 For every new work initiated by the PWD, Administrative Approval is necessary. Before granting such approval, authorities must ensure that proposal is in public interest, technically sound and preliminary estimates are sufficiently correct.

(Rule 201 and 202 of Bihar Financial Rules adopted by GOJ).

6.10 Technical Sanction – For every work proposed to be carried out except annual repairs a properly detailed estimate must be prepared for the sanction of the competent authority. This sanction is known as Technical Sanction. This is accorded by the competent technical authority such as Secretary to the Government/ Chief Engineer/ Superintending Engineer/ Executive Engineer.

(Rule 223 of Bihar Financial Rules adopted by GOJ and 126 to 128 of JPWD Code 2012).

6.11 Expenditure should be sanctioned. Allotment of funds for the work by legislature sanction in the budget is to obtain at the beginning of the year. Additional fund required for can be made available by re-appropriation, supplementary grant and additional grants. A project report should be prepared. This should consist of salient features of the project, specification detail statement of measurement of items of work to be executed, quantities and rates and total cost of works. Inviting tenders and placing work orders are essential items of work. Execution of work, completion of work and handing over to the user department in a stipulated time may be seen during the course of audit.

Detailed analysis of major work

6.12 It is one of the items of work to be carried out by the team leader of audit party. Works, of which detailed analysis is to be carried out, is to be selected by the Inspecting Officer. The selected work normally should be completed major work. Detailed analysis means step by step examination of all types of records concerning to the major works completed during the period covered by audit. This examination helps auditor in finding out the irregularities committed during execution. Given the knowledge of conducting analysis of work, auditor will understand the checks to be exercised at each completed stage of the work.

6.13 Major Work – The work costing above Rs 25 lakh are categorized as major works. This is original work entrusted to the registered contractors.

(Paragraph 99 of JPWD Code 2012)

The stages of planning, estimation, site selection, tendering, fixing agency, execution, procurement of materials, making payments in respect of works selected for scrutiny should be analysed.

6.14 Responsibility of audit in regard to development of schemes:

In view of the large development schemes undertaken in most part of Jharkhand the accounting and auditing of some of which fall within the scope of duties of audit department. The C&AG instructed his department with a special emphasis on the responsibility of audit. He has observed that within the limits it is the duty of the audit department to secure that in respect of all large projects whether remunerative or otherwise, Govt. is promptly apprised of any facts reflected in the accounts which may afford ground for the conclusion that the original estimate will be substantially departed from in an unfavourable direction and so be in a position to realize their ultimate commitments as soon as possible.

6.15 The C&AG has directed that the following further points should be borne in mind in this connection

- (i) it should be seen that expenditure proceeds against regular detailed working estimates sanctioned from time to time by the competent authority and identifiable with the project estimate
- (ii) large scale expenditure incurred without sanction and vaguely comparable with the project estimate, should be promptly brought to the notice of the controlling authority
- (iii) when the working estimates appear to disclose a material departure from the project as administratively approved, it should be ascertained that the deviation has approval of the authority which accorded the original administrative approval

6.16 Maintenance of law and order should be regarded as primary function of the government, the cost of which should normally be debited to the ordinary head of the classification. The only relaxation of this rule which may be permitted is the recognition of the principle which has been accepted in the case of additional police that any person or body requiring closer police supervision than is accorded in the ordinary public should meet the additional expenses entailed. As regards, other heads of service, the principle followed should be that any expenditure which is for the direct and immediate benefit of a project while under construction may be treated as a legitimate charge against the project. The idea although it is theoretically accurate of charging a project with the excess over the normal standard of expenditure provided

by government in discharge of its ordinary responsibility should be abandoned. In practice, nearly all large construction projects involve the bringing together in a very limited area of large masses of people which entail arrangements so far in excess of those previously existing in the same area that the whole cost can quite legitimately be borne by the concern.

6.17 Works and Accounts Management Information System (WAMIS)

Works and Accounts Management Information System (WAMIS) is an innovative initiative for simplification of complex procedure of works and infrastructure management of the State. WAMIS assists in the overall project management and financial management. It was developed by Centre of Development of Advance Computing, (CDAC), Pune. It is presently being used in the Works Departments⁷ and Forest, Environment and Climate Change Department. It was launched in 2017.

Before 2017 manual process being used, was being felt hectic and erroneous. It was also felt that manual process was taking longer time to prepare and monitor the financial year reports leading to delay in proper budget planning. Monitoring of the physical process of works was also time taking and not transparent for each individual department leading to improper management and misuse of budget allocation. Accountant General and treasuries were already doing online activities, but due to the manual process of the works and accounts of the departments, it aroused the communication gap between state agencies and different stake holders.

WAMIS System covers the entire life cycle of typical construction project work right from its inspection to its final completion. WAMIS has been developed with the view that all financial transactions pertaining to the State/Central Plan Schemes/Projects are accessed by the Executive, Legislature, Internal Audit, External audit and the citizen at

⁷ Road Construction, Building Construction, Rural Works, Drinking Water & Sanitation, Water Resources and Energy

large and the same be assessed against the physical progress and the desired outcome.

The System is work flow enabled and comprises of various building blocks in the form of module as described below:

1) Works And Billing: This module captures the entire information of a typical construction work from proposal stage. Approvals in the form of administrative approvals, Technical sanctions. stages of approvals are embedded with supporting tools for estimation in support of approvals. Subsequently this module caters to the need of generation of contractor's bills on the basis of recorded measurements based on the SoR. The bill thus generated becomes an input to the Accounting system as a voucher.

2) Accounts Management System: This is a voucher Based accounting system that captures all the financial transactions in a typical DDO office. This system generates all the relevant schedules including the cashbook that are required to be submitted to the office of the AG at the end of every month. This system is based on the CPWA code, which has been prescribed for various engineering departments for accounting purposes.

3) Mobile Application for project site survey/inspections: To ensure that works taken up under various programmes /schemes meet the requisite standards and to assess the actual progress of individual works a mobile-based application has been developed. This application enables the user to take geo-location tagged photographs as well as record other parameters pertaining to project site inspections/survey of the on-going works at the location of their construction site. Photographs thus taken through this mobile based app can later be viewed through a viewer application deployed as a part of WAMIS MIS along with various other financial and works related data captured/processed through WAMIS.

4) MIS: A comprehensive MIS has been developed in the form of dashboard that gives a analytical view of the physical and financial status of the various projects undertaken by the department and compiled for all the offices of the department. The analysis is carried out under various parameters such as Head of Accounts, Schemes/ Programmes, User Departments, Infrastructure types, Allotment, Defined physical scope etc assessed against Budgetary Grants, MB Recordings, and Stipulated Time Frames.

6.18 Impact : Following are the impacts of the WAMIS project

- 1) Less human errors
- 2) Faster compilation of accounts at office of the Accountant General.
- 3) Department wise proper utilization of budget.
- 4) More rigid monitoring by the State Secretaries and Accountant General to reduce corruption.
- 5) Proper communication related to budget and expenditure between different state agencies and stake holders.
- 6) Integration between Accountant General and state treasuries.
- 7) Works and Forest Departments are bound to work as per the PWD and forest code.
- 8) Easier to submit the monthly accounts to office of the Accountant General without any delay.
- 9) Paperless flow of the online works billing and accounts.
- 10) Bring more transparency.

6.19 Key Takeaways :WAMIS application suits the best e-Governance project for Works and Accounts due to the following takeaways

- 1) Reduction in human errors.
- 2) Reduction in corruptions.
- 3) Better utilization of departmental budget.
- 4) Reduction in paper works.
- 5) Bringing more transparency.

6.20 Picture:

The image shows a screenshot of the WAMIS (Works & Accounts Management Information System) login page. The page includes a navigation bar with the WAMIS logo, the system name, and contact information. Below the navigation bar is an "Official Login Only" section with fields for "Enter User Name", "Enter Password", and "Enter Security Code As Shown Above". There are "Login" and "Reset" buttons, and a link for "Forgot Password?". To the right of the login section is a large image of a winding road through a green landscape.

Below the login section is a paragraph about WAMIS:

WAMIS
This System covers the entire life cycle of typical construction project work right from its inspection to its final completion. WAMIS has been developed with the view that all financial transactions pertaining to the State/Central Plan Schemes/Projects are accessed by the Executive, Legislature, Internal Audit, External audit and the citizen at large and the same be assessed against the physical progress and the desired outcome. The System is work flow enabled and comprises of various building blocks in the form of module as described below"

Below the screenshot is a flowchart titled "Application and functional flow of WAMIS and KUBER after integration". The flowchart is divided into two main sections: WAMIS (top, blue background) and KUBER (bottom, green background). The flow is as follows:

- WAMIS Section (Top):**
 - Request and receive the Budget Data.
 - Request and receive the allotted data.
 - Bill preparation on allotment data and generate ref.Id of bill.
 - Receive request and provide prepared bill details against ref.Id.
 - Receive control Number against the ref.Id for the updation.
 - Request and receive the data related to contractor payments details etc.
- KUBER Section (Bottom):**
 - Receive request and provide budget.
 - Receive request and provide allotted data.
 - Request and receive prepared bill details from WAMIS against ref.Id.
 - Generate Control Number from prepared bill details against the ref.Id at DDO Level.
 - Update control number against the ref.Id in WAMIS.
 - Proceed to treasury to pass the bill.
 - After passing the bill through treasury, available to provide the data for the WAMIS against the control number such as Advice no., Advice Date, Amount Paid to contractor, Bank Paid Date etc.
 - Receive request and provide payment related data.
- Integration:**
 - Arrows labeled "WEB SERVICE" connect the two sections.
 - A central vertical arrow labeled "REQUEST/RESPONSE" indicates the direction of data flow between the systems.

6.21 Process of working at WAMIS in the Division offices

Whenever a new work is decided to be taken up, Executive Engineer of the concerned work division office, logons to the portal of WAMIS through the Log-in Id and password provided to him and inserts the nature and other details of that work viz Administrative approval, Technical Sanction etc . Each work division has been assigned a Division number. The new work so inserted by the Executive Engineer is also provided a unique, system generated work Id by the WAMIS. After entering the details the Executive Engineer logs-off.

After that the Junior Engineer of the concerned section of the concerned work division office, logons to the portal of WAMIS through the Log-in Id and password provided to him and searches the new work on the WAMIS through unique work Id assigned and uploads against it the BOQ details for that particular work. After entering the details the JE forwards it to AE and logs-off.

Assistant Engineer of the concerned sub-division, after uploading the BOQ details of the concerned work by the JE, logons to the portal of WAMIS through the Log-in Id and password provided to him and checks the details uploaded by JE. If he is satisfied, he approves it at his level. If he is not satisfied with the BOQ, he returns it back to JE for necessary corrections. After finalizing the BOQ details the AE forwards it to EE and logs-off. Similarly, it is checked and finalized by the Executive Engineer who thereafter inserts the data of tender viz Terms and conditions, class of tender, type of tender, amount of BOQ etc. which is to be called for.

After receiving the bids from the Tenderers/participants/bidders, Executive Engineer ensures insertion and uploading of the rates quoted by all the agencies/bidders participating. After finalization of tender, he also ensures uploading of the details of agency (name, amount etc..) to whom the work is awarded.

Billing of Running Account bills

After the execution of work, the concerned JE enters the item-wise quantities of the concerned work over WAMIS by logging-in through his log-in Id and password and forwards it to the concerned AE who either accepts, approves and forward to Cashier/next level or returns it back to JE for required corrections. Cashier, through his log-in Id password,

receives and forwards it to Accountant. Accountant then checks and effects the deductions and forwards it to EE. EE checks the bill and enters and uploads it on the Kuber portal through his (DDO's) log-in Id and password at Kuber.

The process of uploading the Running Account bill details of Kuber by EE is called "Fetching". As soon as work is fetched by EE, Work RA bill details are displayed thereat, a control number is generated by Kuber and beneficiary details are displayed at the system on the Cheque number supplied by the Cashier/Accountant.

6.22 Process of working at WAMIS in Forest Division offices :

In case of Forest Divisions the role of Executive Engineer is played by the concerned Divisional Forest Officer. As soon as the budget provisions are communicated to the DFO, the head wise fund allotment is uploaded by him on WAMIS through his log-in Id and password. Physical and financial targets are also uploaded head wise by DFO. This whole information is available to all the Range Forest Officers (RFOs) of the concerned forest division.

Range forest officers, on the basis of these targets, submit the online requisition of fund on WAMIS through their log-in Id and passwords. Estimates for those requisitions are submitted manually in the Division office by concerned RFOs. Since the forest work are time bound works, RFOs manage to execute the plantation and other different emergent works at their own credit and responsibility. RFOs also submit the requisition of those executed works.

As soon as the requisition is received on WAMIS portal by DFO concerned, it is checked with reference to the allotment provided through current budget in that particular head. If requisition is found correct, a forest advance is sanctioned to the concerned RFO by DFO. A cheque is issued by DFO to treasury for transferring the money in the account of the concerned RFO and details thereof are uploaded on the WAMIS portal.

RFOs execute the works as per their requisitions and estimates and submit adjustment vouchers in the division office against the forest advances sanctioned to them. RFOs also upload the details of work done head wise on the WAMIS portal and forward it to the DFO for his approval. Then, certain percentage of the work shown as done, is time to time inspected by DFO and observations of inspection are recorded on

the Inspection note. Accordingly, the vouchers are approved or expunged by the DFO and details of adjustment of forest advances are uploaded on WAMIS.

WAMIS portal itself generates cash book for the division month wise as well as the monthly accounts and the schedule dockets for onward submission to Accountant General (Accounts and Entitlements).



Chapter – VII

Audit of Road Construction Department

Structure of Road Construction Department

Principal Secretary		
Policy formulation, planning, co-ordination, administrative approval and monitoring		
Engineer-in-Chief		
Administration, budget management, finalization of tenders, co-ordination, monitoring and technical advice to the Government		
Chief Engineer (Communication)	Chief Engineer (Central Design Organization)	Chief Engineer (National Highway Wing)
Controlling officer for the project management, fund management, finalization of tender, reporting and monitoring regarding PWD roads	Responsible for approval of Detailed Project Reports	Controlling officer for the project management, fund management, finalization of tender, reporting and monitoring regarding National Highways Wing
Superintending Engineers (Circles)		
Project management, finalization of tenders, reporting and monitoring		
Executive Engineers (Divisions)		
Preparation of project reports/estimates, finalization of tenders, execution of agreements, award of works, execution of works/projects as per design/specification and supervision of works		
Assistant Engineers (Sub-Divisions)		
Preparation of project reports/estimates, execution of works/projects, ensuring quality of works and supervision of works		
Junior Engineers (Sections)		
Preparation of project reports/estimates, execution of works/projects, measurement of works, supervision of works and preparation of initial accounts, bills and monitoring reports		

7.01 Secretary – Secretary is the head of the department. He exercises his power to accord administrative approval of the estimate and makes necessary arrangements for allocation/ allotment of funds for execution of the work.

7.02 Chief Engineer – He is the administrative and technical head of the Road Construction Department of which he is in charge and is responsible to the Government for the proper and efficient working of the department. He is responsible for according technical sanction of the estimate as per power delegated in Chapter-II of this manual.

(Rule 15 C of JPWD Code 2012)

7.03 Superintending Engineer – The administrative unit of the department is the circle, headed by Superintending Engineer, who is responsible to the Chief Engineer for the administration and general professional control of Road Works in charge of officers of the department in his circle. He is also responsible to accord technical sanction of the estimate as mentioned in Chapter-II of this manual.

(Rule 23 of JPWD Code 2012)

7.04 Executive Engineer – The executive unit of the department is the division headed by the Executive Engineer who is responsible to the Superintending Engineer for execution and management of all works in his division. He is also responsible to accord technical sanction of the estimate as per power delegated in Chapter-II of this manual.

(Rule 30 of JPWD Code 2012)

Audit on the accounts records of the Road Construction Department

7.05 During the course of audit of Road Construction Division, Inspecting Officer heading the audit team is required to carry out the detailed analysis of the major works completed during the period covered by audit. In the context of audit scrutiny, analysis indicates the step by step examination of records pertaining to the completed work. In short, analysis is the through review of the completed work.

7.06 Major Work – The work for which a large expenditure is incurred can be categorized as major work. This is normally original work entrusted to the big contractors and is likely to take long period for construction and required large materials and large expenditure.

7.07 Analysis – Examining thoroughly the stages, planning, estimating, selecting, tendering, fixing agency, taking measurements, making payments etc. in respect of work is detailed analysis.

7.08 Detailed work analysis involves scrutiny of the following records

- (i) Sanctioned estimate and plans, revised estimates, if any
- (ii) Working estimate
- (iii) Agreement including tender papers
- (iv) Supplementary agreement, if any
- (v) Approved Bill of quantity
- (v) Measurement Book
- (vi) Contractors' Ledger/ Register of Works
- (vii) Material at Site Account
- (viii) Schedule of Rates
- (ix) Work Files
- (x) List of extra items
- (xi) Progress Report
- (xii) Inspection of Reports of SE/ CE
- (xiii) Correspondence Files
- (xiv) Completion Report

7.09 Construction Activities – It includes clearing and grubbing, excavation of soil, ordinary rock, hard rock, moisty land (MOST specification, Clause 301.2), embankment construction, sub-grade, earthen shoulders and misc. back fills, materials to be used as approved by the engineers.

7.10 Material satisfying the dry density requirement

- (i) Up to 3 in embankment – 1.52 Kg. / Cu.Mt.
- (ii) More than 3 in embankment – 1.60 Kg. / Cu. Mt.
- (iii) Sub-grade and earthen shoulder – 1.73 Kg. / Cu. Mt.

7.11 Original ground of road shall be leveled, sprinkled the water and compacted to achieve minimum 95 per cent dry density before formation of layers. Each layer shall not exceed 200 mm compacted. Compaction should be by 80 to 100 KN static weight vibrating roller. Sub-base material shall be natural sand murum, crushed stone metal combination.

7.12 Water Bound Macadam – Materials crushed graded aggregate satisfying the gradation as per MORT &H Clause 404 and having

physical requirement. Abrasion and compaction value should be 40 per cent and 30 per cent respectively.

7.13 Wet Mix Macadam – Material as per MORT &H specification as per Clause 406. Compacted thickness should not be less than 75 mm and may increase to 200 mm. WMM should be prepared in Pugnil and Pan type mixture of batching plant having provision of controlled addition of water. Compaction up to 100 mm a smooth wheel roller 80 to 100 KN may be used.

7.14 Shoulders –

- These may be hard / paved / earthen
- Material shall be as per Clause 305/ 40 of MORT &H
- Paved shoulders consist of sub-base, base and surfacing
- The camber shall be 3 to 5 per cent

7.15 Base Course – Modified bitumen, such as Polymerised should be used. All works of bituminous layers shall be carried out as per MORT &H specification.

7.16 Standard Bidding Document issued by Road Construction Department, Government of Jharkhand vide resolution no.7246 (S) WE dated 14.11.2007 was based on SBD of Ministry of Road, Transport and Highways. Some important changes have been made in this SBD. The changes are detailed in the table below:

SI No.	Reference clause	Current Provision in the SBD Jharkhand Procurement of Civil Works	Amendments in the SBD Jharkhand Procurement of Civil Works
1	51.1 of Section 3 (Conditions of Contracts)	The employer shall make advance payment to the Contractor of the amounts stated in the Contract Data by the date stated in the Contract Data, Against provision by contractor of an Unconditional Bank Guarantee in a form and by a bank acceptable to toe employer in amounts and currencies equal to the advance payment/ The Guarantee shall remain effective until the advance payments has been repaid, but the amounts of guarantee shall be	The employer shall make advance payment to the contractor of the amounts stated in the Contract Data by the date stated in the Contract Data, against provision by the Contractor of an Unconditional Bank Guarantee in a from and by a bank acceptable to the employer in amounts and currencies equal to the advance payment. The guarantee shall remain effective until the advance payment has been repaid, but he amount of guarantee shall be progressively

		progressively reduced by the amounts repaid by the Contractor, Interest will not be charged on the advance payment.	reduced by the amounts repaid by the contractor. Interest will be charged @ 10% quarterly compounded.
2	4.0 of Section 4 (Contract Data)	The defects Liability Period is 365 days from the date of completion.	The defects Liability Period is 3 years from the date of completion, in case, where the bituminous thickness is equal to or more than 40 mm. However, in case of works where bituminous thickness is less than 40 mm. the defect liability period is 365 days from the date of completion.
3	4.5 B© of Section 1: Instruction Bidders	Liquid assets and / or availability of credit facilities of no less than amount indicated Appendix (Credit lines/ letter of credit/ certificates from Banks for meeting the funds requirements etc. usually the equivalent of the estimated cash flow for 3 months peak construction period.	Liquid assets and/ or availability of credit facilities of no less than amount indicated in Appendix (Credit lines / letter of credit/ certificates from Banks for meeting the funds requirements etc. usually not less than 10% of the value of estimated cost of the project.
4	Section-1: Instruction to Bidders- Clause 13.5 (New clause to be inserted)	New clause 13.5 proposed as an additional provision	
5	Section 3: (Conditions of Contract) Clause 28.1 (Completion date)	The engineer shall extend the Intended Completion Date if a Variation is issued which makes it impossible for Completion to be achieved by the Contractor taking steps to accelerate the remaining work and which would cause the Contractor to incur additional cost.	

6	Section 1: Information to bidders Clause 37 corrupt or fraudulent practices.	The employer will reject a proposal for award if it determines that the Bidder recommended for award has engaged in corrupt or fraudulent practices in competing for the contract in question and will declare the firm ineligible, either indefinitely or for a stated period of time, to be awarded a contract with National Highways Authority of India/ State PWD and any other agencies, if at any time determine that the firm has engaged in corrupt or fraudulent practice in competing for the contractor, or in execution.	The employer will reject a proposal for award if it determines that the Bidder recommended for awarded has engaged in corrupt or fraudulent practices in competing for the contract in question and will declare the firm ineligible, either indefinitely or for stated period of time, to be awarded a contract with National Highway Authority of India/ State PWD and any other agencies, if at any time determines that the firm has engaged in corrupt or fraudulent practices in competing for the contractor, or in execution. If it is found and verified that Bidder has submitted false paper with the Bid regarding his work experience/ financial experience or concealed by fact regarding project the department will take action against his regarding suspension/ Black listing as per provision in Road Construction Departments registration rules
7	Clause 37.3 to be added.		For the consideration of liability against any bidder or Consultants as the case may be, the value of the Agreement with/ the work Order issued to the concerned bidder or consultant shall be taken into account.

(Authority: RCD, GOJ resolution no. 3211 (S) dt 5.6.2018)

7.17 Process and technique of detailed analysis of work

The following points are to be kept in mind while analyzing the work:

Planning and fund management

- Whether sufficient and timely budget/funds were allotted for implementing the work/scheme/project?
- Whether statutory requirement assessed before preparation of estimate? Say-total land required for project, provision required for acquisition of land, initiation of process for acquisition of land, initiation of process for acquisition of land such as private land, Forest land?

- Whether environment clearance if required, utility shifting such as electric line, drainage line etc., were identified and proper action to get it clear from ROW was initiated?
- Whether correct Schedule of Rates were considered for each items and where SoR rate was not available, rates were decided after obtaining market rate and preparing detailed rate analysis?
- How the thickness decided for road work ? Whether it was based on any detailed investigation or testing of materials or usage of particular road? For road, crust thickness is to be provided based on the traffic intensity after conducting traffic survey, load bearing test, properties of existing soil etc.
- Whether estimates were submitted to the higher authority for approval as per delegation of financial power?
- Whether tender papers were prepared after considering JPWD Manual & Code and CR/Circular/Notifications/instruction issued by the Government/Department?
- Percentage of deduction of statutory levy such as obtaining initial security deposit, performance bond, levy of GST, IT, Labour welfare cess. Free maintenance guarantee etc., were included in the draft tender papers?
- Whether clause of price escalation and price adjustment (for steel, cements and asphalt, POL, Labour etc.,) were provided in the tender correctly?

Estimates/Tender Papers

- Whether tenders were invited in two bid cover system? Whether bidders were technically qualified after considering PQ criteria? Whether price bids were opened only of qualified bidder in PQ?
- Whether rates received were properly analysed by the Departmental Tender Committee and accepted bid in due time limit?
- Whether work order was issued after obtaining required initial security deposit and performance bond?

Execution of works

- Whether security deposit money required to be deposited in the prescribed form were deposited by the agency before entering into the agreement in appropriate form
- Whether contractor started work immediately after issue of work order and as per work planning submitted by the contractor
- Whether work progress achieved as per work planning submitted by the contractor and as per schedule/ milestone attached with the tender agreement?
- Whether progress of work was slow for any reasons? Detailed analysis of each reason required. Whether reasons given by the contractor justified by the division i.e., EE/SDO, JE & AE. Is reasons attributable to the Department than it requires to be linked with the cost escalation involved in the execution of work.
- Whether contractor submitted extension of the time limit proposal in time and with reasons and approved by the competent authority subject to admissibility of price rise, escalation and star rate payment.
- Whether the work has been executed as per plan and estimate
- The Advance payments like Equipment Advance, Mobilization Advance and their recovery were as per provisions made in the Agreement clauses.
- Whether work was executed as per the technical specification and tender clause? Any deviation with technical specification noticed which led to execution of below quality work or undue favour to contractor?
- Whether price escalation and price adjustment were regulated correctly and paid in time? Whether the original purchase invoices submitted by the contractor?
- The base price taken for calculation of Price adjustment of different materials were actually existing on the day specified in the relevant clause of the Agreement executed.
- The payment made towards Price adjustment for safeguarding the contractors against price escalation for materials and labour are as per relevant provisions made in the Agreement clauses.
- Whether statutory deductions (such as Labour Welfare Cess, Security Deposit and Income Tax etc.,) as mentioned in the tender clause were regularly deducted from the each RA bills?

- Whether any excess items, extra items or savings in items were noticed? Why such excess, extra items or savings in items noticed? Whether proposal for approval of excess or extra items submitted in time to the competent authority for approval? Whether extra or excess item was due to defective survey investigation or delay in getting designs with required deviation from the tentative designs?
- Whether rates for extra items and excess items were correctly regulated after preparing rate analysis for items not in SOR or SoR rate was taken for excess quantity of the tender quantity?
- Whether work completion certificate was issued and final measurement was taken within specified time limit in Manual? Whether there was any delay in issue of work completion certificate and recording of final measurement?
- Whether final bill was prepared and paid to the contractor within specified time limit in the Manual? Is there was any delay, it was brought to the notice of higher authority?
- Approval of the competent authority exists for deviations from original plans and estimates
- Such deviations are really due to circumstances which could not be seen at the time of investigation and formulation of estimate
- What are the financial impacts on the estimate
- No financial irregularities were committed in the course of execution
- The work was executed within the stipulated time and all stages of work were completed as per given schedule
- Materials, machinery, tools & plants and other required items were procured for the work as per actual requirement of work and there was no wastage, no blocking of Government money
- The completion certificate is issued by the Engineer-in-charge and assets created is put to use as early as possible

Monitoring and supervision

- Whether testing of materials as per specified in the tender for each item was conducted through designated laboratories or through GERI?
- Whether test result was verified before execution of work?

- Whether Executive Engineer and Superintending Engineer visited the work place during execution and visit note noted in the field visit book maintained at work site?
- Whether Quality Control unit has visited the work site and inspected quality of work?
- Whether any inspection note issued by the authority visited the work? Whether the point raised during visit and for quality of work were complied after rectifying mistake if any, noticed by the visiting officials.
- Whether final bill was paid after completing and accepting the compliance by the competent authority?
- Whether required deposit of Free Maintenance Guarantee was deducted and kept with the division? And in the event of damaged work, whether division carried out the work, whether division carried out the work and deducted amount from FMG if contractor did not rectify the damaged portion?



Chapter VIII

National Highways

8.01 Scope

The construction and upkeep of the National Highways comes within the legislative competence of the Parliament vide Entry 23 of the Union List in the Seventh Schedule of the Constitution of India. The Director General (Roads) under the Ministry of Shipping and Transport, is responsible for the construction and upkeep. The execution of the National Highway works is entrusted to the State Government concerned on agency basis under Article 258 *ibid*.

Declaration of certain Highways to be National Highways and matters connected therewith are governed by the National Highway Act, 1956 (**Appendix– B**) and the National Highway Rules, 1957 vide (**Appendix– C**).

Adjustment of Expenditure of National Highways Scheme

8.02 Initially against state Balance

A) Original Works

i) On receipt of technical approval and financial sanction to the detailed estimates the State Government or other competent authority should accord necessary sanction to the estimate and inform the Government of India of the title of the estimate amount, number and date of the estimate and date of sanction and such other particulars required for identifying the work. The Government of India will intimate these and such other particulars as may be required to the Accountant General, Central Revenues and the State Accountant General.

ii) The expenditure will be incurred by the State P.W. Divisions and will initially be charged to the State Balance pending recoupment. If the actual cost of a work exceeds or is expected to exceed the sanctioned estimate, a revised estimate should be submitted by the State Government to the Government of India except for such excess as described below.

B) Maintenance and Repairs

i) No detailed estimates are ordinarily required for maintenance and repairs expenditure as formal technical approval and financial sanction

for the maintenance and repairs during the financial year will be given by the Ministry of Shipping and Transport on demand estimates based on previous cost suitably weighed to allow for current increases in the prices of labour and materials. Account will also be taken of the general scale of maintenance approved by the State Government for its own roads and the actual expenditure incurred on roads classed as National Highways in the past. The demand estimate for each P.W.D. Circle will be enlargement of the works or of specification already approved and also not to prolongation of the time spent for completion of the work.

(GI MS & T No.NH-1-40(10)-70 dated 28.7.1971)

8.03 Powers of P.W. Officers

The powers of the P.W. Officers will be the same for National Highway works as for other works of the State except that reports concerning the exercising of these powers should be submitted to the Government of India as well as the State Government.

8.04 Acceptance of liabilities for expenditure

i) The Government of India have agreed to accept liability for expenditure incurred on the development of National Highways only in accordance with estimates approved by them from time to time and with effect from the date of specific sanction in each case.

[GI MT No.WI-I-(6-49 dated 26.3.1949)

ii) The liability of the Central Government in respect of approach roads from National Highways to large cities or towns should be restricted to the portions laying outside the Municipal limits, the State Government or the local authority being responsible for the approach roads within those limits. No National Highway work should be carried out through the agency of a local body, the Engineering Officers of which are not State Government servants and are not subject to the administrative control of the State Government.

(G.I.M.T.R.O. NO.B20 (1)/51 dated.30.4.1951)

iii) The provision for special repairs made in the ordinary maintenance estimates should not ordinarily exceed 10 per cent of the provision for road maintenance of the circle as a whole. The entry in the estimates under this head should be sufficiently detailed to indicate the nature of the special repairs contemplated.

If, however, additional allotments are required for special repairs necessitated by serious flood damage or other conditions not provided under “Special Repairs” in the ordinary maintenance estimates on the basis of Past experience, or if additional allotments are required for repairs to newly constructed road or roads previously maintained at a lower standard than is now necessitated by traffic requirements, detailed estimates should be submitted for approval by the Government of India (Ministry of Transport, Roads Organisation) except for minor works costing Rs.10,000/- or less in which case the demand need only be accompanied by a statement indicating the necessity of the works and the reasons which could not be foreseen.

(Government of India, Ministry of Transport, Roads Organisation letter NO.B-30(4)/49 dated 29.7.1949 received with G.I. Ministry of S&T letter No.NH-I-40(10)-70 dated 20.7.1971

iv) On receipt of technical approval and financial sanction which will be given for demand estimate of each circle, the Superintending Engineer of the State P.W.D. will accord technical sanction to the detailed estimate by P.W. Divisions.

v) The expenditure incurred on maintenance of National Highways will be initially debited to State balances pending reimbursement by PAO, National Highways, Ministry of Shipping and Transport.

8.05 Levy of Agency charges in respect of National Highway Works.

The rate of agency charges is 9% vide break up given below.

1.	Direction and Administration	6.5 per cent
	
2.	Machinery and Equipment	2 per cent
	
3.	Pension	0.5 per cent
	
	Total	9per cent

The above rate is effective from 1st October, 1975 on original as well as maintenance works. Payments will be regulated with reference to the figures of expenditure as reflected in the Monthly expenditure accounts schedule.

(G.I. Ministry of Shipping and Transport (RW) No-NH-III-33(13)/73 dated 29.9.1975

8.06 Exhibition of National Highway Transactions in Divisional Accounts.

The expenditure in State Divisions should be booked and accounted for in the Monthly Accounts of P.W. Divisions in the State Section of Accounts under the Suspense head “8658 – Suspense Accounts PAO Suspense – Transactions adjusted by PAO (NH) Ministry of Shipping and Transport”. The Account of the transactions should be supported by the following schedules in respect of each P.W. Division:-

Form – 62 Schedule Docket of percentage recoveries.

(Authority : Article 535 of BPWA Code adopted by Jharkhand)

Form- 64 Schedule of works expenditure accompanied by Schedule Dockets and vouchers vide Article 536 of BPWA Code adopted by Jharkhand.

Form – 74 Classified Abstract of Expenditure separately for 3054 Roads & Bridges and 5054 Capital Outlay on Roads & Bridges.

Form – 46 Schedule of Revenue realized

(Authority : Article 536 of BPWA Code adopted by Jharkhand.) .

The credit for the recovery of Agency charges should, however, be taken in the relevant accounts against the State Budget.

(Based on Paras 3 & 4 of the Procedure for adjustment of N.H. expenditure prescribed under C&AG 's letter NO.402-AC/192-71 dated 19.3.1997

(1) For classification of receipt and revenues from the Revenue expenditure being incurred in excess of the allotments sanctioned for the year by them, and consider that any such excess should be debited to the State Government.

(2) On the schedules of works expenditure and vouchers pertaining to National Highways sent to the Accountant General (A&E) reference should be given to the letter in which the Government of India have approved the estimates being debited to the “National Highways”.

Green trees and proceeds by way of sale of clipping dead trees and charges realized for ferry services, Inspection Bungalows and rest houses etc. which are maintained from the National Highways Fund .

Appendix-B

(Para 8.01)

The National Highways Act, 1958 (No. 48 of 1956)

An act to provide for the declaration of certain highways to be national highways and for matters connected there with be it enacted by Parliament in the seventh year of the Republic of India as follows:-

Short title, extent and commencement:-

- 1) (1) This act may be called the National Highways Act, 1956.
(2) It extends to the whole of India,
(3) It shall come into force on such date as the Central Government may by notification in the official gazette appoint.

Note: - The Central Government hereby appoints the 15th day of April 1957 as the date on which the Act will come into force.

(G.O.M.T. Notification No. SRO-1180 dated 4.4.1957 C.S. 131)

Declaration of certain highways to be national highways

- 2) (1) Each of the highways specified in the schedule except such parts thereof as are situated within any municipal area is hereby declared to be a national highways.
(2) The Central Government may, by notification in the official Gazette, declare any other highway to be a national highway and on the publication of such notification such highway shall be deemed to be specified in the schedule.
(3) The Central Government may, by like notification omit any highway from the Schedule and on the publication of such notification; the highway so omitted shall cease to be a national highway.

Definition:-

- 3) In this Act, "Municipal Area" means any municipal area with a population of twenty thousand or more the control or management of which is entrusted to a Municipal Committee, a town area committee, a town committee or any other authority.

National Highways to vest in the Union:-

- 4) All National Highways shall vest in the Union and for the purpose of this Act “Highways” include:-
- (1) All lands appurtenant thereto, whether demarcated or not.
 - (2) All bridges, culverts, tunnels, causeways, carriageways and other structures constructed on or across such highways and
 - (3) All fences, trees, posts and boundary furlong and mile stones of such highways or any land appurtenant to such highways.
- 5) Responsibility for development and maintenance of National Highways :-

It shall be the responsibility of the Central Government to develop and maintain in proper repair all national highways but the Central Government may by notification in relation to the development or maintenance of any national highways shall subject to such conditions if any as may be specified in the notification, also be exercisable by the Government of the State within which the national highways are situated or by any officer or authority, subordinate to the Central Government or to the State Government.

- 6) Power to issue directions

The Central Government gives directions to the Government of any State as to carrying out in the State of any of the provisions of this Act or of any rules, notification or order made there under.

- 7) Fees for services or benefits rendered on national highways

(1) The Central Government may by notification in the official Gazette, levy fees at such rates as may be laid down by rules made in this behalf for services or benefits rendered in relation to the use of ferries, temporary bridges and tunnels on national highways.

(2) Any fee leviable immediately before the commencement of this Act for services or benefits rendered in relation to the use of ferries, temporary bridges and tunnels on any highways specified in the schedule shall continue to be leviable under this Act unless and until it is altered in exercise of the power conferred by subsection (1).

(3) Such fees when so levied shall be collected in accordance with the rules made under this Act.

8) Agreement with State Government or Municipalities

Notwithstanding anything contained in this Act, the Central Government may enter into an agreement with the Government or any State or with any authority entrusted with the control or management of any municipal area in relation to the development or maintenance of the whole or any part of a national highway situated within the State or as the case may be in relation to the development or maintenance of any such part of a highway situated within a municipal area as is referred to in sub-section (1) of section 2 and any such agreement may provide for the sharing of expenditure by the respective parties thereto.

9) Power to make rules

(1) The Central Government may, by notification in the official Gazette make rules for carrying out the purposes of this Act.

(2) In particular and without prejudice to the generality of the foregoing power such rules may provide for all or any of the following namely:-

(a) the manner in which and the conditions subject to which any function in relation to the development or maintenance of a national highway or any part thereof may be exercised by the State Government or any officer or authority subordinate to the Central Government or the State Government.

(b) the rates at which fees for services rendered in relation to the use of ferries, temporary bridges and tunnels on any national highway may be levied and the manner in which such fees shall be collected.

(c) the periodical inspection of National Highways and the submission of inspection reports to the Central Government.

(d) the reports on works carried out on National Highways,

(e) any other matter for which provision should be made under this Act.

10) Laying of notifications, rules etc. before Parliament

All notifications or agreements issued or entered into under this Act shall be laid before both House of Parliament as soon as may be after they are issued into and all rules made under Section 9 shall be laid for not less than thirty days before both Houses of Parliament as soon as may be after they are made, and shall be subject to such modification as Parliament may make during the session in which they are so laid or the session immediately following.

NATIONAL HIGHWAYS

The Schedule (See Section 2)

Sl. No.	National Highway Number	Description of National Highways
1.	1	The Highways connecting Delhi, Ambala, Jullundhar and Amritsar and proceeding to the border between India and Pakistan
2	IA	The Highway connecting Jullundhar, Madhopur, Jammu, Banihal, Srinagar, Baramula and Uri.
3.	2	The Highway connecting Delhi, Mathura, agra, Kanpur, Allahbad, Banaras, Mohania, Barhi and Kolkata.
4.	3	The Highway Connecting Agra, Gwalior, Shivpuri, Indore, Dhulia, Nasik, Thane and Bombay.
5.	4	The Highway starting from its junction near Thana with the Highway specified in Sl.No. 4 and connecting Pune, Belgaum, Hubli, Bangolore, Ranipet and Chennai.
5A	4A	The Highway connecting Belgaum, Anmod, Ponda and Panaji.
6	5	The highway starting from its junction near Beharagora with the highway specified in Sl.No.7 and connecting Cuttack, Bhubaneswar, Visakhapatnam, Vijayawada and Chennai.
6A	5A	The highway starting from the junction near Baridaspur

		with National Highway No.5 and terminating at the Paradip Port.
7	6	The highway starting from its junction near Dhulia with the highway specified in Sl.NO.4 and connecting Nagpur, Raipur, Sambalpur, Baharagora and Kolkata.
8.	7	The highway starting from its junction near Banaras with the highway specified in Sl.No.3 and connecting Mangawan, Rewa, Jabalpur, Lakhnadon, Nagpur, Hyderabad, Kurnool, Bangalore, Krishnagiri, Salem, Dindigul, Madurai and Cape Comorin.
9	8	The highway connecting Delhi, Jaipur, Aajmer, Udaipur, Ahmedabad, Borada and Mumbai.
10	8A	The highway connection Ahmedabad, Limbdi, Morvi and Kandla.
11.	8B	The highway starting from its junction near Bamanbhore with the highway specified in Sl.No. 10 and connecting Rajkot and Porbandar.
12	9	The highway connecting Pune, Sholapur, Hyderabad and Vijayawada.
13.	10	The highway connecting Delhi and Fazilka and proceeding to the border between India and Pakistan.
13D	21	The highway starting from its junction near Chandigarh with National Highway NO.2 and connecting Rupar, Bilaspur, Mandi, Kulu and Manali.
14.	22	The highway connecting Ambala, Kalka, Simla, Narkanda, Rampur and Chini and proceeding to the border between India and Tibet near Shipkila.
15.	24	The highway connection Delhi, Bareilly and Lucknow.
16	25	The highway connecting Lucknow, Kanpur, Jhansi and

		Shivpuri.
17.	26	The highway connecting Jhansi and Lakhnadan.
18.	27	The highway connecting Allahabad with the highway specified in Sl.No. 8 near Mangawan.
19.	28	The highway starting from its junction near Baraur with the highway specified in Sl.NO. 23 and connecting Muzaffarpur, Pipra, Gorakhpur and Laucknow.
20.	28A	The highway starting from its junction near Pipra with the highway specified in Sl.No. 19 and connecting Segauli and Raxnal and proceeding to the border between India and Nepal.
21..	29	The highway connecting Gorakhpur, Chasipur and Banaras.
22.	30	The highway starting from its junction near Mahania with highway specified in Sl.No. 3 and connecting Patna and Bakhtiyarpur.
23.	31	The highway starting from its junction near with the highway specified in Sl.No. 3 and connecting Bakhtiyarpur, Purnea Balakhela, Siliguri, Sivek and Cooch Behar and proceeding to its junction with the specified in Sl.No.28 near Goalpara.
24.	31A	The highway connecting Sivok and Gangtok.
25.	3	The highway starting from its junction near Barhi with the highway specified in Sl.NO. 3 and connecting Ranchi and Tatanagar and proceeding to its junction with the highway specified in Sl.No. 7 near Baaharagora.
26.	34	The highway starting from its junction near Dalkhola with the highway specified in Sl.No.23 and connecting Berhampur Barasat and Kolkata.

27.	35	The highway connecting Barasat and Bongaon and proceeding to the border between India and Pakistan.
27A	36	The highway connecting Nongoi, Dabaka, and Dimapur (Manipur Road).
28.	37	The highway starting from its junction near Goalpara with the highway specified in Sl.No. 23 and connecting Gauhati, Jorhat, Kamargaon,, Makum and Saikhoa Chat.
29.	38	The highway connecting Makum, Ledo and Lakhapatni.
30.	39	The highway connecting Kamargaon, Imphal and Palel and proceeding to the border between India and Burma.
31.	40	The highway connecting Jorhat and Shillong and proceeding to the border between India and Pakistan near Dawki.
32.	42	The highway starting from its junction near Sambalpur with the highway specified in Sl.No. 7 and proceeding via Angul to its junction with the highway specified in Sl.No. 6 near Cuttack.
33.	43	The highway connecting Raipur and Vizianagaram and proceeding to its junction with the highway specified in Sl.No. 6 near Vizianagaram.
33A.	44	The highway connecting Shillong , Passi, Badarpur and Agartala.
34.	45	The highway connecting Chennai, Tiruchirapalli and Dindigul.
35.	46	The highway connecting Krishnagiri and Ranipet.
36.	47	The highway connecting Salem, Coimbatore, Trichur, Earnakulam, Trivendrum and Cape Comorin.
37.	47A	The highway starting from its junction near Trichur with the highways specified in Sl.No. 36 and connecting with

		west coast border near Ghaliseri.
38.	49	The highway connecting Madurai and Dhanushkodi.
39.	50	The highway connecting Nasik with the highway specified in Sl.No. 5 near Poona.
40	51	The highway starting from its junction at BaihataCharali on National Highway No. 37, in Assam, connecting Tura and terminating at Dalu in Meghalaya.
41	52	The highway starting from its junction at BaihataCharali on National Highway No. 31, in Assam, connecting Tejpur, BanderDewa, Northlakhimpur, Pasighat, Tezu, Sitapani and terminating near Saikhoaghat on National Highway No. 37.
42	52A	The highway starting from its junction at BanderDewa on National Highway No. 52 in Assam and terminating at Hanagar in Arunachal Pradesh.]
42A ⁸	Extension of NH 52 A	[The highway starting from its junctions near Itanagar on National Highway No. 52A in Arunachal Pradesh and terminating at its junction with National Highway No. 52 near Gohpur in Assam.]
43	53	[The highway starting from its junction near Badarpur on National Highway No. 44, in Assam connecting Silchar, Jirighat and terminating near Imphal on National Highway No. 39.]
44A	54	The highway starting from its junction at Silchar in Assam on N.H. No.53 connecting Aizawal and terminating at Tuipang in Mizoram.]
⁴ [44B	54A	The highway starting from its junction at Theriat in Mizoram on National Highway No. 54 and terminating at Lungli in Mizoram.
44C	54B	The highway starting from its junction at “Venas Saddle”

⁸ Ins. by notification No. S.O. 116(E), dated 9th February, 1998.

		in Mizoram on National Highway No. 54 and terminating at Saiha in Mizoram.]
⁵ [44D	55	The highway starting from Siliguri on National Highway No. 31 passing through Kurseong and terminating at Darjeeling.]
⁶ [45	56	The highway starting from Lucknow and connecting Jagdishpur, Sultanpur and Jaunpur and terminating near Varanasi.]
⁵ [45-A	*56A	The highway starting from its junction with National Highway No. 28 near Chenhat and terminating at Km. 16 of NHNo. 56 in Uttar Pradesh.
45-AA	56B	The highway starting from its junction with National Highway No. 56 near Km 16 and terminating at Km 19 of NH No. 25 in Uttar Pradesh.]
⁷ [46	*NE-1	The highway starting from Ahmedabad passing close to the town of Nadiad, Anand and terminating at Vadodara.]
⁸ [47	61	The highway starting from its junction near Kohima on National Highway No. 39 in Nagaland and connecting Workha-Moko-Kchung- Amguri and terminating at its junctions with National Highway No. 37 near Jhanji in Assam.]
¹ [48	52B	The highway starting from its junctions on National Highway 52 near Kuljan and terminating at its junction with National Highway 37 in Assam.]
¹ [49	62	The highway starting from its junction on National Highway 37 near Damra in Assam and terminating at Bhaghmara in Meghalaya.]
¹ [49-A	Extension of NH No.62	The highway starting from its junction with National Highway No. 62 near Bhaghmara and terminating at its junction with National Highway No. 51 near Dalu in Meghalaya.]
50	63	The highway starting from its junction with National Highway No. 17 near Ankola-Hospet and terminating at its junction with National Highway No. 7 near Gooty in Andhra Pradesh.]

51	64	The highway starting from its junction on National Highway No. 22 near Chandigarh and connecting Rajpura-Patiala-Sangrur and terminating at its junction with NH No. 15 near Bhatinda in Punjab.
51A	Extension of NH No. 64	The highway starting from its junction with National Highway No. 15 near Bhatinda in Punjab and terminating at its junction with National Highway No. 10 near Dabwali in Haryana.]
52	65	The highway starting from its junction with NH No. 1 near Ambala in Haryana and connecting Kaithal-Hisar and terminating at its junction with NH No. 11 near Fatehpur in Rajasthan.
52A	Extension of NH No. 65	The highway starting from its junction with National Highway No. 11 near Fatehpur and connecting Nagaur, Jodhpur and terminating at its junction with National Highway No. 14 near Pali in Rajasthan.]
53	66	The highway starting from its junction with National Highway No. 45A in Pondicherry and connecting Tindivanam-Gingee- Thiruvannamalai and terminating at its junction with National Highway No. 7 near Krishnagiri in Tamil Nadu.
54	67	The highway starting from Nagapattinam and connecting Trichy and terminating at its junction on National Highway No. 7 near Karur in Tamil Nadu.
54A	Extension of NH No. 67	The highway starting from its junction with National Highway No. 7 near Karur and connecting Palladam and terminating at its junction with National Highway No. 47 near Coimbatore in Tamil Nadu.]
55	68	The highway starting from its junction on National Highway No. 45 near Ulundrupet and terminating at its junction with National Highway No. 7 near Salem in

		Tamil Nadu.
¹ [57]	70	The highway starting from its junction near Jalandhar on National Highway No. 1 in Punjab and connecting Hoshiarpur, Hamirpur, Toni Devi, Ahwa Devi, Dharampur and terminating at its junction with National Highway No. 21 near Mandi in Himachal Pradesh.]
¹ [58]	71	The highway starting from its junction near Jalandhar on National Highway No. 1 in Punjab and connecting, Moga, Barnala, Sangrur, Narwana, Rohtak, Jhajjar and terminating at its junction with National Highway No. 8 near Bawal in Haryana.]
¹ [59]	71A	The highway starting from its junction near Rohtak on National Highway No. 10 and connecting Gohana and terminating at its junction with National Highway No. 1 near Panipat in Haryana.]
¹ [59A]	24A	The highway starting from its junction with National Highway No. 24 near BakshiKaTalab and terminating near Chenhat on National Highway No. 28 in Uttar Pradesh.]
¹ [60]	72	The highway starting from its junction near Ambala on National Highway No. 1 and connecting Nahan, Paonta Sahib, Dehradun and terminating at its junction with National Highway No. 58 near Rishikesh (Haridwar) in Uttar Pradesh.]
² [60A]	09	Extension of National Highway No. 49 starting from Madurai in the State of Tamil nadu connection Muvattupuza-MunnarTheni to terminate at Cochin in the State of Kerala.]
¹ [61]	73	The highway starting from its junction near Roorkee on National Highway No. 58 in Uttar Pradesh and connecting Saharanpur, Yamunanagar, Saha and terminating at its junction with National Highway No. 22 near Panchkula in Haryana.]
¹ [62]	74	The highway starting from its junction with National Highway No. 58 near Haridwar and connecting Najibabad, Nagina, Afzalgarh, Kashipur, Kichha, Jehanabad, Pilibhit and terminating at its junction with National Highway No. 24 near Bareilly in Uttar Pradesh.]

⁶³	75	The highway starting from its junction with National Highway No. 3 near Gwalior in Madhya Pradesh and connecting Jhansi (Uttar Pradesh), Khajuraho, Chhatarpur, Panna, Satna and terminating at its junction with National Highway No. 7 near Rewa in Madhya Pradesh.]
⁶⁴	76	The highway starting from its junction with National Highway No. 14 near Pindwara in Rajasthan and connecting Udaipur, Mangarwar, Chittaurgarh, Kota (National Highway No. 12), Shivpuri (National Highway No. 3), Jhansi (National Highway No. 25), Mahoba, Banda, Karwi, Mau and terminating at its junction with National Highway No. 27 near Allahabad in Uttar Pradesh.]
¹ [65	77	The highway starting from its junction near Hajipur on National Highway No. 19 and connecting Muzaffarpur (National Highway No. 28), Sitamarhi and Sonbarsa in Bihar.]
¹ [66	78	The highway starting from its junction near Katni on National Highway No. 7 in Madhya Pradesh connecting, Shahdol, Nagar, Ambikapur- Jashpurnagar and terminating at its junction with National Highway No. 23 near Gumla in Bihar.]
¹ [67	79	The highway starting from its junction with National Highway No. 8 near Ajmer in Rajasthan and connecting Nasirabad, Bhilwara, Chittaurgarh, Nayagaon, Nimach, Ratlam and terminating at its junction with National Highway No. 59 near Ghatbilod (Indore) in Madhya Pradesh.]
¹ [68	80	The highway starting from its junction near Mokama on National Highway No. 31 in Bihar and connecting Munger, Haldipur, Sahebganj, Rajmahal and terminating at its junction with National Highway No. 34 near Farakka in West Bengal.]
² [68A	81	The highway starting from its junction with National Highway No. 31 near Kora in Bihar and connecting Katihar and terminating at its junction with National Highway No. 34 near Maldah in West Bengal]

¹ [68B]	.82	The highway starting from its junction near Gaya on National Highway No. 83 and connecting Rajgir, Bihar Sharif and terminating at its junction with National Highway No. 31 near Mokama in Bihar.]
¹ [68C]	83	The highway starting from its junction with National Highway No. 30 near Patna and connecting Punpun, Gaya, Bodh Gaya and terminating at its junction with National Highway No. 2 near Dobhi in Bihar.]
¹ [68D]	84	The highway starting from its junction with National Highway No. 30 near Arrah and connecting Bhojpur and terminating on National Highway No. 19 near Buxar in Bihar.]
¹ [68E]	85	The highway starting from its junction with National Highway No. 19 near Chhapra and connecting Siwan and terminating at its junction with National Highway No. 28 near Gopalganj in Bihar.]
¹ [68F]	86	The highway starting from its junction with National Highway No. 2 near Kanpur in Uttar Pradesh and connecting Chhatarpur and terminating at its junction with National Highway No. 26 near Sagar in Madhya Pradesh.]
³ [68G]	87	The highway starting from its junction with National Highway No. 24 near Rampur and connecting Bilaspur, Pantnagar, Haldwani and terminating at Nainital in Uttar Pradesh.]
¹ [68H]	88	The highway starting from its junction with National Highway No. 22 near Simla and connecting Bilaspur, Hamirpur, Nadaun, Ranital, Kangra and terminating near Bhawan on National Highway No. 20 in Himachal Pradesh.]
¹ [68-1]	89	The highway starting from its junction with National Highway No. 8 near Ajmer and connecting Nagaur, and terminating at its junction with National Highway No. 11 near Bikaner in Rajasthan.]
	*90	Baran - Aklera
	*91	Ghaziabad - Aligarh - Etah - Kannauj - Kanpur
	*92	Bhongaon - Etawah - Gwaiior
	*93	Agra - Aligarh - Babrala - Chandausi - Moradabad
	*94	Rishikesh - Ampata - Tehri - Dharasu - Kuthnaur - Yamnotr
	*95	Kharar (Chandigarh) - Ludhiana - Jagaron - Ferozepu
	*96	Faizabad - Sultanpur - Pratapgarh - Allahabad
	*97	Ghazipur - Zamania - Saiyedraja

	*98	Patna - Aurangabad - Rajhara
	*99	Dobhi - Chatra - Chandwa
	*100	Chatra - Hazaribagh - Bogoda
	*101	Chhapra - Baniapur - Maharajganj - Barauli
	*102	Chhapra - Rewaghat - Muzaffarpur
	*103	Hazipur - Musahrigharar
	*104	The highway strating form its junction near Chakia on National Highways No. 28 connecting Narhar-Pakri Bridge-Madhuban-Shivhar-Sitamarhi-Umagaon-Jayanagar-Lakoush-Laukahiaand terminating at its junction near Narahia on National Highway No. 57 in the State of Bihar.]
		Darbhangha - Aunsi - Jaynagar
	*106	Birpur - Madhepura – Bihpur
	*107	Maheshkhunt - SonbarSaraj - SimriBakhtiarapur - Bariahi - Saharsa - Madhepura - Purnea
³ [69	150	The highway starting from its junction with National Highway No. 54 near Aizawl in Mizoram and connecting Ipaimukh, Churachandpur, Imphal, Ukhrul, Jessami and terminating at its junction with National Highway No. 39 near Kohima in Nagaland.]
	*151	Karimganj - Bangladesh Border
³ [69-A	Extension of NH No. 60	The highway starting from its junction with National Highway No. 6 near Kharagpur and connecting Bishnupur, Bankura and terminating at its junction with National Highway No. 2 near Asansol in West Bengal]
¹ [69B	152	The highway starting from its junction near Patacharkuchi on National Highway No. 31C,connecting Hajua and terminating at Indo-Bhutan border.]
	*15	Ledo-Lekhapani - Indo/Mynamar Border
	*154	Dhaleshwar - Bhairabi – Kanpu
² [70	200	The highway starting from its junction with National Highway No. 6 near Raipur in Madhya Pradesh and connecting Bilaspur, Sarangarh, Raigarh, Kanaktura, Jharsuguda, Kochinda, Pravasuni, Deogarh.Talcher, and

		terminating at its junction with National Highway No. 5 near Chandikhol in Orissa.]
³ [71]	201	The highway starting from its junction with National Highway No. 43 near Boriguma and connecting Bhawanipatna, Bolangir, Barapali and terminating at its junction with National Highway No. 6 near Bargarh in Orissa.]
¹ [72]	202	The highway starting from its junction near Hyderabad on National Highway No. 7 in Andhra Pradesh and connecting Warangal, Venkatapuram and terminating at its junction near Bhopalpatnam on National Highway No. 16 in Madhya Pradesh.]
¹ [73]	203	The highway starting from its junction with National Highway No. 5 near Bhubaneshwar and terminating at Puri in Orissa.]
¹ [74]	204	The highway starting from Ratnagiri and connecting Hathkamba (National Highway No. 17), Pali (National Highway No. 17), Sakharpa, Malkapur, and terminating at its junction with National Highway No. 4 near Kolhapur in Maharashtra.]
[75]	205	The highway starting from its junction near Ananthapur on National Highway No. 7 in Andhra Pradesh and connecting Kadiri, Tirupati, Renigunta, Tiruttani and terminating at its junction with National Highway No. 5 near Chennai in Tamil Nadu.]
¹ [76]	206	The highway starting from its junction near Tumkur on National Highway No. 4 and connecting Shimoga and terminating at its junction with National Highway No. 17 near Honnavar in Karnataka.]
¹ [77]	207	The highway starting from its junction near Hosur on National Highway No. 7 in Tamil Nadu connecting Sarjapur, Devenhalli (on National Highway No. 7), DodaBallapur and terminating at its junction with National Highway No. 4 near Nelamangala in Karnataka.]

¹ [78]	208	The highway starting from its junction near Kollam on National Highway No. 47 in Kerala and connecting Punalur, Tenkasi, Rajapalayam, Srivilliputtur and terminating at its junction with National Highway No. 7 near Tirumangalam in Tamil Nadu.]
¹ [79]	209	The highway starting from its junction near Dindigul on National Highway No. 7 in Tamil Nadu and connecting Pollachi, Coimbatore, Annur, Satyamanglam, Chamrajnagar, Kollegal and terminating at its junction with National Highway No. 7 near Bangalore in Karnataka.]
¹ [80]	210	The highway starting from its junction with National Highway No. 45 near Trichy and connecting Pudukottai, Devakottai and terminating at its junction with National Highway No. 49 near Ramanathpuram in Tamil Nadu.]
¹ [81]	211	The highway starting from its junction with National Highway No. 9 near Solapur and connecting Osmanabad, Aurangabad and terminating at its junction with National Highway No. 3 near Dhule in Maharashtra.]
² [82]	212	The highway starting from its junction with National Highway No. 17 near Kozhikode in Kerala connecting Mysore, and terminating at its junction with National Highway No. 209 near Kollegal in Karnataka.]
¹ [83]	213	The highway starting from its junction with National Highway No. 47 near Palghat and terminating at its junction with National Highway No. 17 near Kozhikode in Kerala.]

¹ [84]	214	The highway starting from its junction with National Highway No. 5 near Kathipudi and connecting Kakinada, and terminating at its junction with National Highway No. 9 near Pamarru in Andhra Pradesh.]
¹ [85]	215	The highway starting from its junction with National Highway No. 5 near Panikoli and connecting Keonjhar, and terminating at its junction with National Highway No. 23 near Rajamunda in Orissa.]
	*216	Raigarh - Sarangarh - Saraipalli
	*217	Raipur - Gopalpur
	*218	Bijapur - Hubli
	*219	Madnapalli - Kuppam - Krishnagiri
	*220	Kollam (Quilon) - Teni.
¹ [225]	563	The highway starting from its junction with NH-63 near Mancheral connecting Karimnagar and terminating at NH-163 near Warangal in the State of Andhra Pradesh.
226	365A	The highway starting from its junction with NH-65 near Kodad connecting Khammam and terminating at NH-365 near Mahboobabad in the State of Andhra Pradesh.]
² [227]	334B	The highway starting from its junction with new NH-34 near Meerut in the State of Uttar Pradesh connecting Sonipat, Kharkhauda, Sampla, Jhajjar, CharkhiDadri and terminating at its junction with NH-709 near Loharu in the State of Haryana.]
³ [228]	150 Extn.	The highway starting from its junction with new NH-50 near Gulbarga connecting Chowdapur, Afzalpur in the State of Karnataka, Dudhani, Akkalkote and terminating at its junction with new NH-52 near Sholapur in the State of Maharashtra.]
⁴ [229]	848B	The highway starting from its junction with NH-48 near KarembaliPhatak connecting Bamanpunja, Dholar Road in the State of Gujarat, Ambawadi, Patalia Costal Highway in the Union Territory of Daman and Diu and terminating at NH-48 near Udvada in the State of Gujarat.
230	251	The highway starting from its junction with NH-51 near Una in the State of Gujarat connecting Ghoghla in the Union Territory of Daman and Diu and terminating at

		NH-51 near Kesaria in the State of Gujarat.]
⁵ [231	248A	The highway starting from its junction with NH-48 near Sahpura connecting Alwar, Ramgarh, Haryana/Rajasthan border in the State of Rajasthan, Nuh and terminating at its junction with new NH No. 48 near Gurgaon in the State of Haryana.]
¹ [232	107A	The highway starting from its junction with new NH No. 7 near Chamoli connecting Gopeshwar, Okhimath and terminating at its junction on new NH No. 107 near Baramwari in the State of Utrakhand.
233	309A	The highway starting from its junction with new NH No. 9 near Rameshwar connecting Gangolihat, Berinag, Chaukori, Kanda, Bagheshwar, Takula and terminating at its junction with new NH No. 109 near Almora in the State of Utrakhand.]
³ [234	325	The highway starting from its junction with NH-25 near Balotra connecting Siwana, Jalore, Ahor and terminating at its junction with new NH No. 62 near Sandera in the State of Rajasthan.
235	25 Extension.	The highway starting from Barmer connecting Ramsar and terminating at Munabao Road in the State of Rajasthan.]
² [236	102C	The highway starting from its junction with NH-2 near Maram in the State of Manipur connecting Peren, Jaluki, Pimla, Junction, Razaphe Junction and terminating at NH-29 Near Dimapur in the State of Nagaland.]
³ [237	381	The highway starting from its junction with NH-544 near Avinashi connecting Tirupur and terminating at its junction with new NH No. 81 near Avinashipalaiym in the State of Tamilnadu.]
⁴ [238	367	The highway starting from its junction with NH-67 near Bhanapur connecting Kukunur, Yelburga, Gajendragad, Badami, Guledaguda, Bagalkote, Bagalkot and terminating at its junction with new NH No. 52 near Gaddankeri in the State of Karnataka.
239	173	The highway starting from its junction with NH-73 near Mudigere connecting Chikkamagaluru and terminating at its junction with new NH No. 69 near Kadur in the State of Karnataka.

240	275	The highway starting from its junction with NH-75 near Bantwala connecting Puttur, Sulya, Madikeri PriyapatnaMysuru, Srirangapattana, Mandya, Channapatnam, Ramanagaram and terminating at its junction with new NH No. 75 on Bengaluru in the State of Karnataka.
241	150A	The highway starting from its junction with NH-50 at Jevargi connecting Siriguppa, Bellary, Hiriyyur, Huliyyur, Chikkanayakanahalli, NagamangalaSrirangapatna-Mysore- Nanjangud and terminating at its junction with NH-948 at Chamarajanagar in the State of Karnataka.]
¹ [242	154A	The highway starting from its junction with NH-154 near Chakki, Dhar in the State of Punjab connecting Banikhet, Chamba and terminating at Bharmour in the State of Himachal Pradesh
243	505	The highway starting from its junction with NH-5 near KhabSangam connecting Chango, Sumdo, Tabo, Attargo, Kaza, Morang, Hanse, Losar, Lachu, ChhotaDhara and terminating at Gramphoo in the State of Himachal Pradesh.
244	503 Extention.	The highway starting from its junction with NH-3 near Mubarakpur connecting Amb, Una, Dehlan in the State of Himachal Pradesh, Anandpur Sahib, Kiratpur and terminating at its junction with new NH No. 205 in the State of Punjab.]
² [245	444	The highway starting from its junction with NH-44 near Srinagar connecting Badgam, Pulwama, Shupiyan, Kulgam and terminating at its junction with new NH No. 44 near Quazigund in the State of Jammu and Kashmir*.
246	144A	The highway starting from its junction with NH-44 near Jammu connecting Akhnur, Naoshera, Rajauri and terminating at Punch in the State of Jammu and Kashmir*.]
³ [247	627	The highway starting from its junction with new NH-27 near Nelle (Amsoi Gate) connecting Rajagaon, Doyangmukh, Umrangso, Khobak and terminating at NH-27 near Harangajao in the State of Assam]
⁴ [248	310A	The highway starting from its junction with NH-10 near Tashiview point connecting Phodang and terminating at Mangan in the State of Sikkim
		The highway starting from its junction with NH-10 near Melli

249	710	connecting Manpur, Namchi and terminating at Damthang in the State of Sikkim
250	510	The highway starting from its junction with NH-10 near Singtham connecting Damthang, Legship and terminating at Geyzing in the State of Sikkim.]
⁵ [251	427	The highway starting from its junction with NH-27 near Howli connecting Barpeta, Hajo and terminating at its junction with new NH No. 27 near Jalukbari in the State of Assam
252	329	The highway starting from its junction with NH-29 near Manja connecting Diphu and terminating at its junction with new NH No. 27 near Lumding in the State of Assam
253	117A	The highway starting from its junction with NH-17 near Bilasipara connecting Kokrajhar and terminating at its junction with New NH- 27 near Garubhasa in the State of Assam
254	715A	The highway starting from its junction with NH-27 near Nakhola connecting Jagiroad, Marigaon, Kaupati, Rowta, Udalguri, Khoirabari and terminating at Indo/Bhutan border in the State of Assam
255	127E	The highway starting from its junction with NH-27 near Barama connecting Baska, Subankhata and terminating at Indo/Bhutan border in the State of Assam]
¹ [256	326A	The highway starting from its junction with new NH No. 326 near Mohana connecting Chandiput, Chheligada, Ramagiri Udayagiri, Raygarh, Parlakimidi, Kotabommali and terminating at its junction with NH-16 near Narasannapeta in the State of Odisha.]
² [257	702	The highway starting from its junction with NH-2 near Chantongia connecting Longling, Lonhching, Mon, Lapa, Tizit in the State of Nagaland, Sonari and terminating at its junction with new NH No. 215 near Sapekhati in the State of Assam.
258	702A	The highway starting from its junction with new NH No 2 near Mokokchung connecting Zunheboto, Phek in the State of Nagaland and terminating at Jessam near new NH No. 29 in the State of Manipur.
259	208	The highway starting from its junction with NH-8 near Kumarghat connecting Kailashahar, Khowai and terminating at its junction with new NH-8 near Teliamura in the State of Tripura.

260	108A	The highway starting from its junction with new NH No. 8 near Jolaibari connecting Belonia and terminating at Indo/Bangladesh border.
261	102C	The highway starting from its junction with new NH No. 102 near Palel and terminating at Chandel in the State of Manipur.]
³ [262	103A	The highway starting from its junction with new NH-3 near Hoshiarpur connecting Mahalpur, Gurshankar, Nawanshahr, Balachur and terminating at its junction with new NH No. 205 near Rupnagar in the State of Punjab.
263	703A	The highway starting from its junction with new NH-3 near Jalandhar connecting Kapurthala, SultanpurLodhi, Pindi and terminating at its junction with new NH No. 54 near Makhu in the State of Punjab.]
¹ [264	512	The highway starting from its junction with NH-12 near Gajol connecting Daulatpur, Bansihari, Gangarampur, Harsura, Balurghat and terminating at Hilli in the State of West Bengal near Indo/Bangladesh Border.]
¹ [265	754	The highway starting from its junction with new NH-54 near KotKapurthala connecting Khara, Muktsar, Saidoke and terminating at Jalalabad in the State of Punjab.]
² [266	185	The highway starting from its junction with new NH No. 85 near Adimali connecting Cheruthoni, Painavu and terminating at its junction with new NH No. 183 near Kumily in the State of Kerala.
267	183A	The highway starting from its junction with new NH No. 183 near Adur connecting Pathanamthitta Vadserikkara, Lahai, and terminating at its junction with new NH No. 183 near Vandiperiyar in the State of Kerala.]
³ [268	333A	The highway starting from its junction with NH-33 near Bar Bigha connecting Shekhpura, Sikandra, Jamui, Jha-

		Jha, Banka in the State of Bihar and terminating at its junction with NH-133 near Godda in the State of Jharkhand.
269	527A	The highway starting from its junction with new NH No. 527 B near PokhrauniChowk connecting Madhubani, Rampatti and terminating at its junction with new NH No. 27 near Jhanjharpur in the State of Bihar.
270	219	The highway starting from its junction with new NH No. 19 near Mohania connecting Bhabhua, Chainpur, Chand in the State of Bihar and terminating at its junction with NH-19 near Chandauli in the state of Uttar Pradesh.]
⁴ [271	753	The highway starting from its junction with NH-53 near Duggipar connecting Goregaon, and terminating at Gondia in the State of Maharashtra.
272	753A	The highway starting from its junction with NH-53 near Malkapur connecting Buldhana, Chikhli, Deulgaon Raja, Jalna and terminating near Aurangabad on NH-52 in the State of Maharashtra.
273	753B	The highway starting from its junction with NH-53 near Shevali connecting Nizampur, Chhadvel, Nundurbar, Taloda, Akkalkura in the State of Maharashtra, Dediapada and terminating at Netrang on NH-56 in the State of Gujarat.
274	166A	The highway starting from Vadkhal on NH-66 and terminating at Alibaginthe State of Maharashtra.]
¹ [275	130D	The highway starting from its junction with NH-30 on Kondagaon and terminating at Narainpur in the State of Chhattisgarh.
276	163A	The highway starting from Geedam(Gidam) on NH-63 and terminating at Dantewara in the State of Chhattisgarh.
277	149B	The highway starting from its junction with NH-49 near Champa connecting Korba, Chhuri and terminating at its junction with new NH No. 130 near Katghora in the State

		of Chhattisgarh
278	130C	The highway starting from its junction with NH-30 near Abhanpur connecting Rajim, Gariaband, Bardula, Deobhog in the State of Chhattisgarh and terminating at its junction with new NH No. 201 near Baldhimal in the State of Odisha.
279	930	The highway starting from its junction with NH-30 near Purur connecting Balod, Kusumkasa, Kumhari, Manpur in the State of Chhattisgarh, Muramgaon, Dhanora, Gadchiroli, Mul, Chandrapur, Warora, Wani and terminating near Karanji on NH-44 in the State of Maharashtra.
280	130A	The highway starting from its junction with NH-30 near Pondi connecting Pandaria, Mungeli, and terminating at NH-130 on Bilaspur in the State of Chhattisgarh.
281	130B	The highway starting from Raipur on NH-30 connecting Palari, Baloda Bazar, Kasdol and terminating at its junction with NH No. 153 near Sarangarh in the State of Chhattisgarh.]
² [282	133A	The highway starting from its junction with NH-33 near Baharwa connecting Pakur in the State of Jharkhand and terminating with NH- 12 near Nimtala in the State of West Bengal.
283	419	The highway starting from its junction with NH-19 near Kulti in the State of West Bengal connecting Chittaranjan, Jamtara and terminating at Gobindpur in the State of Jharkhand.
284	143A	The highway starting from its junction with NH-43 near Gumla connecting Ghaghra, Lohardaga and terminating at its junction with NH-39 near Kuru in the State of Jharkhand.]
³ [288	713	The Highway starting from its junction with NH-13 near Joram connecting Palin, Sangram and terminating at

		Koloriang in the State of Arunachal Pradesh.
289	513	The Highway starting from its junction with NH-13 near Passighat connecting Mariyang and terminating at Yingkiong in the State of Arunachal Pradesh.
290	313	The Highway starting from its junction with NH-13 near Meka and terminating near Anini in the State of Arunachal Pradesh.
291	113	The Highway starting from its junction with NH-13 near Hawacamp connecting Hayuliang and terminating near Hawaii in the State of Arunachal Pradesh.
292	713A	The Highway starting from its junction with NH-13 near Hoj connecting Yupia and terminating at its junction with NH-415 near Pappu (near Nahurlagun) in the State of Arunachal Pradesh.]
¹ [293	341	The highway starting from its junction with NH-41 near Bhimasar connecting Anjar, Bhuj, Khavda and terminating at Dharmshala in the State of Gujarat.
294	147A	The highway starting from its junction with NH-47 near Limbdi connecting Surendranagar, Dhrangadhra and terminating at Kuda in the State of Gujarat.
295	351	The highway starting from its junction with NH-51 near Mahuva connecting Saverkundla, Amreli, Bagasara and terminating at Jetpur on NH-27 in the State of Gujarat.
296	953	The highway starting from its junction with NH-53 near Songudh connecting Ahwa in the State of Gujarat, Sarad, Vani and terminating at its junction with NH-60 near PimpalgaonBaswant in the State of Maharashtra.
297	927D	The highway starting from its junction with NH-27 near Dhoraji connecting Jamkandorna, Kalavad and terminating at Jamnagar in the State of Gujarat.]
² [298	348 A	The highway starting from its junction with NH-348 near

		JawaharLal Nehru Port Trust connecting Gavanphata section of SH-54 (Km. 5.300 to km. 14.550), Amara Marg (km. 0.000 to km. 6.500) and terminating at its junction with Palm Beach Road in the State of Maharashtra.]
³ [313	709A	The highway starting from its junction with new NH No. 709 at Bhiwaniconnecting Mundal, Jind, Karnal in the State of Haryana, Shamli, Budhana and terminating at its junction with new NH No. 34 at Meerut in the State of Uttar Pradesh.]

(G.I.M.T.R.W. Notification SRO-1181 Dt. 4.4.1957)

Appendix-C

The National Highway Rules 1957

(Para 8.01)

Government of India, Ministry of Transport Notification NO. SRO-182 dt.4.4.1957.

In exercise of the powers conferred by Section 9 of the National Highways Act, 1956 (48 of 1956) and Central Government hereby makes the following rules namely:-

- 1) **Short title:** - These rules may be called the National Highway Rules, 1957.
- 2) **Definition :-** In these rules, unless the context otherwise requires :-
 - a) 'Act' means the National Highways Act, 1956.
 - b) "Approved work" means any original work on a National Highway in respect of which the Central Government has accorded technical approval and financial sanction.
 - c) "Completion Report" means a report required to be furnished under Rule – 8.
 - d) "Executive Agency" means :-
 - i) In the case of a Union Territory the Administrator thereof to whom the functions of the Central Government in relation to the execution of works pertaining to National Highways are delegated under article 239 of the Constitution.

- ii) In any other case the State Government to which such functions are delegated under Section 5 of the Act and
- e) “Progress Report” means a report required to be furnished under Rule 7.

3) Detailed estimates of original work:-

A detailed estimate for the execution of any original work on a National Highway shall be forwarded by the Executive Agency to the Central Government in such form as the Central Government may require and that Government may accord technical approval and financial sanction to such estimate subject to any conditions it may think fit to impose.

4) Abstract of particulars of detailed estimate for maintenance of National Highways:-

(1) An abstract of the particulars of the detailed estimates for the maintenance of a National Highway during each financial year should be forwarded by the Executive Agency to the Central Government in such form as the Central Government may require not later than the 1st day of the month of May in that financial year.

Provided that the Central Government may, in any case or class of cases, require the Executive Agency to forward a detailed estimate or estimates for the maintenance of any National Highway in such form as that Government may require.

(2) The Central Government may accord approval to the abstract or the detailed estimate or estimates submitted to it under this rule subject to any conditions it may think fit to impose.

5. Revised detailed estimate:-

When the expenditure upon any original work on a National Highway to the detailed estimate of which the Central Government has accorded technical approval and financial sanction exceeds or is likely at any time to exceed the amount of such estimate by more than ten per cent thereof or by a sum of twenty five thousand Rupees*, which ever is less, the Executive Agency shall forward a revised detailed estimate for such work to the Central Government in such form as the Central Government may require, and the Central Government may accord technical approval

and financial sanction to such estimate subject to any conditions it may think fit to impose.

6) Application for allotment of funds:-

An application for the allotment of funds for meeting expenditure on any original work on a national highway or on the maintenance of a National Highway during any financial year shall be made by the Executive Agency to the Central Government in such form as that Government may require and the Central Government shall communicate its decision to the Executive Agency on such application as soon as possible after such applications received.

7) Monthly Progress Report:-

The Executive Agency shall furnish to the Central Government a monthly progress report on every approved work in such form as the Government may require.

8) Completion Report:-

As early as possible after the completion of any approved work the Executive Agency shall furnish to the Central Government a full and correct report on such completion in such form as that Government may require.

9) Inspection of Work:-

The Consulting Engineer to the Government of India (Road Development) or any officer authorized by him in this behalf may inspect at any time any approved work in progress or completed. A report of every such inspection shall be submitted to the Central Government.

(No. OL-7(4) 57-III) (C.S. No. 131 Dt. 11.3.1958)

* Raised to Rs. 2,50,000/- vide G.I.M.S. & T. No.NH-1-40(10/70 dt.20.7.1971



Chapter – IX

System Audit

9.01 Definitions

A system is an orderly arrangement of separate but interdependent and interacting activities and related procedure which implements and facilitates the performance of a major activity of an organisation.

(Authority : Paragraph 3.20.1 C&AG MSO 2002)

A policy is a basic precept which guides administrative action and defines the authority and respective relationships required to accomplish the organisation's objectives.

A procedure is a series of logical steps by which all repetitive action is initiated, performed, controlled and finalised. A procedure establishes what action is required, who is required to act and when the action is to take place. Its essence is chronological sequence and its implementation is translated into results or actions.

9.02 System Audit

The concept behind the system audit is that if, on an in depth analysis of the mechanics of the system, it is found to be designed with appropriate controls, checks and balances to safeguard against errors, frauds, etc. Audit can reasonably assume that the results produced by the system would be fairly accurate without the necessity of conducting a detailed examination of the individual events or transactions. But the actual working of the system has to be sample tested to evaluate its efficiency and effectiveness. The system audit can serve as an effective aid to management. (Authority : Paragraph 3.20.2 C&AG MSO 2002)

Main stages of system audit.

These are:

- i.)organisational analysis
- ii.)authorisation and recording
- iii.)accounting
- iv.)internal control
- v.)standards of quality and performance

- vi.)internal Audit
- vii.)review and evaluation

(Authority : Paragraph 3.20.5 C&AG MSO 2002)

9.03 Processes of a system audit of an entity in the Government:

A. Organisational Analysis:

- i) Find out the basic objective or activity of the entity.
- ii) Study the organizational pattern of the entity as given in the organizational chart and procedural manuals. Satisfy yourself that there is a clear and logical plan of organisational functions which establishes clear lines of authority and responsibility for financial and operational activities.
- iii) Keeping in view the basic objective or activity of the entity, prepare a flow chart and examine whether:
 - (a) the units are functionally segregated to ensure professional, functional and/or technical specialisation and to achieve functional independence for purposes of internal management control.
 - (b) proper distribution and clear demarcation of functional responsibilities exist among the personnel working in the entity.
 - (c) the staff pattern of the entity conforms to norms or standards prescribed for the purpose and carries the approval of the competent authority.
 - (d) the financial functions are separated from other administrative functions.
 - (e) within the financial unit, the employees responsible for the custody of financial or material resources are separate from those who record transaction, maintain records and prepare financial reports.
 - (f) the financial powers of each authority, of the unit and its responsibilities have been clearly defined and are updated to depict the correct position at any point of time.

- (g) checks and balances have been integrated into transactions processing flow in such manner as to ensure added reliability without increasing costs or creating new positions or new operating units.
- (h) there is an effective system of follow up to determine whether assignments are properly carried out.
- (i) the organisational units are designed to obtain maximum effectiveness at minimum cost.

(Authority : Paragraph 3.20.6 C&AG MSO 2002)

B. System of authorization and recording:

- i) Examine the system of authorisation of transactions and operations and the related procedure and records prescribed for the purposes;
- ii) Verify whether authority for the initiation of operations and transactions; their approval and execution are clearly delegated in writing by the competent authority;
- iii) Check whether adequate system with necessary checks and balances exists to ensure that delegated duties are handled satisfactorily;
- iv) Ensure that forms and procedures provide for the review and authorisation of transactions prior to according entry and that the design of forms and procedures includes provision for proper authorisation of all operations and transactions with the record of the authorisation serving to establish accountability for the action taken;
- v) Verify that the system provides for procedures to ensure that all approved transaction documents serve as source documents for accounting entries.

(Authority : Paragraph 3.20.7 C&AG MSO 2002)

C. Accounting System

- i) Study the departmental accounts manual including policies procedures and prepare a flow chart showing the stages

right from initiation of claim of the final accounting of transactions.

- ii) Examine whether the accounts records provide for compilation of transactions as per budgetary classifications.
- iii) Check up whether there exists an effective method of budgetary control including prompt reporting and analysis of variations between expenditure figures and budgetary allotments.
- iv) Examine whether the accounting system provides for well designed documents and forms control purposes as also for conducting operations.
- v) Examine whether the accounting records maintained for resources and operations are informative, clear and generally adequate.
- vi) Examine whether controls exists to safeguard against errors and irregularities in operational and financial data.
- vii) Satisfy yourself that the accounting system is adequate, conforms to the generally accounting principles and includes such forms and records as are absolutely necessary to provide sound accounting and financial reporting.

(Authority : Paragraph 3.20.8 C&AG MSO 2002)

D. General

- a) Check the chain of movements in each procedure forming part of the operational or financial activity.
- b) As long chains of movement cause delay, analyse the necessity for such a long chain and list out unnecessary links.
- c) Identify procedures which have in built delays but can be streamlined.
- d) List out forced departures from the prescribed procedures or special relaxation of procedures and analyse the causes of departures. The analysis will indicate whether the system and its linkages are getting extended or overloaded and how to eliminate these strains.

- e) Verify whether initiation of action on important points starts at a sufficiently higher level for quick decisions.
- f) Identity procedures and/or records which appear redundant or superfluous.

(Authority : Paragraph 3.20.13 C&AG MSO 2002)

E. System of internal control

Examine whether each organisational unit in the entity is adopting sound practices to ensure proper internal control. These include locked store rooms with access restricted to authorized persons, surprise physical verification of cash, bank reconciliation by independent persons, payments after pre check, institution of checks to see that transactions are properly authorised, dual custody of valuable negotiable assets, independent periodic verification of the existence of recorded material resources, etc.

(Authority : Paragraph 3.20.9 C&AG MSO 2002)

F. Standards of quality and performance

Study of performance budgets, work plans technical manuals etc. List of standards of quality and performance established by entity management. Examine whether proper system exists for evaluating the quality and performance with the standards prescribed for the purposes.

Authority : Paragraph 3.20.10 C&AG MSO 2002)

G. System of internal audit:

Find out whether internal audit system has been introduced in the entity. Check whether the internal audit unit is completely independent of the operating unit.

Examine whether the system of internal audit provides for an objective, systematic and professional examination of financial, administrative and other operations subsequent to their execution for the purpose of evaluating and verifying them.

- a) Examine whether the system prescribed prompt and adequate follow up corrective action on the reports of internal audit units containing comments, conclusions and recommendations.

(Authority : Paragraph 3.20.11 C&AG MSO 2002)

H. Review and evaluation of the system by audit :

- a) Do not base your review and evaluation upon replies to audit observations, procedures, manuals or flow charts prepared by the entity.
- b) Determine personally how operation and transactions are actually processed.
- c) Test by actual observation or “Walkthrough” a very small number of selected representative transactions or operations.
- d) Identify strengths and weaknesses in key control points.
- e) Evaluate tentatively the effectiveness of the procedure and controls in operation.
- f) In areas of weakness, confirm the tentative evaluation by means of testing additional operations and transactions.
- g) Review procedural manuals for areas confirmed as weak in order to determine whether procedures are adequate but are not being properly applied or whether they are inadequate.
- h) Test through discussions with persons who strike you as knowledgeable, competent and dedicated the various suggestions for improvement of the systems and procedures which you may contemplate including in your report.
- i) Select detailed audit procedures and determine the scope of tests to be applied in areas.
- j) Determine what recommendations should be made for strengthening control in weak areas.
- k) Prepare the report in an objective and constructive manner so that government entity management takes corrective action to remove the deficiencies or distortions in the system or in their components and the total system mobilized for efficient, effective and economic utilization of manpower and material resources.
- l) Lastly, do the study and write your report in such a manner that the authorities and personnel of the entity feel happy that you have made a study of their working.

(Authority : Paragraph 3.20.12 C&AG MSO 2002)

9.04 Systems Audit Report should follow the main course of investigation. As in the case of every other report, the objectives of the study should be clearly mentioned at the outset. Only so much detail of the system or sub-system studied will have to be given as will be relevant for the audit observations. At almost every point, such as when commenting weak points, cause of failures, functioning of control sub-system, system cost, etc. appropriate suggestions including alternative should be given.

A properly conducted system audit and a properly written system audit report will be of great aid to the management in ensuring that the system functions at a high level efficiency

(Authority: Audit Guide Series No.5 issued by C&AG of India)



Chapter -X

Section - I

10.01 Audit of Projects financed by World Bank/ International Development Association (IDA)

The agreements for loan/development credit entered into by the International Bank for Reconstruction and Development and International Development Association with the Government of India for financing developmental projects to be implemented by departments of the Central Government, Government of States, Public sector Undertakings and Autonomous Bodies, etc. include specific covenants for Accounts and Audit. These covenants inter -alia provide that the Government or the Project entity shall have the records and accounts of the project for each fiscal year audited in accordance with appropriate auditing principles consistently applied by independent auditors acceptable to the Bank and the Bank has accepted the Comptroller and Auditor General of India to be an independent auditor for the purposes of certification of accounts and issue of audit certificates in respect of projects being executed in India with World Bank financial assistance.

(Authority : Paragraph 3.17.10 of MSO 2002)

10.02 Auditing Requirements as per guideline issued by World Bank.

Auditing of projects financed by world Bank needs to be conducted in the following directions: -

- A. Audit of Executing Agency's Financial Statement.
- B. Audit of Project's Financial Statement.
- C. Audit of Statement of Expenditure (SOE).
- D. Audit of Special Accounts.

(Authority : Paragraph 3.17.3 of MSO 2002)

A. Audit of Executing Agency's financial statement

Overall objective:

The overall objective of audit of financial statement is to determine whether the statement is fairly presented in conformity with international accounting standards or generally accepted according to principles

applied on a basis consistent with that of the preceding year. It should be seen whether the financial statement is fairly presented by accumulating audit evidence in a thorough and conscientious manner.

Audit Process:

Audit conclusions about whether financial statement is fairly presented are not reached in a precisely defined manner. Instead, evidence is obtained and conclusions are reached throughout the course of an audit. The results of previous audits should be looked into.

Considering Internal accounting control

As part of an audit of financial statement the auditor is required to consider the related entity's system of internal accounting control for the purpose of assessing its ability to generate reliable financial information. If the auditor is convinced the entity has an excellent system, which includes controls for providing reliable data and for safeguarding assets and records, the amount of audit evidence to be accumulated can be significantly less than if the system is not adequate. However, the auditor must test the effectiveness of the control. His review of internal control is intended primarily to determine the extent of testing he will do in his subsequent examination of account balances.

B. Audit of Project Financial Statement

Overall objective:

The overall objective of audit of Project Financial Statement is to determine whether the Statement fairly present cash receipts and disbursements for a specified period, as well as cumulatively for the project and that the reported disbursements were made in accordance with loan legal agreements. A borrower should prepare a periodic Statement of Project receipts and disbursements for each bank financed projects.

Audit Process:

The auditor is expected to rely heavily on an inspection of valid supporting documentation and to perform other steps, where practical, to substantiate the validity of the expenditure in accordance with the loan legal agreements.

Where a borrower uses the Statement of Expenditure procedure in claiming loan withdrawal, the disbursements reported in a Project's Statement of receipts and disbursements will also include those expenditure included in the Statement of Expenditure. Where this is the case, any audit of project financial statement should be closely coordinated with audit performed on the individual Statement of Expenditure to avoid duplication of audit efforts.

Considering Internal accounting control

As part of an audit of Project Statement of receipts and disbursements the auditor should review and evaluate controls surrounding financial activity to determine the nature and extent of audit procedures to be performed. As with audit of Executing Agency Financial Statement, where the auditor identifies effective control he is entitled to rely on this control to enhance the reliability of financial information. However, to justify this reliance, the auditor must test the effectiveness of the control.

Reporting

Project financial statements are generally prepared on the cash basis of accounting, not in conformity with International Accounting Standards, which require the accrual basis of accounting. Accordingly, the fact should be disclosed in the auditor's report and in the accounting policies footnote to the Statement.

C. Audit of Statement of Expenditure

Primary objective:

The primary objective of the audit of Statement of Expenditure is to ascertain that the individual expenditure which comprise the SOE totals are fully supported, properly authorised and eligible under the loan agreement, and appropriately accounted for.

(Authority : Paragraph 3.17.26 of MSO 2002)

Audit Procedure:

I Obtain a copy of the loan agreements and Staff Appraisal Report (SAR)

(Authority : Paragraph 3.17.2 of MSO 2002)

II Through discussion with borrower Staff, obtain an understanding and document (or update previous documentation of) the process and related controls by which expenditures are committed, renewed, approved, paid and identified for inclusion in loan withdrawals application.

III Consider the effectiveness of the following controls and documents, any instance where controls are lacking or are considered for strengthening:

(a) Appropriate levels of review and approval are in place and followed for each stage of the expenditure process.

(b) Procedures and responsibilities are clearly defined and are adequately documented.

(c) Adequate segregation of duties exists between the initiation, authorisation, disbursement and recording functions.

(d) Authorisation and approval is obtained prior to incurring of the expenditure.

(e) Documentation is maintained for an adequate period of time for purposes of fulfilling audit requirements as well as review by Bank Staff.

(f) Commitments are made after applicable procedures have been followed.

IV Select all SOEs submitted during the period under audit and have borrower staff retrieve the supporting documentation for the expenditure.

V For each expenditure perform the following:

a. Evaluate the adequacy of the supporting documentation which should normally include on or more of the following.

1. Procurement documents (bid documents, invitation, evaluation, award);
2. purchase contract;
3. purchase order;
4. letter of credit;
5. supplier's invoice and certificate of origin;
6. shipping of import documents and inspection certificates;
7. contractor's invoice or certificates;
8. other evidence or receipt of goods or services;
9. force account records;
10. recurrent cost records;
11. authorization for payment;
12. evidence of payment/Bank Statements;
13. accounting records of approvals, disbursements, and balances available;
14. evidence that refunds have been made by suppliers and corresponding adjustments made in subsequent applications in instances where goods have been returned.

b. Ascertain that expenditure was properly authorized and approved.

c. Verify that the expenditure is eligible for bank disbursement under loan legal agreements. Ineligible expenditure would include:

- i) duplicate invoice;
- ii) payments made in advance of receipt of goods or delivery of services. Unless these payments are consistent with contract provisions and are established commercial practice;
- iii) payments that should have been made under normal disbursement procedures with full documentation (e.g. payments against contracts subject to Bank's prior review, or payments against contracts with values exceeding defined SOE limits), and
- iv) payments of items that are not procured in accordance with the loan legal agreements, such as

- (a) payments for items from countries that are not eligible under Bank's Procurement Guidelines;
 - (b) payments for items not specified in the procurement;
 - (c) payments made prior to loan signing or before the eligible date specified for retroactive financing;
 - (d) payments for items on the negative list or not on the positive list (for adjustment operation lending).
- d.** Verify the mathematical accuracy of the SOE.
- e.** Agree percentage used to determine the Bank's share of the total disbursements to loan legal agreement. Verify that proper amount was requested for reimbursement.
- f.** Summarise the results of the work performed on a Summary Form.
- g.** Notify borrower of all instance of negative findings.
- h.** Submit summary forms and audit opinion to appropriate officials who should forward these documents to Bank Staff.

(Authority : Paragraph 3.17.26 of MSO 2002)

The appropriate work papers which support the work performed and conclusions reached should be maintained for a minimum period of three years. Such work should make available to Bank Staff, if requested.

D. Audit of Special Accounts

Objective:

Where Special Accounts (SAs) are established, annual audit maybe required. The primary objective of such audit is to verify that SA statement is fairly presented and that disbursement from SA is proper and in accordance with the respective loan legal agreement.

Audit Process:

While performing audit of SA activity, the auditor should be particularly cognigent of the risk that funds maybe used, even on a temporary basis, for purposes not expressly authorized in the loan agreement. The auditor

should also review and evaluate control surrounding SA activity to determine the nature and extent of audit procedure to be performed.

[Authority: Guideline on Financial Reporting and Auditing of Projects financed by World Bank for East Asia and Pacific Region and South Asia Region enclosed with C&AG 's General Circular No.11-Audit II, NO.711 Audit II/93-86 dt.12.5.87.]

10.03 Issue of audit certificate in respect of World Bank Assisted Projects

The Annual Accounts to be certified will be the annual expenditure statement related to Government accounts in respect of Projects executed by Govt. Departments and the Accounts that are certified by us as sole auditors in respect of projects executed by other bodies and authorities. If any further details are required by World Bank, these are to be furnished by the project authorities. While certifying SOEs, which are limited to reimbursement of expenditure by Bank without documentation, each Application number and amount have to be indicated. The audit certificate should be issued in the proper printed letterhead and signed by an officer not below the rank of DAG.. The name and designation of the signatory should be legibly typed below the signature. In cases where for some valid reasons it is not possible to certify together the Accounts and the SOEs within 9 months of the close of the year, the SOEs should be certified separately adopting suitably the relevant portion of the form of the Certificate, in time. In rare cases where undue delay is anticipated in certifying the Accounts, the reasons will have to be intimated to the C&AG and the Ministry of Finance Department of Economic Affairs in advance for enabling the latter to take up with the World Bank.

2. The integrated Audit Certificate is considered adequate for the purpose of World Bank and it would not be necessary for the Bank to await the all inclusive Audit Report of the C&AG submitted to the respective legislature. At present irregularities noticed in audit that are likely to figure in an Audit Report to be presented to the Legislature, are not generally disclosed in the Audit Certificate meant for World Bank. As the Audit Certificate is not to be published and is in the nature of document exchanged between the clients and the Bank, the certificate should indicate in brief the amount held under objection in relation to vouchers, DC Bills, sanctions etc. and misclassification, defalcation, overpayments, etc. that come to notice.

3. The local audit of World Bank aided projects should be given priority. The irregularities noticed in Central Audit as well as in Local Audit in relation to these projects should be distinctly recorded and separate files for certification and issue of audit certificate in respect of each project maintained.

4. The Ministry of Finance has issued instructions to State Government prescribing a time limit of 4 months from the close of the year render the accounts and statements of expenditure for audit. Cases of undue delay in the receipt of accounts/SOEs from the Project Authorities maybe reported to the State Government and the Ministry of Finance, Deptt. of Economic Affairs, New Delhi for necessary action.

5. The audit certificates are to be issued to the concerned Project Authorities under intimation to Ministry of Finance, Deptt. of Economic Affairs, New Delhi. **[Appendix–D]**

6. The annual return indicating the position of issue of audit certificate in respect of these projects should be furnished in the enclosed proforma **(Appendix–E)** so as to reach C&AG 's office by 20th January each year.

[Authority: C&AG 's General Circular No.11-AuditII, No.711 Audit II/93-86 dated 12.5.87]

10.04 Time for submission of Audit Report

During project preparation, the Bank and borrower agree on the required timing for submission of financial statements and audit reports. Where required, audited annual financial statements for executing agencies should normally be submitted within three to six months following the fiscal year end of the agency. Audit Reports for Project Financial Statements, SOEs and Special Accounts Statements should be submitted within three to six months of the close of an agreed twelve month period (which will not necessarily coincide with executing agency's fiscal year end).

Defalcations and losses of public money and property

10.05 Report of losses

(a) With the exception noted below, any loss of public money, departmental revenue or receipts, stamps, opium, stores or other property

held by or on behalf of Government, caused by defalcation or otherwise, which is discovered in a treasury or office or department, should be immediately reported by the officer concerned to his immediate official superior as well as to the Accountant General even when such loss has been made good by the party responsible for it. Such reports must be submitted as soon as suspicion arises that there has been a loss, they must not be delayed while detailed enquiries are made. When the matter has been fully investigated, a further and complete report should be submitted of the nature and extent of the loss showing the errors or neglect of rules by which such loss was rendered possible, and the prospects of effecting a recovery.

(b) If the irregularity be detected by audit in the first instance, the Accountant General will report it immediately to the administrative authority concerned, and if he considers necessary to Government as well.

Exception: Petty cases, that is, cases involving losses not exceeding Rs.500 each need not be reported to the Accountant General, unless there are, in any case, important features which merit detailed investigation and consideration.

The officer receiving a report submitted to him must forward it forth with to Government through usual channel with such comments as maybe considered necessary. He should also submit a detailed report, after completing such departmental investigation as may be necessary or expedient, on the causes or circumstances which led to the defalcation or loss, the steps taken to prevent its recurrence and the disciplinary or any other action proposed as regards the persons responsible.

Any serious loss of immovable property, such as building, communication or other works, caused by fire, flood, cyclone, earthquake or any other natural cause, should be reported at once by the departmental officer to the head of the department and by the latter to Government. When a full enquiry as to the cause and extent of the loss has been made, the detailed report should be sent by the departmental officer concerned to the head of the department, a copy of the report or an abstract there of being simultaneously forwarded to the Accountant General.

10.06 Responsibility for losses etc.

Every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on part of any other Government officer to the extent to which it maybe shown that he contributed to the loss by his own action or negligence.

10.07 Auditorial function on receipt of the report of losses

(a) On receipt of a report on defalcation or loss of public money or property the Accountant General (Audit), should call for such further information as he may require on the subject, and carefully examine the case and ascertain whether the defalcation or loss was rendered possible by any defect in the rules or whether it was due to neglect of rules or want of supervisions on part of the treasury or other authorities. He should then report the result of such examination to the authority competent to sanction the write off of the loss unless he considers, for any special reasons, that the Government concerned should also be informed. The sanction for the write off when issued by the competent authority will be acted upon by the Pr. Accountant General (A&E) in consultation with the Accountant General (Audit).

[Authority: Paragraph 7.1.8 of C&AG 's MSO (Audit)- 2nd Edition]

(b) Whenever any case of loss in which there is possibility of the Reserve Bank of India being made liable to Government either in respect of operation on Government account conducted by itself or by its agents or otherwise comes to his notice, the Accountant General (Audit) should call for such information as he may require on the subject. On receipt of this information which must be obtained without delay, he should at once make a report of the case to the Finance Ministry or Department of the Government concerned for such action as it may deem fit.

[Authority: Paragraph 7.1.9 of C&AG 's MSO (Audit)- 2nd Edition]

Appendix–D

[Paragraph 10.03 (5)]

Model format of Audit Certificate and Audit Observation as circulated vide C&AG 's No.895-Audit II/51-91 dated 25th July 1991.

Format of Audit Certificate

[To be in the proper letter head and to be signed by an officer not below the rank of D.AG /Dy. Director (Audit)]

OFFICE OF THE.....

No.....

AUDIT CERTIFICATE

The Expenditure Statements/Financial Statements relating to the project.....(loan/Credit No.....) for the yearattached hereto have been audited in accordance with the regulations and standards of audit of the Comptroller and Auditor General of India and accordingly included such tests of accounting records, internal checks and controls and other auditing procedure necessary to confirm.

- (a) that the resources were used for the purposes of the project;
and
- (b) that the expenditure statements/financial statements are correct.

During the course of the audit, referred to above, Statements of Expenditure (Each Application No..... and amount to be indicated) and the connected documents were examined and these can be relied upon to support reimbursement under the aforesaid loan/credit agreement.

On the basis of information and explanations that have been obtained as required and according to the best of our information as a result of test audit, it is certified that the Expenditure Statements/Financial Statements read with the observations set out below represent a true and fair view of the implementation (and operations) of the Project for the year.....

Signed.....

(Name and

Designation)

(Authority : Annexure of Paragraph 3.17.11 of MSO 2002)

AUDIT OBSERVATIONS

(To be annexed with SOE and Audit Certificate vide para 10.03)

The audit observations are based on test check of records.....

1. Preference of reimbursement claims in excess of the actual expenditure incurred on the project; Rs.....

According to the books of the Sr. Deputy Accountant General (A&E)/Deputy Accountant General (A&E) theincurred an expenditure of Rs..... (duly reconciled with the department) on theduringwhereas the department preferred reimbursement claims totaling Rs.....during..... Thus the department preferred claims in excess of the actual expenditure incurred duringby Rs..... No reason was advanced by the department for this excess claim.

2. Inclusion of Non-Plan expenditure in the reimbursement claims Rs.....

Non-Plan expenditure does not qualify for reimbursement by donor agencies. In the Statement of expenditure pertaining to the office ofan amount of Rs.....in respect of Representing Salary, Medical Allowance and Training Allowance of the Staff were included in the reimbursement claims.

3. Unauthorised Reimbursement of expenditure on office expenses and other charges: Rs.....As per provisions contained in Agreement, expenditure incurred on account of office expenses and other charges, etc. is not be reimbursement by the Donor Agencies i.e. IDA/World Bank/.....While comparing figures of expenditure booked in the office of the Sr.Deputy/Deputy Accountant General (A&E) with those of the reimbursement claim lodged with the Donor Agencies it was noticed that Rs..... expended and classified in the books of the Sr.Deputy/Deputy Accountant General (A&E) as office expenses (including rent, rates and taxes) and other charges respectively during were included in the reimbursement claims by amalgamating the amounts in reimbursable components such as.....

4. Unauthorised reimbursement of expenditure on taxes and duties: Rs.....

Under the provisions of Sectionsof the agreement the expenditure incurred on account of taxes is not reimbursable. In the

following divisions/cases, however, a sum of Rs..... on account of payment of Sales Tax/Surcharge and Central Excise Duties on the purchase of materials, etc. was included in the Statement of Expenditure.

5. Diversion of Project funds to Departmental Schemes:
Rs.....

Test check of the accounts revealed that funds amounting to Rs..... provided for were utilised on other departmental schemes not covered under the project.

6. Non-accountal of materials worth Rs.....

7. Irregular purchase of materials; Rs.....

The State Financial Rules stipulate that no purchase should be made unless the sanction of the competent authority has been obtained for incurring the expenditure. During test check it was noticed that material worth as detailed below, was purchased without obtaining sanction of the competent authority.

8. Non-execution of agreements with individuals/Committees/Village Panchayets/Bodies, etc.

As per conditions laid down in project papers the participating beneficiaries in the sub-schemes..... are required sign agreement with the department setting out respective responsibilities as well as distribution benefits. Test check of the accounts the However, revealed that though expenditure under these sub-schemes was incurred yet the agreements with the participating beneficiaries had not been executed.

[Authority: C&AG 's General Circular
No.11-Audit-II/91., NO.895-Audit-II/51-91 dated
25th July 1991]

Appendix-E

(Referred to in para 10.03 (6))

Annual Report of the issue of the Audit Certificates in respect of World
Bank/IDA assisted projects
For the year.....

Sl. No.	Name of the project with loan agreement number	Period for which audit certificate were due to be issued during the year	Due date for issue of audit certificate	Letter No. and date of the audit certificate issued to the project executing authority		
				Composite Certificate	Annual Accounts Audit certificate	S.O.E. audit certificate
Period for which issue of audit certificate is in arrears				Reasons for the delay, Steps taken and expected date by which the audit certificate will be issued		
	Composite audit certificate	Annual Accounts audit certificate	S.O.E. audit certificate			



Chapter –XI

11.01 Manpower Audit

The scope of man-power audit has hitherto been basically limited to checking of drawals from the point of view of regularity and compliance. As a result of execution of large number of development programmes and schemes through successive Five-year plans, government expenditure has increased tremendously both in size and complexity. In the changed situation emphasis should be placed more on examination of man-power control systems in the offices of the cadre controlling authorities rather than individuals' drawals in the various disbursing offices.

The concept of system audit is that if, on an in-depth analysis of the mechanics of the system, it is found to be designed with appropriate controls, checks and balances to safeguard against errors, frauds etc. Audit can reasonably assume that the results produced by the system would be fairly accurate without the necessity of conducting a detailed examination of the individual or transactions. Evaluation of the efficiency and effectiveness of any system will, however, require sample testing of its actual working. An essential part of system audit is the analysis of deficiencies and identification of directions of improvement. System audit, thus, serves as an effective aid to management.

Responsibility for devising and following sound system for determination of man-power requirements, their regulation and their efficient and effective utilization rests primarily with cadre controlling authorities. Audit aim should, therefore, be to ascertain whether the existing systems are adequate and whether they effectively function. In discharging this function, audit should not only indicate the deficiencies and directions of improvement but also make definite suggestions, as far as possible.

(Authority : Paragraph 3.21.5 of MSO 2002)

11.02 System audit of man-power controls will involve examination of a number of aspects but mainly the following:

- i) the job analysis, job description and job specification for various categories of posts;
- ii) the methods and principles adopted for assessment of man-power requirements;

- iii) the allocation and actual deployment of man-power;
- iv) the norms/standards adopted for computation of man-power requirements;
- v) the control systems available for monitoring the efficient and effective utilization of man-power;

(Authority : Paragraph 3.21.6 of MSO 2002)

The scope of these aspects and the type of examination that could be carried out are discussed in detail in the succeeding paragraphs.

Job Analysis, Job Description & Job Specification

Job analysis is an analysis examination of a work assignment. It is the process of collecting information about analysing the duties and responsibilities and the conditions of work involved in the job, its inter relationship with other work assignments and the qualifications necessary for performing it. Based on the job analysis, a written statement of the specific duties, responsibilities and organizational relationship that constitute a given job and the conditions of work involved in and the qualification necessary for performing it is then prepared. Such written statement is called job description. Job specification is the third step after analysis and job description. It is prepared primarily for the purpose of emphasising and detailing the personal characteristics required for satisfactory performance of the job.

(Authority : Paragraph 3.21.10 of MSO 2002)

Efficient personnel management requires that an Organisation's current and future manpower needs should be determined in terms of both quantity and quality. While the quantitative requirements are assessed through the various methods of work measurement in the context of perspective organisational planning, the performance requirements and personal qualifications are assessed through job analysis and recorded in job description and job specification. Job analysis and job descriptions are the essential pre-requisites for job evaluation for comparing the relative worth of the factors of a job with those of other jobs in the same organisation and similar jobs in other organisation.

(Authority : Paragraph 3.21.11 of MSO 2002)

A job description can provide a good checklist for performance appraisal. Without such a guide for realistic thinking supervisors tend to

substitute subjective judgments for verifiable observations of fact. Job descriptions can also be used to stimulate and direct self-appraisal and self development.

(Authority : Paragraph 3.21.12 of MSO 2002)

The techniques of job analysis, job description and job specification are extensively used in manpower planning and development for specifying the nature and requirements of a job or a group of jobs, in selection and placement of the right man for the right job and for job evaluation. These techniques are also very useful in identifying and assessing the training needs of different categories of personnel and in formulating the objectives and design of a training programme. They are helpful in setting standards of performance and orienting and motivating employees towards achievement of such standards.

(Authority : Paragraph 3.21.13 of MSO 2002)

It is thus imperative that proper system should exist for maintenance of job descriptions and job specifications for the various categories of posts in each department based on an analytical examination of each category.

Audit should examine that:

- i) the arrangements for applying these techniques are sound and efficiently managed;
- ii) the job description and job specifications are kept up-to-date, they correspond accurately to current job requirements and periodical review is conducted of all jobs for revision of their descriptions and specifications in line with the change in the objectives of the organization, job content or job context;
- iii) the job descriptions and job specifications are precise and clear so as not to give room for any ambiguity or misconstruction therein; and
- iv) there is no overlapping of duties and responsibilities assigned to different jobs.

(Authority : Paragraph 3.21.14 of MSO 2002)

11.03 Assessment of man-power requirements

There are many methods of forecasting the requirements of man-power. It can be based on the informal opinion of different supervisory or controlling officers within the Department. The second method is to base it on the idea of projecting the past trends by statistical techniques like extrapolation, regression, co-relation, etc. In the third the results of work study, job description, specification etc. and the standard formulae devised with reference to those results form the basis of forecasts. Lastly, and in many circumstances the most difficult to apply, forecasts are based on measures of productivity. In conditions, peculiar to Government, the third alternative is generally followed. Where there is no standard formula, the past experience and trend as also other ad-hoc principles are taken as the bases, in preparing man-power estimates. The man-power estimates take into account not only the current needs of the Department but also the expansion programmes, the demands of which are given fully supported by substantive evidence of need. One other important factor in man-power estimates is translation thereof into cash estimates. Procedures for this purpose are generally prescribed for guidance of estimating authorities. The estimates prepared in this manner are forwarded by individual controlling officers within the Department to the cadre controlling authorities concerned, who closely scrutinise them so as to be satisfied about their correctness before according approval. These estimates form the basis for issue of formal sanctions and for regulation and control of man-power.

In auditing the system of man-power forecasts, the points for examination are:

- i) Whether the projects of man-power requirements correspond to the number, level and skills required for the objectives set forth and the workload based on those objectives;
- ii) Whether the objectives in question continue to be relevant and appropriate for the Department. If not, whether appropriate reductions are reflected in the man-power forecasts. Similarly, if there be any change in the organizational pattern of the Department or changes in policy, corresponding changes in man-power estimate are reflected;

- iii) Whether the man-power forecast are supported by evidence such as work-load at current level, additional posts for future expansion programme, etc. Whether the standard formula prescribed for different processes of work are applied for computation of man-power and where there is no standard formula, the principle adopted for computation is reasonable and fair;
- iv) Are there standard departmental procedures and standard formulae for man-power forecasts and whether they are adequate;
- v) When was the standard formula for computation of man-power needs devised whether its accuracy/adequacy periodically reviewed, through an independent agency like Staff Inspection Unit and whether follow-up action for revision of the formula where necessary is promptly taken;
- vi) Whether the procedures prescribed for translating manpower estimates into cash estimates are sound ; and
- vii) If responsibility for approving man-power forecasts is assigned to specific officers whether the estimates have actually been approved by them.

(Authority : Paragraph 3.21.17 of MSO 2002)

11.04 Allocation and regulation of man-power

The next stage after scrutiny and approval of man-power forecasts is allocation and regulation of man-power. Here two aspects have a vital role to play first supply forecasting and second financial constraints. In calculating the actual availability against the demand, the man-power available in the beginning of the year, losses through various wastage elements viz. normal retirement, natural wastage, discharges, resignations, transfers and promotions as also the new recruitment during the year taken into account. The broad principle of calculating different wastage elements are:

- (a) Normal Retirement: Normal retirement is a natural wastage which depends on the Government policy,. This can be estimated for the forecast period through the personnel

records and through an analysis of the age distribution of employees.

- (b) Natural wastage: Natural wastage can be defined as losses of staff due to death, illness or disability. This can be computed through the past experience and the age structure and general health of the employees.
- (c) Discharge; this refers to loss of personnel as a result of discharge or dismissals. Again, previous experience should provide the guidelines.
- (d) Voluntary Wastage : This is another constituent of the wastage, that is loss of personnel through 'voluntary wastage' of resignations, wastage for reasons such as conditions of work morale, job satisfaction, opportunities in the Department and elsewhere will vary widely from Department to Department and between Departments. Here, again the past experience and future trends in the Department will provide the guidelines.
- (e) Transfer and Promotions: An allowance which must be allowed when arriving at an overall estimate of wastage will be the extent to which particular occupational and hierarchy group is lost to other occupations as a result of lateral transfer or to higher hierarchy group as a result of promotion. Given a careful analysis like succession system analysis, transfer analysis, etc .it will be very easy to predict the proportion of employees in particular categories who are likely to be promoted or transferred between departments in the future.

(Authority : Paragraph 3.21.18 of MSO 2002)

A comparisons of the final figure with the demand as found justified will indicate shortfall, if any, of man-power supply. Sometimes due to financial constraints it may not be possible to provide man-power to the extent of the demand found justified. In such cases, the cadre controlling authority may have to apply appropriate cuts before formal allocation of man-power to different units by issue of sanction. In certain other cases, retention of some reserve to meet possible unforeseen requirements may be considered necessary. Here also, cuts may have to be made.

(Authority : Paragraph 3.21.19 of MSO 2002)

In analyzing the system of allocation and regulation of man-power, the following points should be examined:

- i) While distributing man-power, allocation, have changes in work load that may have taken place since preparation of original estimates been taken into account;
- ii) In distributing the man-power , whether the demand and supply aspects are properly integrated;
- iii) Where the supply of man-power is insufficient to meet the demands, is it due to absence of or deficiency in the system of supply forecasting and lack of proper policy and planning of the various means of supply like recruitment and promotion, leading to adverse effects on work;
- iv) Whether reductions/cuts made in man-power estimates are correspondingly adjusted in cash estimates and vice-versa;
- v) In case man-power substitutes (like casuals, over-time, honorarium) have been permitted to tide over the shortfall in manpower, whether sound procedures therefore have been laid down;
- vi) Whether the cuts/reductions made are on a proper basis and take care of the priorities laid down for regulation of man-power allocations;
- vii) Where some reserve is kept in distributing the man-power allocations, how is it ultimately utilised ; and
- viii) How the actual deployment of manpower compares with the allocations made.

(Authority : Paragraph 3.21.20 of MSO 2002)

11.05 Norms/standards adopted for calculation of man-power requirements

Work measurement is a vital need for the efficient functioning of any department or organisation. Without measurement the department or organisation will be in the dark. It will have no basis for comparison or

control and no way of knowing its capacity, efficiency, economy or relative accomplishment. Work measurement involves the following broad steps;

- (a) Selecting a specific work for study.
- (b) Recording relevant information regarding working conditions, nature of work and worker, sequence of actual performance of the various items of the total range of work and individual elements in item of work.
- (c) Examining the recorded work break down critically to see what would be the best method of doing it, after unnecessary and avoidable nonproductive elements of work and motions have been separated;
- (d) Examining with reference to the most appropriate technique for the situation, the time involved in each necessary element;
- (e) Determining time allowances to cover relaxation, personal need, contingencies etc, and
- (f) Compiling the standard time for each operation which will include measured time and permissible time allowances.

(Authority : Paragraph 3.21.21 of MSO 2002)

Time estimates or work norms are devised for various elements, operations or jobs in a department or organisation by applying the techniques of time study, synthetic data, analytical estimating, activity or work sampling etc. Time study is conducted by detailing the various steps involved in a job together with the different elements in each of them and measuring each element usually by a stop watch. The effective speed of the operation of the worker is assessed in relation to the observer's concept of the rate corresponding to the standard pace of working or what may be called a normal speed of working which he develops through long practice. Generally, each element is rated during its performance before time is recorded without regard to previous or succeeding elements. The observed times are then converted into 'basic times'. Allowances for relaxation, personal needs and contingencies are then added as a percentage of basic times since precise measurement thereof would be uneconomical because of their infrequent or irregular occurrences. The standard times for different elements operations or jobs

are thus arrived at. The second is the technique of synthesis of elemental standard times. This is applied to jobs or parts thereof, comprising elements which frequently recur in other jobs and have been correctly measured under identical conditions from direct time studies. The technique of analytical estimating is used for measurement of work comprising wholly or partly non-repetitive elements. A detailed job break down is prepared and each element is assigned a time value based on standard performance which in the case of repetitive elements may carry time value from fresh time study data or available synthetic data and in the absence of such data, estimated times may be developed on the basis of accepted practice. Activity or work sampling is the principle of drawing inferences and establishing frames of references from a random sample of the total activity of machines or man observed during a period of time. It is a process of drawing inferences or general conclusions about a mass or aggregate of similar items, based upon the careful study of smaller number of items called sample drawn from the mass. The assumption here is that what is true of the sample is true of the whole.

(Authority : Paragraph 3.21.22, 3.21.23, 3.21.24, 3.21.25 and 3.21.26 of MSO 2002)

Individual department or organization has to select appropriate work measurement techniques and lay down time estimates or work norms for different types of jobs. An independent agency called Staff Inspection Unit is generally constituted not only to lay down norms but also periodically review the actual functioning of offices to ensure that;

- (a) man-power sanctioned for a particular purpose is utilised for that very purpose;
- (b) redundant and profitless activities are eliminated; and
- (c) work is simplified so as to affect economy in manpower without sacrificing efficiency.

(Authority : Paragraph 3.21.27 of MSO 2002)

In auditing the system relating to work norms and the working of staff Inspection Unit, the questions that are relevant for examination are:

- i. Whether techniques followed in formulating the time estimates are appropriate to the work environments and conditions obtaining in the particular Department?

- ii. When were these estimates formulated, whether there have been any material variations in the job content or the estimates have otherwise become old necessitating revision, if so, whether timely action was taken?
- iii. Where *ad-hoc* methods have been adopted, whether they are really such as cannot be subjected to work measurement?
- iv. Is staff inspection independent from control byline management?
- v. Are the staff inspectors selected from a wide enough field to have a mix of both executive and technical officers?
- vi. Whether the Staff Inspection programmes take account of views expressed by the manpower branch, O&M and other review bodies?
- vii. Does it follow a cyclical pattern to cover all important units over a particular period?
- viii. What sections/branches/grades of staff are not inspected and whether their omissions are in order?
- ix. Is the planned cycle of inspection achieved?
 - x. For Departments having an extensive local office structure are all individual officers inspected or is the inspection confined to a sample of offices?
 - xi. Can the sample be justified statistically?
- xii. What arrangements exist for monitoring the implementation of staff inspection recommendations?
- xiii. Where there is conflict between staff inspection and management is the matter referred to a senior level for an objective decision?
- xiv. Is a reasonable schedule of implementation agreed with management?
- xv. Is failure to implement report to senior management?

(Authority : Paragraph 3.21.28 of MSO 2002)

11.06 Control of man-power

The various systems enumerated above are required to be properly coordinated and controlled to achieve maximum efficiency and effectiveness in the working of the Department or Organisation. With this end in view there should be a separate branch or section under each cadre controlling authority for coordinating and controlling departmental man-power. The role and duties of this branch should be clearly defined and it should, as far as possible, be independent from line management, with a direct reporting responsibility to the cadre controlling authority itself. The function of control and co-ordination can be exercised in different ways. One method is through management information system for which appropriate returns have to be prescribed.

Another method is by means of administrative inspection of the different offices under the jurisdiction of the cadre controlling authority. In certain situations a combination of both these methods may be called for.

(Authority : Paragraph 3.21.29 and 3.21.30 of MSO 2002)

In auditing man-power control system the main points for examination are:

- i) Whether there exists a separate branch or section for coordinating and controlling departmental man-power with a clear demarcation of its role and responsibility?
- ii) What are the returns prescribed for obtaining information on various aspects concerning man-power, whether they are adequate to the needs and whether they are properly made use of?

Whether the man-power branch critically examines all manpower bids taking into account the work norms, the recommendations of Organisations and methods unit, Staff Inspection etc?
- iii) Is there a sound system of evaluating requests for additional man-power after approval of the original bids?
- iv) Is the utilization of man-power monitored?
- v) Are work procedures examined by O&M unit with a view to streamlining and bringing them in tune with the changing circumstances?

- vi) Are there adequate arrangements for monitoring performance and whether they are adequate?
- vii) Have steps been taken to provide training so as to enrich the staff with latest information and techniques relevant for their job requirements? and
- viii) What arrangements exist to co-relate man-power with the achievement to targets/goals?

(Authority : Paragraph 3.21.30 of MSO 2002)

11.07 Conclusion

The above guidelines are aimed at carrying out man-power audit in government departments with a view to streamlining the systems and procedures regulating man-power control and bring about suitable reforms, where necessary. The spirit behind the systems audit of man-power is to suggest positive measures for the optimum utilization of available man-power and to bring about organizational efficiency.

(Authority: Audit Guide Series NO.8 issued by the C&AG of India)



Chapter –XII

Central Assistance

Procedure For Release Of Central Assistance In Respect Of Plan/Non-Plan/Special Non-Plan Schemes.

12.01 Introduction

Prior to 1958-59 for plan scheme Central Assistance was released to the State Governments by raising debit against the centre. From 1958-59 to 1964-65 the procedure for release of Central Assistance against ways and Means Advance granted by the Central Government on the basis of Departmental actual was adopted subject to final adjustment. With effect from 1965-66 the Central Assistance to states on the basis of audited expenditure figures against ways and Means Advance subject to final adjustment has been in vogue. The pattern of assistance (on percentage basis) is decided by Government of India.

[G.I.M.F. (DEA) letter No.F-2(17)-III/58 dated 12.5.1958 and C&AG 's letter No.1437-Tech-Admn.I/363/62-Vol.II dated 24.5.1965].

12.02 Sanction of Schemes

State Plan schemes should be sanctioned by the State Government and no financial sanction from the centre would be issued. Centrally sponsored schemes will require specific approval of the Administrative Ministries. Government of India do not give formal approval to any of the schemes included in various plan Heads of Development and no financial sanction to individual schemes is issued from the Centre except to the extent indicated in Para 10.03. The schemes are drawn up with an agreed frame work decided at the time of Annual Plan discussions. Concurrence of the Planning Commission to the proposal sent by the State Government following discussions on Annual Plan will be presumed to have been accorded except in respect of new projects/new categories of schemes, as distinct from continuing schemes.

[Based on C&AG 's letter NO.1437 –Tech-Admn.I/636/62-Vol.II dated 24.5.1965]

12.03 Examination and Acceptance:-

- (i) Centrally sponsored schemes will require specific approval of Administrative Ministries.

(ii) Proposals in respect of Irrigation and Power Projects are examined and accepted by Planning Commission's Advisory Committee.

(iii) Schemes for Industrial Housing and sump clearance by M.W.H. & U.D.

(iv) In the case of all big projects the State Government have to obtain the clearance of the Government of India for the revised cost estimate of the Project, if it involves substantial revision resulting in an increase of more than 10% of the originally approved cost estimates.

(v) **Irrigation Projects:-**

(1) Projects costing Rs.2 crore or less:-

The schemes will be broadly examined after submission by the State Government in the prescribed proforma with reference to basic planning and availability of water; inter-state aspect; and any other important aspect radically affecting the size and shape of the project.

(2) Projects costing more than Rs. 2 crore:-

The project should be submitted by the State Government to the Central Water & Power Commission for detailed examination with a copy to the Planning Commission. In the case of projects costing Rs.5 crore and above, a copy of the project report should be forwarded to the Ministries of Irrigation and Power and Finance (D.C.)

(vi) Flood control, Drainage, Anti-Water logging and anti-sea erosion schemes:

(1) Schemes costing Rs.25 lakh or less:-

The schemes for raising and strengthening and retired line of existing embankment, investigation of flood control, drainage, anti-water logging, anti-sea erosion schemes and raising of villages will be approved by the State Flood Control Board on the recommendation of the state Chief Engineer and sanctioned by the State Government.

Schemes having inter-departmental and of inter-state implications should be got examined and cleared by the

Central Water and Power Commission before they are finally approved by the State Flood Control Board and sanctioned by the State Government.

Other schemes will be processed through the State Technical Advisory Committee and sanctioned by the State Government.

A list of schemes sanctioned by the State Government with the information required in the prescribed proforma will be supplied to the Irrigation & Power Division of the Planning Commission with a copy to Central Water & Power Commission.

(2) Scheme costing more than Rs.25 lakh but not exceeding Rupees one crore:

The schemes under this category are to be completed and processed by the State Government and Central Ministries will intimate their approval to State Government. The State Government is to ensure that sufficient information is made available to enable the Ministries to judge that the schemes to be implemented follow the lines approved.

Exceptions -Such of schemes which lie in or extend to a limit of 5 miles from the border, from an inter-state river which does not flow down to any other state but whose effect may extend into the upper state, Embankment schemes in certain estuarine creeks effecting adjoining estuaries in another country, Embankment schemes which are on river tributaries which flow down to another state; Embankment schemes on rivers flowing ultimately into another country will be examined in detail by Central Water & Power Commission.

(3) Schemes costing more than Rupees one crore:-
These will be submitted by the State Government to Central Water Power Commission for detailed examination with copies to Planning Commission and Ministries of Irrigation & Power Department.

(vii) **Power Projects:-**

(1) Generating Schemes and Transmission Schemes of 33 KV and above.

All such schemes will be submitted by the State Government to the Central Water & Power Commission for detailed examination and to Planning Commission.

(2) Distribution Schemes:-

As under (1) above.

(3) Rural Electrification Scheme:-

(a) State Governments are to forward to the Central Water & Power Commission and Planning Commission the overall project information in the prescribed proforma (either on annual, biennial or on five year basis).

(b) Since Agricultural production has been assigned the highest priority, rural electrification should be oriented to sub-serve the agricultural needs and should therefore, aim at energising wells and not merely electrification of villages.

12.04 Modification and Revision of Project Estimate (Irrigation Flood Control & Power Project) on account of change in their scope and/or estimated cost.

(1) In respect of a project whose revised cost is more than Rs. 2 crores and/or which involves Inter-State aspects (including share of the states in the availability of water), if the scope of the project approved by the Planning Commission requires modification/revision resulting in an increase in the cost of more than 10% or Rs.1 crore, which ever is less, such modification would have to be intimated by the State Government to the Planning Commission and the Central Water and Power Commission for review by the Advisory Committee on Irrigation Flood Control and Power Project.

(2) If the revised cost of a project is Rs.2 crore or less, irrespective of the percentage increase in cost, only the

increase in the cost and change in the scope of the project, if an, need be intimated. For a project whose revised cost is more than Rs.2 crore, the revised estimate should be sent to Planning Commission and Central Water and Power Commission, if the increase in cost is more than 10% or Rs.2 crore, which ever is less.

Note: (1) No work on any Irrigation, Flood Control and Power Project should be undertaken by the State Government unless the schemes are approved in accordance with the procedure laid down above.

(G.I. Planning & Coordination letter No.Plan-5/2/57 dated 12.5.1958, C & A.G's letter No.1437-Tech-Admn.I/636/62-Vol.II dated 24.5.65, M.F. (DC) letter No.2(47)-P/64 dated 17.2.1966, Government of India, P&C letter No.111-1(1)165-I^P dated 25.7.1966 and C & A.G's letter No.4382-Tech.Admn.I/30-66 dated 14-12-1966)

- (2) For inclusion in the State Plan of all Projects involving outlays of Rs. 5 crores and above including cases where the estimated cost of the project after revision exceeds Rs.5 crores, state Governments should obtain prior clearance from the Central Government (Administrative Ministries concerned) before any commitments are made or expenditure incurred. No clearance would be given to any new project of the order of Rs.5 crores and above except in consultation with the Ministry of Finance (DC).

In view of large escalation in the cost of few major schemes with consequent strain on financial resources resulting in substantial reduction of outlays on other important programmes in the state Plan and delays in execution in several cases without proper phasing of expenditure in the light of availability of resources, it is necessary to ensure that the schemes involving very large outlays are prepared and executed in such a manner as to reduce to the minimum, the time-lag between their completion and accrual of benefits after detailed scrutiny in the initial stages.

[Based on G.I. M.F. (DC) Planning Branch letter NO.F.2 (47)-p64-8-4-65 dated 18.9.1965 received with C & AG letter NO.4533-TA-130-66 dated 7.1.1967].

12.4.1 The Government of India releases each year assistance in the form of grants and/or loans to various States and Union Territory Governments for different Central and centrally sponsored schemes in accordance with the pattern specified in the sanctions relating to these schemes. While the entire expenditure on certain schemes is borne by the

Central Government, expenditure on others is shared between the Central Government and the State or Union Territory Government, as the case may be. The assistance in respect of State Plan schemes takes the form of Block Grants and loans that are related to the total outlay allotted for the State Plan as a whole by the Planning Commission without linkage with the individual schemes except to the extent of certain earmarked categories like power, major irrigation schemes, elementary education, rural water supply, minimum needs programme and some schemes in the agriculture and allied sectors. Besides the Plan assistance, the State and Union Territory Governments also receive assistance in the form of loans and/or grants from different Ministries of the Government of India for meeting certain items of non-Plan expenditure, such as those intended for mitigating the impact of natural calamities, rehabilitation of refugees, provision of fertilizer loans, loans under the National Loan Scholarship Scheme, etc.

12.4.2 Except in respect of certain some Non-Plan schemes, the assistance is released in advance by the Government of India based on the claims submitted forward by the State or Union Territory Government concerned, subject to its final adjustment in due course based on the actual expenditure. According to the procedure prescribed by the Ministry of Finance for finalising the assistance relating to Plan Schemes, the final claims are to be preferred, in the prescribed proforma, by the State and Union Territory Governments on the basis of audited figures of expenditure.

12.4.3 After the accounts of the year are closed, the Accountant General (A&E) will prepare Statements of Expenditure for the grants in question, indicating therein the items placed under objection by him, and furnish these to the Accountant General (Audit) for audit and certification. The Central Audit Support Section in the office of the Accountant General (Audit) should audit the statements received from the A&E office and forward certified copies of the statements to the Ministry of Finance, the administrative ministries concerned, and the State/Union Territory Government concerned, indicating therein the amounts placed under objection by both the A&E office and the Senior Audit officer. The State/Union Territory Government concerned will prefer its final claims based on these audited statements.

12.4.4 The Accountant General (Audit) shall prepare, in consultation with the Accountant General (A&E), an action plan for segregating the

actual expenditure under the Central Plan, Centrally Sponsored and State Plan schemes financed out of central assistance and arrange their audit immediately on closure of the accounts of the year. In order to facilitate the preparation of the action plan, the following information should be called for from the State Governments:

- (i) Number of schemes and their details.
- (ii) Details of the Heads of Account, including sub-heads and detailed heads, under which expenditure on each individual scheme is booked.
- (iii) Sanctions of the Union and State Governments pertaining to each scheme.
- (iv) Particulars of all implementing agencies executing the schemes throughout the State.
- (v) Budget provisions and details of systems in force for control over expenditure.

12.4.5 The local audit and central audit parties should be instructed to indicate in the Inspection Reports, details of the scheme, the drawing officers and classification in respect of the amounts held under objection in the course of their audit. The local audit parties should also be advised to collect, in the course of their audit of the sanctioning authorities, relevant information in regard to utilisation certificates not furnished.

12.4.6 While certifying the expenditure, objections of a routine nature such as non-availability of some vouchers, absence of budget allotment, non-availability of sanction, etc, which would not affect the Central assistance may be ignored. It should, however, be borne in mind that:

- (i) the amounts drawn in abstract bills for which detailed bills have not been submitted should be excluded;
- (ii) any item of expenditure found to be clearly ineligible for Central assistance with reference to the terms or the instructions of the Government of India governing such assistance should not be included and if the amount involved cannot be precisely determined, the certificate should be qualified accordingly;

- (iii) any point of doubt in regard to eligibility for Central assistance should be got clarified from the administrative ministry concerned; and
- (iv) the certificate should be qualified that it has been issued without prejudice to the right of the Comptroller and Auditor General to include in the Audit Report any comments arising out of the audit in regard to utilisation of Central assistance by State Governments.

12.4.7 Whenever expenditure is not identifiable for the purpose of certification, as much information as may be available in the accounts records of the Accountant General (A&E) should be furnished leaving it to the Ministry of Finance to call for such further information as may be necessary from the State/Union Territory Governments for finalisation of the Central assistance. The following procedure may be adopted in such cases:

- (i) If details of the break-up of expenditure under State Plan schemes, Central Plan schemes and Centrally Sponsored schemes are separately available in the Finance and detailed Appropriation Accounts, these may be furnished along with scheme-wise details to the extent available; otherwise, the total plan expenditure under each minor head may be furnished supported by scheme-wise details to the extent available.
- (ii) Loans and grants given to local bodies and autonomous bodies may be treated as final expenditure.
- (iii) Amounts held under objection on account of non-availability of detailed bills or utilisation certificates may be excluded from the audited figures of expenditure if it is possible to relate them to a particular scheme or category of schemes; otherwise, the certificate may be qualified to indicate that the scheme-wise breakdown of amounts held under objection is not available and that these details are being obtained from the departmental officers.
- (iv) In cases where any scheme has been comprehensively reviewed in audit, attention may be drawn to the relevant paragraphs/review in the Audit Report so that the Central

Government can take the irregularities mentioned therein into account at the time of final adjustment of the assistance.

12.4.8 Often, moneys intended as Plan assistance are withdrawn from the Consolidated Fund and paid to an autonomous institution or a local body which does not utilise the funds for the intended purpose. There can also be instances of such withdrawals being paid to a public sector undertaking with the specific direction that the funds should be retained in a personal ledger account to be opened in the treasury so as to ensure that the ways and means position is not affected. Funds withdrawn from the Consolidated Fund are also often retained either in a bank account or in the form of cash or cheques. Though comments on such instances are included in the Audit Reports, it will also be necessary to review such cases in order to ascertain the actual utilisation of the grants sanctioned and allotted not only by the Central Government but also by the State Government themselves in the Plan Sector for implementation of different Plan schemes. Such cases noticed in course of audit should also be reported as a part of the audit certificate as far as possible.

12.4.9 In States which follow the irregular practice of withdrawing money from the bank or treasury by debit to a specific plan scheme and retaining it in Civil Deposits or Personal Ledger accounts or in the form of cheques or cash, the Accountant General (A&E) should see that the amount is kept under objection and that a note is also kept in a register in the Deposit Section also to watch the release of the deposits and their utilisation in the subsequent year. Department/Directorate-wise details of all such cases should be sent to the Audit Office for examination of the transactions during local audit and linking them with the schemes in respect of that office. A general review of amounts intended for various Plan schemes retained instead in personal deposit accounts by debit to the Consolidated Fund could also be taken up so that irregularities in the utilisation of central assistance could be brought to the special notice of the ministry concerned for taking necessary action at the time of adjustment of the Central assistance.

12.4.10 In cases where the audit certificate is issued before the local audit is undertaken, it should be specifically brought out that the certificate is issued subject to local audit in due course and also without any prejudice to the right to include in the Audit Report any audit comments in regard to the utilisation of the Central assistance by the State Government.

A quarterly progress report indicating the number of schemes for which certificates are to be issued and the progress made in the certification of accounts from time to time should be forwarded by the Accountant General (Audit) to the Office of the Comptroller and Auditor General by the first week of the month following the quarter to which the report relates. The information should be furnished year-wise and separately for each category of Plan schemes. The report for the quarter ending March should be accompanied by a list of schemes for which the audit certificate could not be issued.

Miscellaneous

12.4.11 For some payments of miscellaneous nature, such as remittance vouchers, cheques, discount vouchers, etc., nothing more than a minimum audit can be prescribed generally. This minimum consists in verifying that there is a sufficient voucher for the payment and that there is sufficient authority for making it.

(Authority : Paragraph 3.23.16 to Paragraph 3.23.27 of C&AG MSO 2002)

12.05 Furnishing of Audit Certificate

It has been decided by the C. & AG that the due dates for verification of expenditure figures (on plan schemes) and furnishing of Audit Certificates (Form 6) to the Government of India would be:

(i)	Completion of verification of expenditure figures	By end of November of the succeeding year (e.g. by end of 11/66 in respect of accounts for 65-66)
(ii)	Submission of Audit Certificates to the Government of India	By the end of September of second succeeding year (e.g. by the end of 65-66)

Accordingly the Audit Certificate must be furnished to the CAC T&F of this office by the end of August of the succeeding financial year at the latest.

Note: The Accountant General (A&E) has to furnish the statement of expenditure duly reconciled to Accountant General (Audit), for Audit Certification. If however any amount has been kept under objection pending receipt of D.C. Bills etc. Accountant General (A&E) shall intimate that figures also. Accountant General (Audit) will issue the certificate direct to concerned authorities.

(Based on C&AG 's letter No.561-TA.I-199-83/TM dated 16.5.1984)

12.06 Submission of Registers

The Register of Audit Certificates maintained by CAS Section should be submitted to the Branch Officers on 5th of every month and to the Senior Deputy Accountant General (Works Audit) quarterly on 10th of March, June, September and December).

II. Procedure For Sanction And Payment Of Grants-In-Aid To State Government Towards Expenditure On Displaced Persons Etc.

12.07 Approval of Scheme

The State Governments will not be eligible to any grants-in-aid towards expenditure incurred on any such scheme unless the approval of the Government of India, Ministry of Labour, Employment and Rehabilitation (Department of Rehabilitation), prescribing, if necessary, the authorized scales at which, and the conditions, if any, under which expenditure will be incurred is secured before implementing any such schemes from the Budgets of the State concerned against the appropriate sanctions as the State Government may issue. Such approvals will continue to remain in force until specifically withdrawn by the Government of India.

12.08 Periodical Reports on Progress of Expenditure

State Governments claiming payment of Grants-in-aid from the Government of India (Department of Rehabilitation) should send periodical reports in Form in **Appendix-F** giving the progress of expenditure actually incurred as per records of State Government during the quarter “April to June”, “July to September”, “October to December” so as to reach the Government of India by end of July, October and January respectively.

In addition, for the last quarter, i.e. January to March, the State Governments should send an estimate of the relevant expenditure likely to be incurred during the quarter so as to reach the Department of Rehabilitation positively by the first week of February, followed in a report the form Annexure ‘A’ for that quarter by end of April next year.

12.09 Sanctions of Grants-in-aid by the Central Government

On receipt of the reports referred to above, the Department of Rehabilitation will after satisfying themselves about the eligibility of the State Government to the payment of Grants-in-aid and taking into account short or excess payments, if any, for earlier periods including those disclosed as per para 12.11 of this Manual, communicate to the Accountant General concerned, sanction of the President to the payment of the amount specified therein as Grants-in-aid to the State Government for the relevant quarter. The amount of the arrear payment or recovery of the excess payment, if any, in respect of earlier period will also be specified in the sanctions.

12.10 Payments of Grants-in-aid

On receipt of the sanctions for payment, the Accountant General (A&E) of the State concerned will forthwith place the entire amount so sanctioned to the credit of the account for the State Government under intimation to state Government as well as to sanctioning authority, without intervention of the Pay and Senior Accounts Officer of the Ministry concerned. The debits for the payments will finally be adjusted in the accounts of the Central Government under the head, unit of appropriation etc. indicated in the relevant sanction for payment.

12.11 Audited figure of expenditure

The State Governments will take prompt and effective steps to get the figures of expenditure reconciled with the figures actually booked by the Accountant General (A&E) concerned and also duly audited by Accountant General (Audit) within a period of six months after the month in which expenditure was incurred. Thereafter, the State Government will furnish to the Government of India two statements each duly certified by the Accountant General (Audit) showing audited figures of expenditure incurred in first and second six months of each financial year and also Grants-in-aid actually received from the Government of India in respect of the relevant half year, so that statements for first and second six month of financial year reach the Government of India by end of April and October respectively of the following financial year. The excess payment or short payment, if any, disclosed by audited figures of

expenditure will be adjusted either separately or in the sanctions for payment of Grants-in-aid to be issued as per Para 10.09 supra.

(G.I. Ministry of Labour, Employment and Rehabilitation
(Department of Rehabilitation) letter No.21/4/67-BUD dated
19.7.1969].

Note: - The Central Accounting Section intimate the amount of Grants, if any, received on behalf of the State Government on account of Grants-in-aid schemes. In case audit of the scheme is conducted by another Senior Audit Officer, the particulars of the objections raised by the former should be called for before issue of the Audit Certificate by the Senior Deputy accountant General (Works Audit) for incorporation in the Audit certificate.

Appendix-F

(Para 12.08)

(Grants - in – aid to State Government)

Claims for payment of Grant-in-aid towards the expenditure (Departmental) incurred by the Government of on relief and rehabilitation of displaced persons from Pakistan, repatriates from other countries etc. during the quarter April – June, 19..... July – September, October – December, January – March.

Particulars of items schemed	No. & date of Govt. of India's approval	Expenditure incurred during the current financial year		
		Till the end of the previous quarter ending	During the quarter ending	Total

Displaced persons from
(Rehabilitation) (Item wise)
II-old migrants from East Pakistan
(Displaced persons who migrated to India prior to))

- (a) Rehabilitation (Plan)
(Item-wise)
Total
- (b) Rehabilitation (Non-Plan)

(Item-wise)

Total

I. New Migrants from East Pakistan
Displaces persons who migrated to
India after

- (a) Relief
(i) Establishments
(ii) Feeding Cash doles
(iii) Works
(iv) Miscellaneous
(v) P.L. Home
(vi) Discretionary grant

Total

(b) Rehabilitation (Plan)

(Item wise)

Total

(c) Rehabilitation (Non-Plan)

(Item-wise)

Total

Total new migrants.

II. Conflict

(Item-wise)

Total

III. Repatriates

(a) Relief

(Item-wise)

Total

(b) Rehabilitation (Plan)

(Item-wise)

Total

(c) Rehabilitation (Non-plan)

(Item-wise)

Total

TotalRepatriates.

IV Repatriates

(a) Relief

(Item-wise)
Total
(b) Rehabilitation (Plan)
(Item-wise)
Total...
(c) Rehabilitation (Non-plan)
(Item-wise)
Total
Total Repatriates.

V. Miscellaneous, if any
(with details)



Chapter – XIII

Performance Audit

13.1 These guidelines contain the framework for the process of performance auditing within the Indian Audit and Accounts Department (IA&AD) headed by the Comptroller and Auditor General (C&AG) of India hereinafter referred as the Department. They provide the best practices that the officers and the staff of Department must follow in planning, implementation, reporting, observing follow-up processes and obtaining quality assurance in performance audits. They 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. These Guidelines contain comprehensive implementation instructions and replace the Performance Auditing Guidelines, 2004.

Scope for individual initiative and professional judgement

13.2 While these guidelines are prescriptive in nature, these are not intended to supersede the professional judgement of the Accountant General⁹, relevant to the individual sectors of entity operations and within each sector, to the individual subjects. The Accountant General is expected to make situation or subject specific adjustments to the provisions set out in these guidelines. However, Accountants General will be expected to document the rationale of all significant departures from the guidelines and obtain authorisation from the competent authority.

Performance Auditing

13.3 Regulations on Audit and Accounts, 2007 provide the appropriate guidance for audits undertaken by the Department. The Department performs its auditing functions as per C&AG Auditing Standards, 2002 which have been adapted from ISSAIs (100-400). C&AG 's Auditing Standard 4.9 defines the scope of audit as under: “The term 'Audit' includes financial audit, regularity audit and

⁹ The term Accountant General includes all heads of field audit offices of the rank of SAG and above within the IA&AD.

performance audit”.

The auditing standard further adds that in pursuance of the constitutional responsibility, the Department is empowered to decide the nature, scope, extent and quantum of audit to be conducted by it or on its behalf.

“Performance audit is an independent assessment or examination of the extent to which an organisation, programme or scheme operates economically, efficiently and effectively.”

Regulation 68 of Regulations on Audit and Accounts.

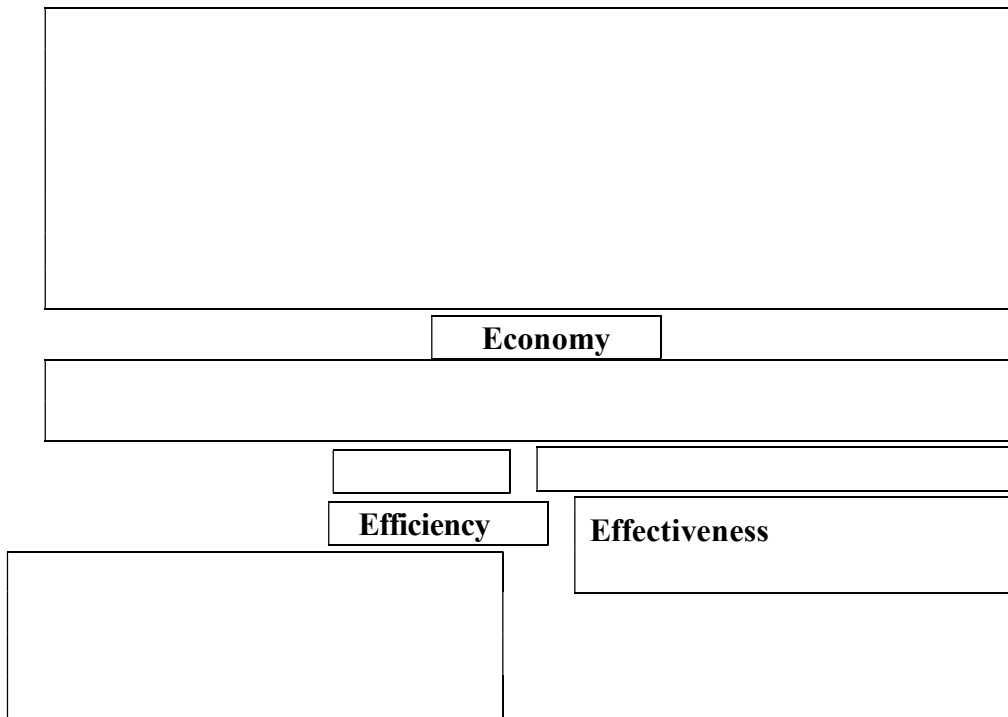
13.4 Performance auditing carried out by the Department is an independent, objective and reliable examination of whether government undertakings, programs, systems, activities or organisations are performing in accordance with the principles of economy, efficiency & effectiveness and whether there is room for improvement.

13.5 Performance auditing seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement. Performance audits deliver new information, knowledge or value by:

- providing new analytical insights (broader or deeper analysis or new perspectives);
- making existing information more accessible to various stakeholders;
- providing an independent and authoritative view or conclusion based on audit evidence;
- providing recommendations based on an analysis of audit findings.

13.6 Typically, Performance Audits address the issues of economy, efficiency and effectiveness.

Economy, Efficiency and Effectiveness



Economy, Efficiency and Effectiveness

Economy

Economy	-	Minimising the cost of resources used by acquiring them in due time, appropriate quantity and quality and at the best price.
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13.7 Judging economy in itself implies forming an opinion on the resources (human, financial and material) deployed. This requires assessing whether given the context, resources have been acquired, held and used economically and acquired in due time, in appropriate quantity and quality at the best price. The performance auditor needs to examine whether the means chosen represent the most or at least a reasonable economical use of public funds.

Efficiency

Efficiency	-	The relationship between resources employed and outputs delivered; in terms of quantity, quality and timing
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13.8 The principle of efficiency means getting the most from the available resources. Efficiency exists where the use of financial, human, physical and information resources is such that output is maximised for any given set of resource inputs, or input is minimised for any given quantity and quality of output. The main issue to be examined here is whether the resources have been put to optimal or satisfactory use or whether the same or similar results in terms of quality and turn-around time could have been achieved with fewer resources. It refers to the relationship between the quality and quantity of goods and services yielded and the cost of resources used to produce them, in order to achieve the results.

13.9 A finding on efficiency can be formulated by means of a comparison with similar activities, with other periods or with a standard, which the entity has explicitly adopted. Assessments on efficiency might also be based on conditions that are not related to specific standards, i.e., when matters are so complex that there are no standards. In such cases, assessments must be based on the best practices and available information.

13.10 Auditing efficiency embraces aspects such as whether:

- human, financial and other resources are efficiently used;
- public sector programmes, entities and activities are efficiently managed, regulated, organised and executed;
- services are delivered in a timely manner; and
- the objectives of public sector programmes are met cost-effectively.

Effectiveness

Effectiveness- Meeting the objectives set and achieving the intended results.

13.11 Effectiveness is essentially a goal-attainment concept. It addresses the issue of whether the programme/activity has achieved its objectives. When focusing on effectiveness, it is important to distinguish between the immediate outputs or products and the ultimate impacts or outcomes. Outcomes are important to the effectiveness of programmes/activities but may be more difficult to measure and assess than the inputs and outputs. Outcomes will often be influenced by external factors and may require long- term

rather than short-term assessment.

13.12 In auditing effectiveness, performance audit may, for instance:

- assess whether the objectives of and the means provided (legal, financial, *etc.*) for a new or ongoing public sector programme are proper, consistent, suitable or relevant to the policy;
- assess and establish with evidence whether the observed direct or indirect social and economic impacts of a policy are due to the policy or to other causes;
- identify factors inhibiting satisfactory performance or goal-fulfilment;
- assess whether the programme complements, duplicates, overlaps or counteracts other related programmes;
- assess the adequacy of the management control system for measuring, monitoring and reporting a programme's effectiveness; and
- identify ways of making programmes work more effectively.

Two basic questions

13.13 Performance auditors may find answers to the following two basic questions:

- Are things being done in the right way?
- Are the right things being done?

The first question means, broadly speaking, whether policy decisions are being carried out properly. This question is usually associated with a assessment vis-à-vis norms i.e., the performance auditor wants to know whether the executive has observed the rules or the requirements consistent with the programme. Up to this point, performance auditing is mainly concerned with different aspects of the economy or the efficiency of operations. The scope for analysis becomes considerably greater by posing the second question, i.e., whether the right things are being done. In other words, effectiveness of the operations would be examined by asking questions whether the adopted policies have been suitably implemented. A performance auditor might, for instance, find a chosen measure ineffective and inconsistent with the policy objectives.

13.14 In the effort to find answer to the second question, adequate caution should be exercised by not going beyond the audit mandate by respecting the roles assigned to executive and audit. However, the correctness of the information or inputs that were considered while framing the policy and sufficiency of the programmes and resources to fulfil the policy objectives may be assessed and reported.

Objectives of Performance Audit

13.15 The main objective of performance auditing is to constructively promote economical, effective and efficient governance. It also contributes to accountability and transparency. Performance auditing promotes accountability by assisting those charged with governance and oversight responsibilities to improve performance. It does this by examining whether decisions by the legislature or the executive are efficiently and effectively prepared and implemented, and whether taxpayers or citizens have received value for money. It does not question the intentions and decisions of the legislature, but examines whether any shortcomings in the laws and regulations or their way of implementation have prevented the specified objectives from being achieved. Performance auditing focuses on areas in which it can add value for citizens and which have the greatest potential for improvement. It provides constructive incentives for the responsible parties to take appropriate action. Performance auditing promotes transparency by affording parliament, taxpayers, those targeted by government policies, media and other stakeholders

an insight into the management and outcomes of different government activities. It thereby contributes in a direct way to providing useful information to the citizen, while also serving as a basis for learning and improvements.

Elements of Performance Audit

13.16 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.

The three parties

13.17 Public sector audit involves at least three separate parties: the auditor; the responsible party and the intended user. These are briefly described below:

13.18 The auditor: In public sector auditing, the role of auditor is fulfilled by the Department and by the persons delegated with the task of conducting audits. However, clear-cut demarcation of roles and responsibilities of officers and staff for various functions and processes is done through a hierarchical structure. Auditors in performance audits typically work in a team with different and complementing skills.

13.19 The responsible party: Responsible party would typically mean audited entity and those charged with governance. The role of responsible party may be shared by a range of individuals or entities, each with responsibility for a different aspect of the subject matter in some cases at different points in time. Some parties may be responsible for actions that have caused problems. Others may be able to initiate changes to address the recommendations resulting from a performance audit. Still others may be responsible for providing the auditor with information or evidence.

13.20 Intended users: The intended users are the persons for whom the auditor prepares the performance audit report. The legislature, government agencies and the public can all be intended users. A responsible party is also an intended user.

Subject matter

13.21 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 and formulated in the audit questions.

Audit Criteria

13.22 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. The auditor may sometimes be involved in developing or selecting the criteria that are relevant to the audit as further discussed in para 2.7 to 2.11 under Chapter 2.

Assurance and confidence in performance auditing

13.23 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.

13.24 The level of assurance that a performance audit report provides should be communicated in a transparent way. Whether economy, efficiency and effectiveness have

been achieved may be conveyed in the performance audit report in different ways:

- through an overall view on aspects of economy, efficiency and effectiveness, when the audit objectives, the subject matter, the evidence obtained and the findings reached allow for such conclusions; or
- by providing specific information in the report on different points, including the audit objectives, the questions asked, the evidence obtained, the criteria used, the findings reached and the specific conclusions.

However, the performance auditor is not normally expected to provide an overall opinion on the achievement of economy, efficiency and effectiveness on the level of the audited entity in the same way as the opinion on financial statements.

13.25 The decisions made in drawing up a balanced report, reaching conclusions and formulating recommendations frequently need to be elaborated in order to build user confidence. Performance auditors should specifically describe how their findings have led to a set of conclusions and, if applicable, an overall conclusion.

This means explaining the criteria developed and used and why, and stating that all relevant viewpoints have been taken into account. The principles on reporting give further guidance for this process.

Outcomes of performance audits

13.26 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. Performance auditing may, therefore, lead to better accountability, improved economy and efficiency in the acquisition of resources, improved effectiveness in achieving public sector programme objectives, a higher quality in public sector service delivery and improved management planning and control. It is an important responsibility of the auditor to ensure that through each performance audit one or more of these objectives are met.

13.27 Performance auditing is a means to an end and not an end by itself. Performance audit should be aimed at adding value to the Management by way of reliable, objective and independent information, highlighting the shortcomings in programme planning, implementation, information systems affecting the outputs and outcome specifically and quality of expenditure or management generally. In addition, performance audit reports provide valuable information and independent assessment on programme management and the extent of fulfilment of the policy objectives to the stakeholders including the Parliament, the State Legislatures and the general public. Thus, good quality performance audit contributes to good governance.

13.28 The users of performance audit reports expect reliable reports. All performance audits should, thus, be planned and performed keeping in view the expected outcome. It is a good practice to evaluate the real impact of performance audit on entity policies and programmes.

General outlay of Performance Auditing Guidelines

13.29 These guidelines are presented in a sequence as the process of performance audit. The Department has to deal with a variety of subjects of performance audits and conduct audit in diverse entity environments. Besides, different structures for audit management exist in the Department for the Union Government (civil, defence, railways, communication, revenue and commercial audits) and the audit of State Governments. It may, therefore, be necessary to adjust the actual process of planning, field audits and

consolidation of the performance audits in the context of the entity environment and composition of audit offices.

Mandate and General Principles for Performance Audits

Mandate for Performance Audit

13.30 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. The statutory position is established under the Comptroller and Auditor General's (Duties, Powers and Conditions of Service), Act 1971. The mandate of C&AG of India for performance audits is described in Sections 13, 14, 15, 16, 17, 19 and 20 read with Section 23 of this Act. Chapter 7 of the Regulations on Audit and Accounts, 2007 provides the specific guidance on this subject. Regulation 68 defines performance audit as an independent assessment or examination of the extent to which an organisation, programme or scheme operates economically, efficiently and effectively. The mandate is further strengthened by practice and convention drawn from 50 years of performance audits relating to the receipts and expenditure of the Union and State governments, government supported autonomous bodies and other public sector undertakings on a variety of subjects carried out by the Department.

General Principles

13.31 The General Principles of performance auditing give guidance on those aspects of performance auditing that are relevant throughout the audit process as implemented in the Department.

Ethics and Independence

13.32 Auditor should comply with the relevant ethical requirements and be independent.

The Code of Ethics adopted by Department spells out the ethical requirements on the part of the auditors while discharging their professional obligations. The Code of Ethics envisages appropriate ethical behavior on part of the head of the Department, all members of the Department and all individuals working for or on behalf of the Department who are involved in auditing and accounting work. The Code of Ethics requirements have to be kept in mind while conducting performance audits.

Audit Objective

13.33 Auditors should set a clearly defined audit objective that relates to the principles of economy, efficiency and effectiveness.

The audit objective determines the approach and design of the engagement. Audit objectives could be descriptive (How are the things?), normative (are things as they ought to be?) and analytical (why are things not as they ought to be?). Normative and analytical audit objectives are more likely to add value. In all cases, the auditors need to consider what the audit pertains to, which organisations and bodies are involved and for whom the ultimate recommendations are likely to be relevant. Well defined audit objectives relate to a single entity or an identifiable group of government undertakings, systems, operations, programmes, activities or organisations.

Audit objectives can be sub-divided into more precise sub-objectives. These should be thematically related, complementary, not overlapping and collectively exhaustive in addressing the overall audit objective.

Audit approach

13.34 Auditors should choose a result, problem or system-oriented approach, or a combination thereof, to facilitate the soundness of audit design.

The overall audit approach is a central element of any audit. It determines the nature of the examination to be made. It also defines the necessary knowledge, information, data, the audit procedures and analysis required. Performance auditing generally follows one of three approaches:

- a system-oriented approach, which examines the proper functioning of management systems, *e.g.* financial management systems;
- a result-oriented approach, which assesses whether outcome or output objectives have been achieved as intended or programmes and services are operating as intended;
- a problem-oriented approach, which examines, verifies and analyses the causes of particular problems or deviations from criteria.

13.35 Audits can be pursued from a top-down or bottom-up perspective. Top-down audits concentrate mainly on the requirements, intentions, objectives and expectations of the legislature and central government. A bottom-up perspective focuses on problems of significance to people and the community.

Audit Criteria

13.36 Auditors should establish suitable criteria which correspond to the audit questions and are related to the principles of economy, efficiency and effectiveness.

Criteria are the benchmarks used to evaluate the subject matter. Performance audit criteria are reasonable and audit specific standards of performance against which the economy, efficiency and effectiveness of operations can be evaluated and assessed.

13.37 The criteria provide a basis for evaluating the evidence, developing audit findings and reaching conclusions on the audit objectives. They also form an important element in discussions within the Department's audit team and with Department's Management and in communication with the audited entities.

The criteria can be qualitative or quantitative and should define what the audited entity will be assessed against. The criteria may be general or specific, focusing on what should be according to laws, regulations or objectives; what is expected, according to sound principles, scientific knowledge and best practice; or what could be (given better conditions).

Diverse sources can be used to identify criteria, including performance measurement frameworks. It should be transparent, which sources were used, and the criteria should be relevant and understandable for users as well as complete, reliable and objective in the context of the subject matter and audit objectives.

13.38 The criteria should be discussed with the audited entities, but it is ultimately the auditor's responsibility to select suitable criteria. While defining and communicating criteria during the planning phase may enhance their reliability and general acceptance, in audits covering complex issues it is not always possible to set criteria in advance; instead

they will be defined during the audit process.

13.39 Whereas in some audit types there are unequivocal legislative criteria, this is not typically the case in performance auditing. The audit objectives, question and approach determine the relevance and the type of suitable criteria, and user confidence in the findings and conclusions of a performance audit depends largely on the criteria. Thus, it is crucial to select reliable and objective criteria.

13.40 In a problem-oriented performance audit, the starting point is a known or suspected deviation from what should or could be. The main objective is, therefore, not just to verify the problem (the deviation from the criterion and its consequences) but to identify causes. This makes it important to decide how to examine and verify causes during the design phase. Conclusions and recommendations are primarily based on the process of analysing and confirming causes, even though they are always rooted in normative criteria.

Audit risk

13.41 **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.**

Many topics in performance auditing are complex and politically sensitive. While simply avoiding such types of audits may reduce the risk of inaccuracy or incompleteness, it could also limit the possibility of providing important feedback for better governance and adding value by audit.

13.42 The risk that an audit will fail to add value ranges from the likelihood of not being able to provide new information or perspectives to the risk of neglecting important factors. Consequently, audit will not being able to provide users of the audit report with knowledge or recommendations that would make a real contribution to better performance. Important aspects of risk may include not possessing the competence to conduct sufficiently broad or deep analysis, lacking access to complete and quality information, relying on inaccurate information (e.g. because of fraud or irregular practices), being unable to put all findings in perspective, and failing to collect or address the most relevant arguments.

13.43 Auditors should, therefore, actively manage risk. Dealing with audit risk is embedded in the whole process and methodology of performance audit. Audit planning documents should state the possible or known risks of the work envisaged and show how these risks will be handled.

Communication

13.44 **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.**

There are several reasons why a regular communication is of particular importance in performance audit:

- As performance audits are not normally conducted on a regular (e.g. annual) basis on the same audited entities, channels of communication may not already exist. While there may be contacts with the legislature and government bodies, other groups (such as academic and business communities or civil society organisations) may not have been engaged with

previously.

- Often there are no predefined criteria (such as a financial reporting framework), and therefore an intensive exchange of views with the audited entity is necessary.
- An active effort is required to obtain insight into the points of view of the various stakeholders to bring out a balanced report.

13.45 Auditors should identify the responsible parties and other key stakeholders and take the initiative in establishing effective two way communication. With good communication, auditors can improve access to information sources and to data and opinions from the audited entity. Using communication channels to explain the purpose of the performance audit to stakeholders also increases the likelihood that audit recommendations will be implemented. Auditors should, therefore, seek to maintain good professional relations with all relevant stakeholders, promote a free and frank flow of information as far as confidentiality requirements permit, and conduct discussions in an atmosphere of mutual respect and understanding for the role and responsibilities of each stakeholder. However, care should be taken to ensure that communication with stakeholders does not compromise the independence and impartiality of the Department.

13.46 Auditors should inform audited entities of the key aspects of the audit, including the audit objective, audit questions and subject matter. Communication will usually take the form of a written engagement letter and regular communication during the audit. Auditors should maintain communication with audited entities throughout the audit process, by means of constructive interaction as different findings, arguments and perspectives are assessed.

13.47 Audited entities should be given an opportunity to comment on the audit findings, conclusions and recommendations before the Department issues its audit report. Any disagreements should be analysed and factual errors corrected. The examination of feedback should be recorded in working papers so that changes to the draft audit report, or reasons for not making changes, are documented.

Skills

13.48 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.

13.49 In performance auditing, specific skills may be required, such as knowledge of evaluation techniques and social science methods, and personal abilities such as communication and writing skills, analytical capacity, creativity and receptiveness. Auditors should have a sound knowledge of government organisations, programmes and functions. This will ensure that the right areas are selected for audit and that auditors can effectively undertake reviews of government programmes and activities.

13.50 There may also be specific ways of acquiring the necessary skills. This knowledge must frequently be acquired or developed specifically for the engagement. Performance audits often involve a learning process and the development of methodology as part of the audit itself. On the job learning and training should therefore be available to auditors, who should maintain their professional skills through ongoing professional development. An open attitude to learning and an encouraging management culture are important conditions for enhancing individual auditors' professional skills.

13.51 In specialised areas, external experts can be used to complement the knowledge of the audit team. Auditors should evaluate whether and in what areas external expertise is required, and make the necessary arrangements. The procurement of the services of the expert or using their work will be as per the general guidelines approved by the C&AG office from time to time.

Professional judgment, due care and scepticism

13.52 Auditors should exercise professional scepticism, but also be receptive and willing to innovate.

It is vital that auditors exercise professional scepticism and adopt a critical approach, maintaining an objective distance from the information provided. Auditors are expected to make rational assessments and discount their own personal preferences and those of others. At the same time, they should be receptive to views and arguments. This is necessary in order to avoid errors of judgement or cognitive bias. If they are not receptive, they may miss important arguments or key evidence.

13.53 As auditors work to develop new knowledge, they also need to be curious, reflective and resourceful in their efforts to collect, interpret and analyse data. A willingness to innovate is equally important. Innovation applies not only to audit process, but also to the audited processes or activities.

13.54 A high standard of professional behaviour should be maintained throughout the audit process, from topic selection and audit planning, via the audit proper, to reporting. It is important for auditors to work systematically, with due care and objectivity and under appropriate supervision.

Quality control

13.55 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.

A robust quality management system facilitates conducting of effective performance audits. High quality of performance audits can only be expected if a sound quality management system exists within the Department. The key elements of Audit Quality Management Framework of the Department have been embedded in these guidelines.

In the conduct of performance audits the following specific issues need to be addressed:

- Performance audit is a process in which the audit team gathers a large amount of audit specific information and exercises a high degree of professional judgement and discretion concerning the relevant issues. This must be taken into account in quality control. The need to establish a working atmosphere of mutual trust and responsibility and provide support for audit teams should be seen as part of quality management. This may entail applying quality control procedures that are relevant and easy to manage and ensuring that auditors are open to feedback received from quality control. If there is a difference of opinion between supervisors and the audit team, appropriate steps should be taken to ensure that the audit team's perspective is given sufficient consideration and that the Department's policy is consistent.
- In performance auditing, even if the report is evidence based, well documented and accurate, it might still be inappropriate or insufficient if it fails to give a balanced and unbiased view, includes too few relevant viewpoints or unsatisfactorily addresses the audit questions. These considerations should therefore be an essential part of measures to safeguard

quality.

- As audit objectives vary widely between different audit engagements, it is important to define clearly what constitutes a high quality report in the specific context of an audit engagement. General quality control measures should therefore be complemented by audit specific measures.

13.56 A motivated and skilled audit team is required for conducting high quality performance audits. Control mechanisms should therefore be complemented by support, such as on the job training and guidance for the audit team.

Materiality

13.57 **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.**

Materiality can be understood as the relative importance of a matter within the context in which it is being considered. The materiality of an audit topic should have regard to the magnitude of its impact. It will depend on whether the activity is comparatively minor or whether shortcomings in the area concerned could influence other activities within the audited entity. An issue will be considered material where the topic is considered to be of particular importance and where improvements would have a significant impact. It will be less material where the activity is of a routine nature and the impact of poor performance would be restricted to a small area or otherwise minimal.

13.58 In performance audit, materiality by monetary value may, but need not, be a primary concern. In defining materiality, the auditor should consider also what is socially or politically significant and bear in mind that this varies over time and depends on the perspective of the relevant users and responsible parties. Since the subject matter of performance audits can vary broadly and criteria are frequently not set by legislation, that perspective may vary from one audit to another. Assessing it requires careful judgement on the part of the auditor. Materiality concerns all aspects of performance audits, such as the selection of topics, definition of criteria, evaluation of evidence and documentation and management of the risks of producing inappropriate or low impact audit findings or reports.

Documentation

13.59 **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.**

13.60 As in all audits, performance auditors should keep an adequate documentary record of the preparation, procedures and findings of each audit. However, the purpose and context of documentation are somewhat specific in performance auditing.

- Frequently the auditor will have acquired specialised knowledge about the audit topic that is not easily reproduced in the Department. Since, the audit methodology and criteria may have been developed specifically for a single engagement, the auditor carries a special responsibility to make his reasoning transparent.
- In performance auditing, the report describes the framework, perspective and analytical structure that were adopted and the process that was followed to arrive at the conclusions in addition to findings and recommendations. To some extent, the report performs functions that in other types of audits are provided by general standards of audit documentation.

- n Documentation should not only confirm the accuracy of facts, but also ensure that the report presents a balanced, fair and complete examination of the audited question or subject matter. Thus, for example, it might be necessary for the documentation to include reference to arguments not accepted in the report, or to describe how different viewpoints were dealt within the report.

13.61 Maintaining adequate documentation is not only part of safeguarding quality (e.g. by helping to ensure that delegated work has been performed satisfactorily and that the audit objectives have been achieved) but also of the Department and individual auditors' professional development, as it can shape good practice for similar audits in the future.

Strategic Audit Planning and Selection of Audit Topics

Strategic Audit planning

13.62 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. Strategic plan for performance audit is a subset of the strategic audit plan of the Department. In the context of performance audits, the Department may define its long term mission statement consisting of goals to be achieved through the performance audits, statements of detailed objectives expected to be accomplished through performance audits and the subjects of performance audits to be carried out in pursuance of the strategic goals and objectives. The field audit offices are also required to prepare their audit plans with reference to the Department's strategic audit plan. While formulating their audit plans, the fields offices should ensure that the plans are consistent with Department's strategic audit plan and help in accomplishment of long terms objectives as enumerated in the Strategic audit plan of the department as a whole besides addressing the audit risks in their respective areas of jurisdiction.

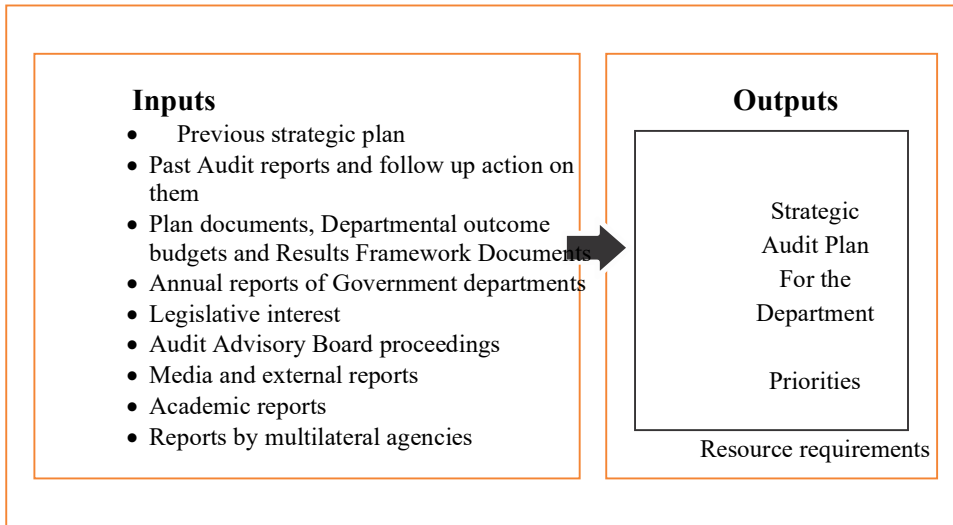
13.63 While no uniform time frame for the planning of performance audits by the field audit offices can be determined since there could be variation in the requirement of different audit offices in charge of various types of entity audits, a reference frame of five years may be considered for performance audit planning. However, the planning drill would be reviewed every year at the time of preparation of the annual audit plans as a rollover exercise. The annual audit plan of the field audit offices would depict various stages of all performance audits under the captions of 'brought forward', 'to be taken up', 'to be completed' and 'carried forward'.

Objectives of strategic audit planning

13.64 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. A well structured strategic audit planning process, based on a sound rationale, is necessary to ensure that the resources of the Department are used in the most efficient and effective manner.

The objectives of strategic audit planning are to:

- Provide a firm basis for the Department's Management to give strategic direction for future audit coverage;
- Identify and select audits with the potential to improve public sector accountability and administration;
- Understand entity risks and take them into account in audit selection;
- Provide a basis for Department's accountability; and
- Produce a work programme that can be achieved with expected/available resources



Strategic audit planning process

13.65 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.

13.66 The Department's Senior Management¹⁰ may conduct brainstorming meetings with Accountants General from time to time in respect of strategic audit and annual audit plans to select the subjects which address the Department's concerns for high risk programmes and activities.

Annual Audit Planning Process

13.67 Once the Strategic audit plan for the Department is in place, the process of preparing the annual audit plan is taken up by the field audit offices. Annual audit plan of the field audit office would include performance audits, compliance audits and financial audits to be taken up during the financial year. It is an exercise of balance between the audit priorities and the resource availability. One of the important components of 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. Timely intimation of the All- India performance audits as approved by headquarters would enable participating field audit offices to prepare their plan appropriately. It has to be ensured that quality of performance audit does not suffer because of undertaking too many audits. The concerns of the stakeholders may be

¹⁰ Senior Management comprises C&AG of India, Deputy C&AsG and Additional Deputy C&AsG.

obtained and given due regard while selecting topics of performance audit at the time of preparation and finalisation annual plans of field audit offices.

Selection of audit topics

13.68 The selection of audits to be taken up requires serious deliberations as the potential areas for audit could be considerable and the Department's capacity in terms of effort and time is limited. This means that choices must be made with care. It is not always necessary to conduct performance audits of the entity or the programme as a whole. Accountants General should select a mix of performance audit subjects covering either the programme or activities of the entity comprehensively and the subjects for which the scope and audit objectives are confined only to significant aspects of the programmes or activities. The selection of the components or parts of the programme may be guided by the materiality and risk profiles. This will enable the Accountant General to increase the coverage to a large number of relatively more important and contemporary issues, which may be expected to enhance the perceived and actual value addition through performance audits.

13.69 Where desirable, the subjects of performance audit may be selected cutting across various departments or entities. This will provide a platform for performance audit on a theme or thrust area over a cross section of entities, who are entrusted with the responsibility for the programme, activity, *etc.* Performance auditors may, quite often, find it necessary to extend the scope of audit to other agencies/departments to assess the effectiveness/impact of a programme, irrespective of the fact that their allocation of business is in different sectors (civil, railways, communications, social, economic and service sectors, *etc.*) or their status may be different (government department, government funded institute and government companies, *etc.*).

13.70 Emerging issues like environmental challenges, sustainable development and information technologies should also find a place in the performance audits of various entities. Programmes, schemes *etc.* Finally, the problems of significance to people and the community should also be given appropriate emphasis while selecting the subjects of audits.

Some considerations for selection of subjects are:

- (a) Assessing risks:** Since all the entities and all activities of the entities cannot be audited because of resource constraints, awareness of entities or areas that put the programme or public resources at risk from the point of view of economy, efficiency and effectiveness helps focus audit attention on them. Risk profiling of audited entities, sectors and programmes help in deciding the selection of subjects.
- (b) Materiality and Significance:** Auditors should consider materiality in all stages of the audit process and in doing so consider not only financial, but also social and political aspects of the subject matter and how to add the most value possible through the audit. Significance of a topic is its importance in the context of the organization, programme or subject. 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. While no uniform index of visibility can be prescribed, legislative debates, media reports or articles and subjects of workshops and seminars could serve as an index of visibility.
- (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. Impact can be assessed through an understanding of the entity's risk profile and the areas proposed to be addressed by the topic.

(f) **Coverage** refers not only to previous audit coverage by the Department but also to other independent reviews of the activity. Such reviews may have been conducted by internal audit, external consultants or government committees or the activity could have been subject to programme evaluation. When there has been a substantial review of the activity in recent past, the activity will attract low ranking. Whereas, a higher ranking would be warranted where the audit has been requested by the legislature or by the government and the previous performance audit indicated that such a follow-up should occur; and

(g) **The stage of the programme development** should also be kept in mind when assessing management performance.

This process would provide the Accountant General with a list of subjects which may be taken up for performance audits for the period under consideration.

Interaction with audited entities and other stakeholders

13.71 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. Holding of seminars, conferences and discussions with other stakeholders at the time of audit planning can also be considered as means for associating stakeholders with planning process. This will also help in understanding the concerns of the audited entities and would also supplement the risk assessment exercise being undertaken in the Department for finalisation of topics of Performance Audit. It would also give the Department a chance to appreciate the governance and regulatory issues concerning the audited entities.

Periodic updating of the data and the risk profile

13.72 The data and information gathered for strategic planning for performance audits and risk profile of the entity or programme should be updated periodically, the periodicity being determined by Accountants General depending upon the changes in the entity environment. While Accountants General may establish procedure for updating the data, it should be incumbent upon the Senior audit officer to update the data in respect of entities at the close of each periodic audit.

Planning individual performance audits

13.73 A performance audit has to be planned in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner. A well thought out plan is indispensable in performance auditing. Before implementing the performance audit, it is important to identify the audit objectives, the scope and the methodology to achieve the objectives of a particular performance audit. This is often done in the form of a pilot study. The purpose of this study is to establish whether the conditions for carrying out a performance audit exist and, if they do exist, to produce an audit proposal. It provides background knowledge and information needed to understand the entity, program, or function. At the end of the study, it may be clearly stated whether performance audit is feasible or not. Pilot study should normally be carried out in a fairly short period. In selecting audits through this process, the Accountants General would have to use their preliminary knowledge of the subject area to form a reasonable basis for believing that the audit can be completed in accordance with the performance

audit guidelines.

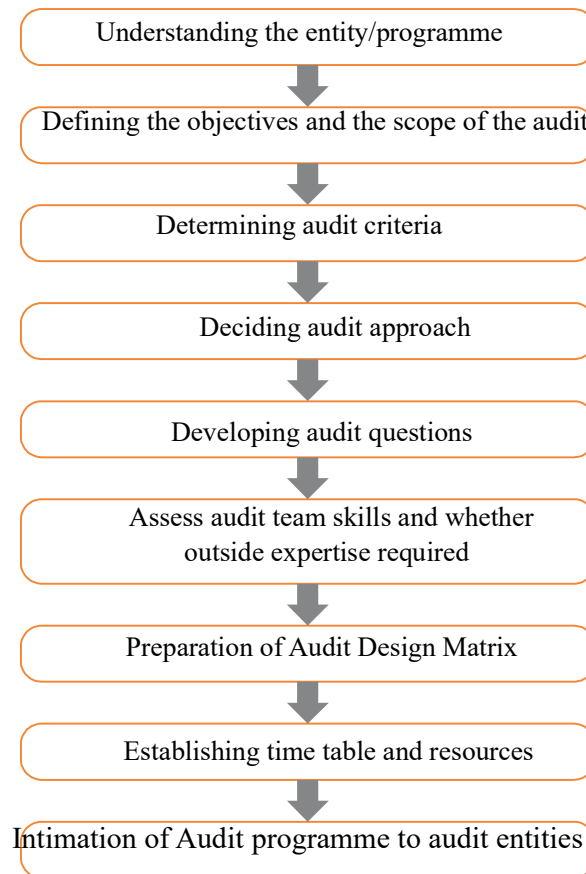
13.74 Planning consists of developing guidelines and assessing resources. The audit guidelines should be detailed, including information on the audited entity's environment, audit materiality and risks, and description of the audit scope, objectives and methodology as discussed in subsequent paragraphs. Planning consists of developing a detailed approach for the expected nature, timing and extent of the audit. Adequate planning of the audit helps to ensure that appropriate attention is devoted to important areas of the audit, potential problems are identified and the work is completed expeditiously. Planning also assists in proper assignment of duties to team members and coordination of work performed by other offices within the Department and those of the experts.

13.75 Audit planning should lead to the development of a detailed audit proposal that identifies the specific audit tasks to be undertaken. An appropriate audit proposal makes it easier to ensure that the performance audit coverage is comprehensive and realistic. It is pertinent to mention that adequate time and effort should be spent on planning a performance audit. Planning documents could also indicate the expected impact of the performance audit.

13.76 The important steps in drawing up an audit proposal are the following:

- Defining the specific issue to be studied and the audit objectives,
- Developing the scope and the design of the audit,
- Determining the timetable and the resources.

The following chart indicates the process involved in planning an individual performance audit in practice. These steps cannot always be strictly separated and they do not necessarily take place in the same order through.



(a) Understanding the entity/programme

13.77 Understanding the entity/programme is the starting point for planning individual performance audit. The following can be the sources for understanding the entity:

- **Documents of the entity:** documents on administration and functions of the entity, policy files, annual reports, budget and annual plan documents including the files on them, accounts, minutes of internal meetings, operating manuals/ guidelines, management information systems, information on the website, programme evaluations and internal audit reports, electronic databases and MIS reports, proactive RTI material *etc.*;
- **Legislative documents :** legislation, parliamentary questions and debates, reports of the Public Accounts Committee, the Committee on Public Undertakings, the Estimates Committee and the Department-Related Standing Committees and letters from Members of Parliament;
- **Policy documents:** documents of Planning Commission, Ministry of Finance *etc.*;
- **Academic or special research:** independent evaluations on the entity, academic research and similar work done by other governments and other SAIs;
- **Past audits:** past financial and performance audits on the entity provide a major source of information and understanding. Follow-up requirements, perceived non compliance to recommendations and increased risk and materiality may also provide significant inputs;
- **Media coverage:** both print and electronic media - their systematic documentation on regular basis in a transparent manner; and
- **Special focus groups:** Audit Advisory Committee concerns, issues emerging from national or international workshops/seminars, annual and special reports of World Bank, IMF, UN agencies, Reserve Bank of India, reports by special interest groups, NGOs, *etc.*

(b) Defining audit objectives

13.78 The most important stage in the performance audit process is defining the audit objectives. These are the basic audit questions that performance auditors seek answers to.

These are usually expressed in terms of questions about performance i.e., achievement of economy, efficiency and effectiveness of an entity, programme or activity under audit. The audit objectives should be defined in a concise manner, as they will impact the nature of the audit, govern its conduct and affect audit conclusions.

13.79 Setting audit objectives early in the performance audit process ensures good quality performance audits by the Department and, therefore, is one of the most important quality assurance measures. Setting audit objectives:

- helps preclude the perception of prejudged outcomes;
- fosters discipline and precision;
- facilitates clarity;
- helps focused data gathering activities;
- helps establish underlying logic;
- demonstrates consistent quality of audit; and
- serves as a measure of quality assurance of performance audit.

13.80 Audit objectives are the reasons for conducting audit and therefore should be clearly spelt out. The objectives should be limited in numbers, ideally three to five, to provide appropriate focus to the audit. They must be defined in a way that will allow the audit team at the end of the audit to conclude against each of the objectives. Since, the entire audit effort is directed toward answering the questions raised in the objectives, these should be, therefore, be defined as precisely as possible. Objectives should not be expressed in broad terms, as it makes them difficult to achieve. Once detailed design of the audit begins, the team should identify the full hierarchy of issues and sub-issues that need to be covered against each audit objective.

(c) Scope of audit

13.81 The scope is the boundary of audit. Scope narrows down the audit to significant issues that relate to the audit objectives. Defining scope focuses the extent, timing and nature of the audit. Answers to the following four questions help in defining the audit scope:

What?

13.82 What specific questions or hypotheses are to be examined? What kind of audit approach and methods seem to be appropriate? This part of the scope has a relationship with the audit objectives, the depth to which the subject matter is going to be examined and the methodology which has to be adopted.

Who?

13.83 Who are the key players involved and the audited unit(s)? While determining the audit scope it is useful that the responsible parties dealing with the subject matter and their roles are recognised.

Where?

13.84 Which are the selected units/locations to be covered? Often the entity, programme or activities under performance audit may be broad. It may be necessary to limit the segments/locations that the audit will cover and to which the conclusions will apply. Where it is not feasible to analyse the entire population, sampling techniques have to be used. Sample size may be selected statistically, as far as it is feasible.

Which period?

13.85 Which is the period to be covered under audit? The time period of the operations to be audited may vary widely with reference to the type of programmes or subjects undertaken for audit. Apart from the type of the programme, this will depend upon risk parameters, audit objectives and sufficiency, competence and the reasonableness of evidence to be collected.

13.86 Scope determined on the basis of the above aspects would have following important implications:

- audit programmes generally increase in size and complexity (more detailed procedures, questionnaires and checklists) with increases in the scope of the audit and size of the programmes to be audited;
- dispersion and location of sites to be visited can markedly affect the audit programme. Detailed procedures may be required to ensure consistency when different personnel are carrying out the same audit at different locations; and
- sample size has an impact on scope of audit as the selected sample may have different geographic locations and the risk perceptions.

(d) Determining the audit criteria

13.87 Audit criteria give direction to the assessment (helping the auditor to answer questions such as 'on what grounds is it possible to assess actual behaviour?', 'what is required or expected?' and 'what results are to be achieved and how?'). Audit criteria are standards used to determine whether a program meets or exceeds expectations. Audit criteria are reasonable and attainable standards of performance against which economy, efficiency and effectiveness of programmes and activities can be assessed. The criteria which may be general or specific and reflect everything from what should be according to laws, regulations or objectives; and what is expected, according to sound principles and best practice; to what could be (given better conditions). In audits covering complex issues it is not always possible to predefine the criteria; instead they will be defined during the audit process. The nature of the audit and the audit questions determine the relevance and the type of suitable criteria. The credibility of the findings and the conclusions of the performance audit depend largely on the criteria as such due care must be exercised while determining the audit criteria.

While criteria assist performance auditors in reaching logical conclusions, the fact whether the entity has a system of setting criteria for concurrent monitoring and evaluation of the programme, actual monitoring against the performance criteria, impact of insufficient or deficient criteria, etc. is itself a matter for examination in performance audits.

13.88 In examining performance information, auditors should:

- ascertain whether the performance measures in place are complete, relevant and justified on a cost benefit basis;
- consider whether the entity has sufficient and reliable procedures in place to measure and report on performance such as Key Performance Indicators (KPI) and Results Framework Document (RFD) *etc.*;
- examine procedures to determine if they relate to the entity's corporate goals; and
- consider whether the performance measures are incorporated into the management decision making processes, *i.e.*, are they reported and used within the agency.

These issues draw the performance auditor into a consideration of quantitative and qualitative performance information. Such consideration should be an essential element in all performance audits. The headquarters and Accountants General may influence the entity through performance audit conclusions and recommendations to develop appropriate performance indicators as part of their programme planning, implementation and monitoring system.

Sources of criteria

13.89 It is unrealistic to expect that activities, systems or levels of performance of the audited entity will always fully meet the criteria. It is important to appreciate that satisfactory performance does not mean perfect performance but is based on what a reasonable person would expect, taking into account the circumstances in which the entity operates. Therefore, audit criteria must be sought to be obtained from the following sources:

- enabling and related legislation which governs the operations of the audited entity;
- entity operating and procedure manuals;
- entity policies, standards, directives and guidelines;
- multilateral international accords signed by India;

- criteria used previously in similar audits;
- performance standards used by the entity for the programme / activity to be audited, or previous inquiries by the legislature;
- criteria used by the same entity or other entities in similar activities or programmes;
- criteria used or developed by professional organisations and standard setting bodies;
- independent expert advice and know how;
- new or established scientific knowledge and other reliable information;
- criteria published by other SAIs; and
- general management and subject matter literature and research papers.

13.90 For establishing the basis of the audit criteria, depending on the case in point, the most authoritative sources will be official standards (such as goals laid down in laws and regulation, decisions and policies taken by the legislature or the executive branch). Specialist scientific literature professional standards and best practices also form an acceptable basis of criteria. In some cases it might be helpful to arrive at criteria through discussions with stakeholders and decision makers. Sharing sources of criteria with audited entity especially in cases where sources are other than the official regulations etc. would be a good practice.

Services of expert for developing criteria

13.91 The services of a consultant or expert of repute in the relevant field may be useful in developing the criteria, particularly on subjects, that are either new or complex. It will also contribute to acceptability and reliability of the criteria by the entity in particular and by the legislature, media and public, in general. Institutional consultancy, rather than individual consultancy, for developing criteria may enhance the acceptability of the criteria. Unless otherwise decided in particular cases, Accountants General are encouraged to share the information with the entity that the criteria are determined in consultation with the institute or expert.

Refining the criteria and acceptance by the entity

13.92 While informing the Secretary and/or the Chief Executive Officer of the intent to carry out performance audit, the audit objectives and criteria, if already developed could be shared with the entity with a request to communicate acceptance of the criteria. Acceptance of all audit criteria used in performance audit by the entity is a desirable condition and contributes to the effectiveness of performance audit. Yet, there could be occasions when the entity expresses a reservation about the validity of one or more criteria. While it is not mandatory or possible, that entity must always agree with the criteria, Accountants General should make efforts to resolve the disagreements, as far as possible and document their efforts.

Characteristics of good criteria

13.93 Suitable criteria need to be identified to enable the performance auditors to assess the activities subject to audit and to achieve the audit objectives. Since criteria are crucial to developing audit findings and, therefore, addressing the audit objectives, they should be such as to be generally acceptable. Some characteristics of suitable criteria include:

Reliability: reliable criteria result in consistent conclusions, when used for assessment in the same circumstances;

Objectivity: objective criteria are free from any bias of the auditor or management;

Usefulness: useful criteria result in findings and conclusions that meet users' information need;

Comparability: comparable criteria are consistent with those used in performance audits of other similar agencies or activities and with those used in previous performance audits; and

Completeness: completeness refers to the development of all significant criteria appropriate to assessing the performance in the given circumstances.

(e) Deciding audit approach and methods

13.94 Performance auditing generally follows one of three approaches in examining the performance of the audited entity (ies). The audit may take:

- a system-oriented approach, which examines the proper functioning of management systems, especially financial management systems;
- a result-oriented approach, which assesses whether the outcome objectives have been achieved as intended or whether programs or services are operating as intended; and
- a problem-oriented approach, which examines, verifies and analyses the causes of particular problems or deviations from criteria.

13.95 No uniform audit approach can be prescribed that is applicable to all types of subjects of performance audits. Selection of approach also determine methods and means used for conducting the audit. Some of the methods which could be used in conducting performance audits include:

- i. Analysis of procedures
- ii. Case studies
- iii. Use of existing data
- iv. Surveys
- v. Analysis of results
- vi. Quantitative analysis

(i) Analysis of procedures

13.96 It consists of review of the systems in place for planning, conducting, checking and monitoring the activity being audited. This would involve examination of documents such as budgets, financial reports, programme guidelines, annual or other plans, procedure manuals, delegations and reporting requirements. The performance auditors should assess the appropriateness of the procedures, the quantum of resources and the accountability relationships highlighted in the programme guidelines. Procedures would be tested against the criteria or a desirable control model. This would typically mean that procedures would be checked, among other things, for completeness, relevance against the legislation and administrative instructions, internal consistency, practicability and compliance.

(ii) Case studies

13.97 A case study is a descriptive, exploratory or explanatory analysis of an entity, scheme or a programme. It is a method for learning about a complex issue, based on a comprehensive understanding of the particular instance. It involves an extensive description and analysis of the particular issue within the context of the whole area under review.

(iii) Use of existing data

13.98 It is important for audit staff to investigate the data held by entity management and by other relevant sources. This may include the information systems used to manage entity programmes/activities and/or the data collected on individual programmes. One of the important sources of data could be the data generated from voucher level compilation (VLC). The confidence level of audit conclusions is enhanced by testing the available data for correctness and completeness with reference to the basic documents maintained by the entity. The audit team will maintain evidence of tests carried out to ensure correctness of data maintained and furnished by the entity.

(iv) Surveys

13.99 Another method of obtaining insight into an agency's activities, including the outputs and outcomes and their quality is by the conduct of a survey. This is a method of collecting information from members of a population to assess the incidence, distribution and interrelation of events and conditions. In social sector programmes, credible surveys on predetermined parameters can supplement the audit findings and conclusions, which add value to the performance audits. The nature of some programmes or activities selected for performance audits could be such that a focussed survey of a limited sample during the planning stage may provide more insight for setting the audit objectives and criteria. The decision to conduct survey and design of the survey will be approved by the Department's Senior Management on the proposals initiated by the Accountant General. It may, however, be kept in mind that the results of survey alone cannot be the primary evidence for audit findings. Surveys can be used as corroborative evidence for audit findings established with the help of primary evidence.

(v) Analysis of results

13.100 Analysis of results from examining a number of instances of entity activity in a particular area will help decide whether entity performance in that area conforms to audit criteria and is generally satisfactory. This will also require the auditor to assess the output-input model designed in the programme and carry out actual output-input analysis to determine the efficiency of the programme. The analysis of results would also call for analysis of impact of the programme against the expected impact.

(vi) Quantitative analysis

13.101 Quantitative Analysis is a way of measuring things. It involves examination of data available in any form, it could be the data relating to financials like earnings, revenue, market share or data relating to programme implementation like details of beneficiaries etc. The audited entities' data can be analysed by auditors to illustrate or corroborate a statement. Mathematical, economical, computational and statistical analyses are some of the quantitative techniques which can be used by the auditors while analyzing complex data of the audited entity. It is quite possible to analyze the whole population with the help of the various IT tools available. Data analytics and other techniques can be used for these purposes. The quantitative analysis can provide trends, explanation for a particular behaviour and other results.

13.102 However, when it comes to substantive testing, it may not be possible to work with the complete data due to the high volume of data and information associated with a

programme or entity. In such cases, sampling techniques are required to be used. The nature of the population should be examined to decide the most appropriate sampling methodology. The sample selected and the sampling approach and methodology should be documented and shared with the entity.

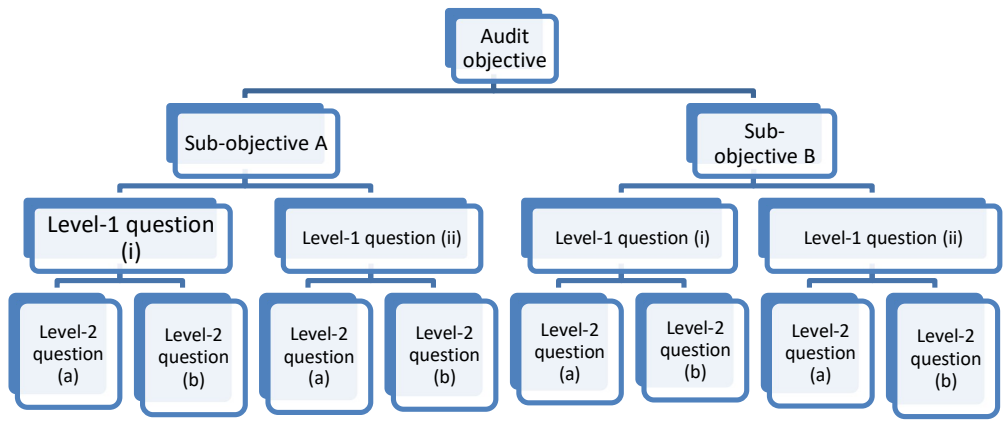
13.103 When selecting an audit sample, specific audit objectives and the attributes of the population from which the sample is to be drawn should be taken into account. In determining the sample size, it should be considered whether sampling risk would be reduced to an acceptable low level. The sample items are to be selected so as to have a reasonable expectation that all sampling units in the population have an equal chance of selection. The extrapolation of audit findings based on substantive testing of audit sample to the whole audit universe has to be considered keeping in view homogeneity of the population, audit objectives and the analytical tools applied.

13.104 The selection of audit methods is an important part of planning a performance audit. The selection of audit method has to be done considering the audit approach, the objectives, the complexity of the assignment and the resources involved in implementing the audit. Audit team should consider the nature and cause of any errors identified and their possible effect on the particular audit objective and on other areas of the audit.

(f) Developing audit questions

13.105 Following the design of audit objectives and the identification of audit criteria, the audit team should prepare a list of questions to which they would seek answers. There could be many ways to develop and frame audit questions. The performance auditors should frame a comprehensive and detailed list of questions.

13.106 Under each audit objective there can be two or more sub objectives. Under each objective/sub objective there could be a detailed hierarchy of questions, resulting in a pyramid structure. The last level audit questions should result in a yes or no answer. Breaking down of audit objectives into audit sub-objectives, level 1 questions and level 2 questions should result in at least 2 questions at each level. If not, then the validity of the question and the possibility of its incorporation with some other questions at any level should be considered. Detailing the audit objectives into the manageable audit questions has multifarious advantages. It helps in creating link between the audit question and evidence to be collected and the audit conclusions arrived. This analysis will lead to the creation of Audit Design Matrix discussed later.



(g) Assess audit team skills and whether outside expertise required

13.107 Performance audit is a knowledge based mission. It is, therefore, necessary that the performance auditors possess special aptitude, skill and knowledge. The Auditing Standards of C&AG of India provide that the audit institution should develop and train the auditors to enable them to perform their tasks effectively and should prepare manuals and other written guidance notes and instructions concerning conduct of audits. The performance auditor must possess the range of skills and experience necessary for effective discharge of audit mandate. Programme for imparting training and skill development for the performance auditors to enhance and reinforce the understanding of the principles, methodology and techniques should be accorded high priority.

13.108 Given the diverse range of subjects of performance auditing, the Accountant General and the performance audit team may need to develop sound understanding of the programme or entity proposed to be audited in the form of reports, opinions, valuations and statements of an expert. They would have to decide at the planning stage on which aspect expertise is required. This could be at the stage of outlining the scope of audit, formulating audit objectives, or identifying the criteria for assessment. Although, the Accountant General may use the work of an expert, he/she retains full responsibility for the conclusions in the audit report. The procurement of the services of the expert or using their work will be as per the general guidelines approved by the Department's headquarters from time to time.

(h) Audit Design Matrix

13.109 Having determined the audit objective, audit approach, audit criteria, data collection and evidence gathering method etc, audit teams should prepare a Audit Design Matrix. Audit Design matrix is a rigorous, structured and highly focused approach to designing a performance audit study, based around the audit objectives, associated sub-objectives and lower level detailed questions. As such, it provides a framework for fieldwork and further analysis. Having determined audit questions that require answers, the performance auditor is also expected to append to the audit design matrix, the procedure to find answers to audit questions. It also highlights the data collection and analysis method as well as the type and sources of evidence required to support audit opinion/findings with reference the defined audit objectives. The Audit Design Matrix is to be considered throughout planning, examination and reporting phases to ensure that all identified audit issues are covered. Once the examination phase is over, the audit team should suitably link Audit Design Matrix to the Audit Findings Matrix as discussed in Paragraph 13.134 of this manual. The specimen of Audit Design Matrix is also given hereunder:

Audit Design Matrix

Audit Objective/sub objective (1)	Audit questions (2)	Audit criteria (3)	Evidence (4)	Data collection and Analysis method (5)

The Audit Design Matrix is prepared on the basis of information and knowledge obtained in the planning phase during the course of pilot study. Audit teams are encouraged to update the Audit Design Matrix as and when it acquires more in-depth knowledge of the audit subject matter. A well-designed Audit Design Matrix leads to efficient planning and resultant effective audits thereby providing highest assurances to the audited entities and those charged with governance. It is desirable to prepare ADM for each of the audit objectives.

(i) Establish the timetable and resources

13.110 The outcome of any performance audit will depend on the audit team and the activity plan. It is important to determine the timetable and the resources needed. Relevant factors include the manner in which the audit is organized and the expected completion time. Selection of appropriate audit team is the most important component in planning an audit. Considerations for selection of a particular team should be recorded in the planning documents along with the proposed timelines for various activities to be undertaken as part of the audit process. Progress against these timelines should be monitored. The Accountant General would be responsible for ensuring that performance audit is completed on time. The time required and actual time spent should be compared and variations thereof got approved from the competent authority.

13.111 The key milestones established for the audit will form the basis for assessing progress. It is strongly advisable that the team build time for translation, approval and possible delays in their own schedule in order to meet the deadlines.

(j) Intimation of audit

13.112 Audited entities must be informed about the intention of taking up the planned performance audit with scope and extent of audit well before the commencement of Audit. The intimation should also include the constitution of audit team, the selected sub units, if already decided and the tentative time schedule. The intimation may also refer to the management's responsibility and request their cooperation for successful completion of audit assignment. Acknowledgement of this may be requested and placed on record.

Refinement or narrowing of objectives and criteria

13.113 In view of the difficult environment in which we operate, for gathering the information needed to fulfill the audit, it may be necessary to refine to refine an audit's objectives as the audit progresses. The reasons for such changes in the objectives/criteria should be recorded and the approval of the competent authority taken. The revised objectives and the criteria should also be suitably brought into the notice of audited entity or those charged with governance.

Flexibility in the audit programme

13.114 While developing an audit programme, it will not be possible to anticipate all contingencies. In the early stages of an audit, there is a need to retain flexibility and to review the audit programme for appropriateness. It is preferable to start with a programme outlining the approach to the audit issues and revise and extend it as the audit progresses.

13.115 The Accountant General should provide scope for sharing of all significant refinements in the approach and additional tests and findings, concurrently with other audit teams within the managerial control of the same Accountant General or under different management control within the Department, when different persons conduct the audit at different locations. The system of sharing of the significant field audit experience should be documented and reviewed.

Implementing the performance audit

13.116 This Chapter contains the practices and procedures to be followed by the audit team during the implementation of the performance audit. It covers the stages of performance audit during the field audit process, i.e., after the audit planning and up to the stage of developing the audit findings and recommendations. The process of implementation of the performance audit steers through entry conference, issuance of audit engagement letter, data collection process, collecting audit evidence, developing audit findings and conclusions and developing recommendations.

Entry conference

13.117 Entry conference at the commencement of performance audit is to be held with Secretary of the department concerned by the Accountant General. Wherever, more than one department/agency is involved, representation from such agencies/departments should be insisted upon. 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. Audit criteria/parameters/norms against which performance audit will be benchmarked should be also discussed. A protocol for conduct of audit is to be set up during this conference including nomination of liaison officers, production of records, arranging joint inspections, authentication of audit evidence including photographs etc, issuing of audit observations, time period for replies to be received and other logistic arrangements. This conference also gives the opportunity to discuss the concerns of the audited entity on the subject matter. The entry conference should be followed by preparing minutes of the proceedings which should be shared with the audited entity and acknowledgement requested.

Issuance of engagement letter

13.118 The Accountant General and the audit team are expected to be in communication with the entity at different levels throughout the performance audit cycle. Before initiating the audit, the 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 to provide documents and information to the audit team. This will also serve as an opportunity to confirm the essence of the minutes of the entry conference. In case the entry conference could not be held for unavoidable reasons, the engagement letter would also provide a media for communicating the expectations from the entry conference.

Field audit process

13.119 The field audit process comprises the efforts made to collect, interpret and analyse data in relation to stated audit objectives and evaluating them against the pre-determined criteria. The steps involved in field audit process are discussed in succeeding paragraphs.

Entry Meeting

13.120 Besides entry conference, the audit parties should also hold entry meeting(s) with the heads of the units before commencement of the audit of selected auditable units. During these meetings, the audit party should narrate the purpose, objectives of audit, timelines and cooperation expected from the head of the selected auditable unit. The

minutes of such entry meeting should be prepared and shared with the audited entity and acknowledgement requested

Data Collection & Analysis

13.121 Data collection may be performed once, at repeated intervals or through continuous measurements as warranted. 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. The types of data to be obtained should be explainable and justifiable in terms of sufficiency, validity, reliability, relevance and reasonableness. A great deal of data (material produced by others specifically by the audited entity) is often used however the auditors may also produce certain data (its own source material) with the aid of questionnaires, surveys and direct observation.

13.122 Quality in data collection and documentation is vital. It is important that the auditors seek information from different sources, since organisations, individuals in an organization, experts and interested parties have different perspectives and arguments to put forward. Data, information and knowledge are, broadly speaking, similar, linked concepts. Data is the primary facts. Data, which has been compiled, is transformed into information. Information, which is analysed and understood, will become knowledge. Data may be collected for different purposes during an audit, as part of the learning process, or in order to describe and analyse an outcome or a problem.

13.123 The audit party has to call for the records from the audited entity in the form of executive and administrative files and other information essential for accomplishment of audit objectives. Records required should be called in a timely fashion from the authority responsible to provide the same in terms of the protocols defined in the entry conference and entry meeting. Information given by the audited entity (like filling up of Annexures in Performance Audit report) may be test checked with reference to the source and documented accordingly. File examination forms the basis of performance audits. Files contain a wide range of types of evidence, such as the decisions of officials, the 'case records' of program beneficiaries and the records of government programs. It is important to establish the nature, location and availability of records at the outset of a performance audit so that they can be examined effectively.

13.124 Based on general experience, it is important to distinguish between the following components in the information gathering process:

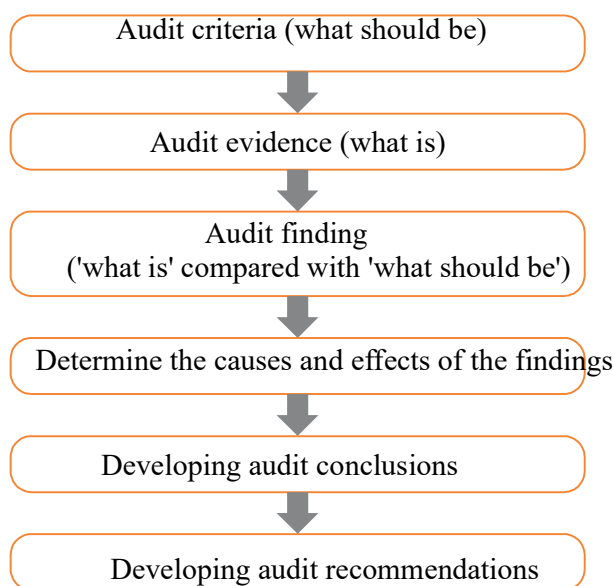
- Records in form of documents, files *etc.*
- Questions formulated to be answered by the audit.
- Data-collection techniques needed in order to answer the questions set (study of documentation, meetings, questionnaires, interviews *etc.*).
- Audit programs, i.e. the type of investigation that is needed for the data-collection (such as sampling, case studies, secondary analysis, inquiries, before- and after analysis', comparable evaluations, *etc.*).
- Quantitative and qualitative analysis, applied to the data collected (for deeper analysis of the information collected).

13.125 Most audits involve some type of analysis in order to understand or explain what has been observed. This could be done in the form of more detailed statistical analysis, discussions on the findings within the audit team, studies of documentation and working papers *etc.* The analysis might sometimes also require comparisons of findings between, for instance, subjects that work well and those that work less well; one or more subjects and an overview; and the audited area and a similar audit area in other states. Some methods of data analysis have been discussed in Paragraph 13.94 to Paragraph 104 of this manual. The final stage in the analysis of data involves combining the results from different types of sources. Audit teams should refer to the Audit Design Matrix while carrying out data analysis and the adopting technique or tool thereof.

Developing audit findings and conclusions

13.126 Audit findings are the specific evidence gathered by the auditor to satisfy the audit objectives. Audit findings contain the following elements: criteria ('what should be'), condition ('what is'), and effect ('what are the consequences' – observed as well as 'reasonable and logical future impact'), plus cause ('why is there a deviation from norms or criteria'), when problems are found. However, all four elements are not always required in an audit; the element 'criteria' is for instance not always specifically addressed in the problem-oriented approach. Conclusions are statements deduced by the auditor from those findings after analysis of causes and effects of these findings. And finally, the recommendations are courses of action suggested by the auditor relating to the audit objectives.

13.127 The Audit Design Matrix should be suitably updated at each stage of audit as the same was initially prepared based on the limited knowledge acquired during the pilot study and also to be linked with the audit findings matrix as defined in para no. 13.13. While developing the audit findings and conclusions, the reference is made not only to number of deviations but also to total number of cases test checked and the population size. The process of analyzing evidence, developing findings and producing recommendations to resolve identified areas of poor practice is summarised in the following diagram.



13.128 Audit findings are arrived at by comparing the evidence to the criteria. These are based on the analysis of information collected during the audit. Further analysis of the nature and magnitude of the issue, will lead to the development of audit conclusions. These conclusions should be based on objectives, rationality and project-specific standards and criteria. Audit conclusions should be developed and evaluated throughout the various phases of performance audit. Potential conclusions identified in the planning stage or during the pilot study should be followed up in the detailed examination phase of the audit. Further, the audit team must determine whether the deficiency is an isolated instance or represents a generic or systemic problem. Conclusions may also require the application of significant judgement and interpretation in answering the audit questions, due to the fact that audit evidence may be persuasive ("points towards the conclusion that...") rather than conclusive ("right/wrong") in nature. The need to be exact should be weighed against, what is reasonable, economical, and relevant for the purpose of involvement of Senior Management.

13.129 The audit team may identify a cause-and-effect chain and have the option of reporting the findings and conclusions at different points in the chain. In this situation, the auditor should highlight the most critical deficiencies in the **chain**.

13.130 Audit conclusions will confirm whether the entity's performance, with reference to the criteria laid down, was satisfactory or not. If it was not adequate, they will point either to the systemic deficiency or to the person(s) responsible, the cause and, if determinable, effect of the problem on the subject matter of the audit.

Developing recommendations

13.131 All performance audits ought to conclude with well thought-out recommendations, which should transcend inverted versions of audit conclusions or truisms and clearly spell out possible solutions, without taking over management's responsibilities. For developing recommendation, the underlying cause(s) of a finding should be identified, as this forms the basis for the recommendation. The cause is that which, if changed, would prevent similar findings.

13.132 Recommendations emerge from identification of the 'cause' of audit findings, which ought to be addressed by the entity or those charged with governance. Recommendations should be well-founded and add value. It should be clear who and what is addressed by the recommendation, who is responsible for taking initiative and what the recommendations mean, i.e. how they will contribute to better performance. Recommendations should be practical and be addressed to the entities having responsibility and competence for their implementation.

13.133 The recommendations should be clear and be presented in a logical and rational fashion. They should be linked to the audit objectives, findings and conclusions. Together with the full text of the report they should make it possible for the reader that they are likely to significantly improve the conduct of government operations and programs, e.g. by lowering the costs and simplifying the administration of the services, by enhancing the quality and volume of the services, or by improving the effectiveness, the impact or the benefits for the society of the services. Sometimes, the cause may be outside the control of the entity under audit, in which case the recommendation should direct attention outside the audited entity, the governance structure. In some cases it is also important to present the arguments for and against various alternative proposals. By following the underlying arguments, the reader will be better able to understand the final recommendations emerging from identification of the 'cause' of audit findings, which ought to be addressed by the entity.

Audit Findings Matrix

13.134 The audit teams are encouraged to prepare an Audit Findings Matrix indicating the audit findings vis-à-vis good practices and the potential audit recommendation along with the expected benefits in case the recommendation is implemented. It is meant to provide a link between the audit objectives, criteria, the audit observation and the recommendations emerging there from. The audit teams should link the Audit Findings Matrix with Audit Design Matrix and highlight the Para number as well as Chapter number of the draft report against each of the audit objective where the observations are reported. This will help audit teams and those responsible for reviewing their work to ensure that the audit work completed aligns with the work planned.

The specimen of the Matrix is given hereunder:

Audit Findings Matrix

Findings						Conclusions	Recommendations
Objective/ Sub objective	Audit Questions	Criteria	Evidence	Cause	Effects		

Exit Meeting

13.135 The audit team leader or the Group Officer in charge should hold an exit meeting with the officer in charge of audited unit at the close of audit to seek his observations on the audit conclusions and recommendations, if not already received in response to the audit memos. The minutes of such exit meeting should be prepared and shared with the audited entity and acknowledgement requested.

Supervision

13.136 Supervision of the implementation of the performance audit of the selected subjects will ensure that the audit is performed in accordance with the audit plan and the provisions of these guidelines. It will also ensure that the process is focused on the audit objectives and audit criteria and that the refinement of the criteria and audit programme is carried out as and when required. Concurrent supervision by group officers will fulfil this objective and make sure that their intervention is promptly applied, where necessary. The Accountant General should conduct mid-term appraisal to ensure that the work is being performed as per plan to avail the opportunity of providing timely guidance to the field audit parties.

13.137 In cases, where the performance audits are conducted by different teams, within the administrative and technical control of one or more Accountants General, one or more mid-term workshops may assist in ensuring consistency of approach and techniques. Where necessary, a workshop on the results of performance audits conducted by a large number of teams across dispersed areas and under different audit control may be held to finalise consistent audit findings and recommendations.

13.138 The quality control and supervision on the implementation of the performance audit by the Department's Senior Management is provided through approval of the audit implementation guidelines, periodic work-in-progress reports and guidance during the mid-term workshops.

Evidence and documentation

13.139 Audit evidence is the information collected and used to support audit findings. It provides a factual basis for developing observations and concluding against audit objectives. As such, it is evidence which must support the contents of an audit report, including all observations leading to recommendations.

C&AG of India's auditing standards

13.140 Standard 3(e) in chapter-III of the Auditing Standards of C&AG of India state: 'Competent, relevant and reasonable evidence should be obtained to support the auditor's judgment and conclusions regarding the organisation, programme, activity or function under audit.'

The auditing standards further emphasise that:

- (i) data collection and sampling techniques should be carefully chosen;
- (ii) the auditors should have a sound understanding of techniques and procedures such as inspection, observation, enquiry and confirmation, to collect audit evidence; and
- (iii) the evidence should be competent, relevant and sufficient and as direct as possible.

The concept of competence, relevance and sufficiency of evidence, particularly in the context of performance audits, is elaborated below.

Competence

13.141 Evidence is competent when it is valid and reliable and actually represents what it purports to represent. Some factors that can help in assessment of the evidence from the point of view of reliability are:

- If the piece of evidence is corroborated with help of different types of evidence obtained from other sources;
- Documentary evidence is more reliable than oral evidence;
- Evidence obtained through direct observation is more reliable than indirectly obtained evidence;
- The reliability of entity generated information is a function of reliability of internal control system within the entity;
- Oral evidence, which is corroborated in writing is more reliable than oral evidence alone; and
- Photocopies being less reliable evidence than the originals, the source of photocopies should be identified by noting the source and as far as possible, the photocopies should be certified.

Relevance

13.142 An evidence is relevant if it bears a clear and logical relationship to audit objectives and to the criteria. The relevance of the evidence in the performance audits can be ensured by linking the evidence and the audit procedure with each of the audit objectives, sub-objectives and then to each of the criteria. Relevance is measure of **quality of audit evidence**.

Sufficiency

13.143 Sufficiency is a measure of quantity of audit evidence. Evidence is sufficient if the test is carried out on a reasonable representative of the population, the sample being selected objectively. In performance audit the evidence may be persuasive. Thus, evidence

is sufficient or reasonable, when there is enough relevant and reliable information to persuade a reasonable person that the performance audit findings, conclusions and recommendations are warranted and are fully supported.

13.144 Considerations that determine the strength of evidence required are:

- If the observation is highly significant and material, it will require stronger evidence to sustain;
- The strength of evidence should be very high when the degree of risk associated with wrong conclusion is high;
- If previous experience suggests that the entity's documents are reliable, less corroboration of the evidence may be necessary; and
- Evidence needs to be more convincing, if the issue is controversial or sensitive.

Factors affecting the evidence

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

- Samples selected are not representative (sufficiency);
- Evidence collected relate to an isolated occurrence (sufficiency);
- Evidence is incomplete and does not establish a cause and effect relationship (sufficiency, relevance);
- Evidence is conflicting (competence); and
- Evidence is biased (competence).

Types of evidence

13.146 Evidence can be categorised with reference to their type as physical, oral, documentary or analytical.

- **Physical evidence** is obtained through observation, photographs, charts, maps, graphs or other pictorial representations, etc.. It is desirable to corroborate physical evidence, particularly if it is crucial to any audit findings (linked to the audit objectives), with other types of evidences.
- **Oral evidence** is the statement in response to audit inquiries or interviews. The statements made can either provide a background or a lead for further examination that may not be available through other forms of audit work or may provide corroborating evidence (e.g. beneficiary survey). The statements can be by the employees of the entity, beneficiaries, experts and consultants contacted to provide corroborative evidence, etc. It will be essential to corroborate the oral evidence, if the oral evidence is itself to be used as primary evidence rather than simply as a background or lead for further examination.

The corroboration of oral evidence could be:

- by written confirmation by the person interviewed;
- by weight of multiple independent sources disclosing same facts;
- by checking the records later; or
- by entrusting the collection of evidence to independent organisations of repute.

In cases of surveys through independent agencies, it may not, however, be possible to obtain written confirmation from the subjects of the survey. In this background, credibility of the agency selected for survey would be critical for sustaining the competence of the evidence. It is also important to note that surveys are generally corroborative (secondary) evidence rather than being the primary evidence. In instances in which it is not possible to gather primary evidence, the decision to develop audit findings on the basis of the survey

or other secondary evidence may be taken with the approval of Department's top management.

- Documentary evidence in physical or electronic form is the most common form of audit evidence. These could be both internal as well as external. Some examples of internal documentary evidence are accounting and information records, copies of outgoing correspondence, plans, budgets, annual reports and internal audit reports, etc. Some examples, of the evidence from external sources are documents originating from other entities (viz. notes or reports of other ministries, coming correspondence, external evaluations and surveys). Internal documentary evidence originates within the entity. In most cases, the external evidence is also obtained from the records of the entity.

The reliability, relevance and sufficiency of documentary evidence should be assessed in relation to the objectives of the audit. For example, if the objective is to ensure whether contract procedures are followed by an entity, mere existence of an updated manual of contract is not a competent, relevant and sufficient evidence for audit conclusions.

- **Analytical evidence** stems from analysis and verification of data, which can involve computations, analysis of rates, trends and patterns, comparisons against standards and benchmarks, etc. The analysis and comparisons can be both numerical and non-numerical. The source of data analysed to develop an evidence should be indicated to facilitate acceptance by the entity.

Sources of evidence

13.147 The sources of evidence may vary from case to case. The following are however some illustrative sources of evidence:

- **Policy statements and legislations** - policy documents, operating guidelines and manuals, administrative orders, etc. along with the background papers leading to their promulgation.
- **Published programme performance data** - budget, accounts including VLC outputs, plan documents, performance budgets and reports, programme documents, annual reports and replies or statements placed before Parliament and legislature.
- **Management reports and reviews** - internal reports and reviews, minutes of meetings, management information chain and information/performance reports, etc.
- **Files of the entity on the subject** - provide strong evidence to support audit findings. It may not be possible to examine all files of the entity due to time constraint. The selection of the files for examination will be guided by the audit objectives or the purpose of the investigation. Depending upon the subject of performance audit, the audit team may examine a sample selected at random. Some of the more important files that can provide the desired evidence are:
 - Strategic and operational planning files;
 - Budget files;
 - Management control, monitoring and review files;
 - Internal audit reports, internal and external evaluations;
 - Complaints and disputes *etc.*;
 - *Databases* - maintained by the entity are important source of audit evidence; and
 - *External sources* - independent surveys, evaluation, research, *etc.*
- **Website of audited entities**, the regulators and other related entities. It may be ensured the website from which the audit evidence is being taken is reliable and updated. The source of such information should be shared with audited entity and suitably depicted in the audit report.

- **Department's sources** – evidence collected in previous audits and during finalisation of strategic plan could provide evidence in many cases.
- **Auditors' observation** – could form an important source of evidence, particularly when supported and corroborated by photograph, video recording, etc. and attested by the representative of the entity. The audit team should record a detailed description of the results of observation.
- **Physical verification/inspection** is an important source of evidence. Accountants General may make an assessment based on the nature of the subject of performance audit and the audit objectives as to whether physical verification/inspection is required to achieve the audit objective and document the results of their assessment. Accountants General should be conscious of the relatively lower levels of acceptability of evidence when the physical inspection/verification is carried out by auditors alone. Some of the measures to transform the observed evidence into competent evidence could be joint inspection in which the result of such inspection is certified by the representative of the entity holding responsible position, out-sourcing the physical observation to an agency of repute and supplementing the observed results with photograph, etc. attested by the representative of the entity.

Documentation

13.148 Meticulous documentation of the evidence supports the audit conclusions and confirms that the audit was carried out in accordance with relevant standards. C&AG of India's Auditing Standards (paragraph 8, Chapter III) state:

“Auditors should adequately document the audit evidence in working papers, including the basis and extent of the planning, work performed and the findings of the audit. Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditor's significant findings and conclusions.”

13.149 The Standards further add:

“Adequate documentation is important for several reasons. It will:

- confirm and support the auditors' opinion and report;
- increase the efficiency and effectiveness of audit;
- serve as a source of information for preparing reports or answering any enquiries from the audited entity or from any other party;
- serve as evidence of the auditor's compliance with Auditing Standards;
- facilitate planning and supervision; and
- provide evidence of work done for future reference.

13.150 Good documentation of evidence helps ensure that:

- an adequate and defensible basis exists for the audit's observations, conclusions and recommendations;
- an effective link exists between successive audits; and
- appropriate basis exists for quality control in carrying out an audit and for subsequent third-party reviews.

Working papers

13.151 All relevant documents and information collected and generated during a performance audit constitute the working papers. They include the documents recording

the audit planning including the audit objectives, determination of criteria including the process of their determination, field audit and evidence gathering procedures, evidence analysis, the nature, timing and the extent of audit procedures performed and the process of arriving at the results of the audit tests i.e., audit findings and conclusions. Ideally the working papers should consist of three sections – each linked to the other: planning; execution and reporting.

13.152 Working papers also serve as a connecting link between the fieldwork and the audit report. These should, therefore, be complete and appropriately detailed to provide a clear trail of the audit. The confidentiality of the working papers should be maintained and they should be retained for a period sufficient to meet the professional, legislative and legal requirements.

13.153 Some of the broad characteristics which working papers should have are set out below:

- **Completeness and accuracy:** Provide support to audit conclusions and recommendations.
- **Clarity and conciseness:** Anyone using these papers should be able to understand the entire audit process without need for any supplementary examination.
- **Ease of preparation:** While the audit teams will be called upon to collect large volumes of working papers, to the extent they can use the entity prepared documents and reports, pre-printed standard audit stationery and automatically generated standard working paper formats, the time and effort may be optimised.
- **Legibility and neatness:** Applies particularly to photocopies.
- **Relevance:** Working papers should be restricted to matters, which are important, pertinent and useful for the purpose.
- **Ease of review:** The working papers should contain cross-references to the audit memoranda, discussion papers, audit observation, field audit report and performance audit report, as the case may be, to enable Accountants General and the supervisory authority to link the working papers to audit conclusions and recommendations.
- **Organisation and ease of reference:** The working papers may contain an omnibus, easy to follow, index with proper narration for all volumes in an audit summary file and an index for each of the working paper files.
- **Complete audit trail of analysis:** The working papers should be so organised so that even an uninitiated person can follow the trail of how the subject was selected, how evidence was gathered, what was the evidence collected and how audit conclusions were formulated. This should include evidence for the positive findings as well.

Audit file

13.154 Documentation in a performance audit requires maintenance of audit file along with set of working papers. Audit file refers to one or more folders or other storage media, in physical or electronic form, containing the records that describe the audit documentation for a specific engagement.

13.155 Normally, the audit file should include the audit strategy, scope and methodology, the sample selection, nature, timing and extent of procedures performed, results of such procedures and the evidence obtained. It should also mention significant matters arising during the audit, the conclusions reached thereon and significant

professional judgments made in reaching those conclusions. Audit file should also include discussions of significant matters with management, those charged with governance and others, including the nature of the significant matters discussed and when and with whom the discussions took place. Besides, a reference about as to why a particular audit team was chosen for a performance audit may be made clear in planning documents.

13.156 Audit file should be properly indexed, referenced with and supplemented by the set of working papers. The auditor should summarise the audit documentation in an audit file and complete the administrative process of finishing the audit file on a timely basis. After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature. In case of multiple audit files, a master index of the files may be maintained in addition to the index of each audit file. The responsibility of ensuring documentation of evidence in support of all facts, figures and comments included in the audit report rest with the field audit offices conducting the audit.

The reporting process

13.157 Every performance audit is to culminate in a report containing the audit findings and recommendations. Para 1.1 and 1.6 under Chapter IV of C&AG 's Auditing Standards stipulate inter alia the following on reporting:

'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'.

'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'.

13.158 The auditing standards further states that in contrast to compliance audit, which is subject to fairly specific requirements and expectations, performance audit is wide ranging in nature and is more open to judgement and interpretation; coverage is also more selective and may be carried out over a cycle of several years, rather than in one financial period; and it does not normally relate to particular financial or other statements. As a consequence, performance audit reports are varied and contain more discussion and reasoned argument.

The Reporting Process

13.159 The reporting process is illustrated in the following diagram:

- i. Preparation of audit observations
- ii. Draft report issued to the entity
- iii. Response of the entity
- iv. Exit conference
- v. Sr. Management response to the report
- vi. Draft Final report
- vii. Response of the entity or those charged with Governance on Draft Final report
- viii. Final Report

Audit observations

13.160 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. These reflect the specific evidence gathered by the auditor to satisfy the audit objectives, in order to be able to answer the audit questions and verify the stated hypothesis, etc. These serve to confirm the facts with the entity and help in development of audit findings and recommendation by exploring significant early findings and recommendations with the entity and obtaining its preliminary response. They assist the performance auditor to detect at an early stage possible mistakes in understanding the subject, possible weaknesses in audit findings and the supporting evidence or the logic rather than wait till the entity points these out on receipt of the draft report.

13.161 It is a good practice to develop audit observation in a modular fashion, containing the audit findings, conclusions and recommendations (where applicable) along with details of evidence, their sources and analysis, so that the portion containing audit findings, conclusions and recommendations can be used directly in the draft performance audit report. The audit teams should be encouraged to use Audit Design Matrix (Paragraph No. 13.109 of this manual) as well as Audit Finding Matrix (Paragraph No. 13.134 of this manual) for cross reference to ensure that nothing is left out and they have completed the work inconsonance with the Matrices *ibid*.

Draft audit report

13.162 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-in-chief (Secretary of the ministry/department). A reference to the auditing standards followed for conduct of audit should suitably be made in the draft report.

13.163 It is important that the draft report describes the objectives and scope of the audit to enable the reader understand the purpose of the audit. Any limitation imposed on the scope of the audit, the reasons thereof and efforts made to resolve it should be indicated in the draft report.

Accountants General may forward the draft performance audit report to the government with a demi-official forwarding letter to the Secretary with a copy to the Financial Adviser to the ministry, which should contain the following:

- subject of the performance audit and reference to previous dialogues;
- gist of major audit findings and recommendations along with the risks and materiality of the issues;
- time limit for formal response;
- invitation to a formal discussion and presentation of the audit findings and conclusions; and the expected value additions to the programme management, if the recommendations are implemented.

Response of the entity

13.164 It is important that the entity is persuaded to provide written response to the draft audit report. This may be achieved through correspondence, personal meetings and presentation of the draft audit report. Since the audit report is presented to the Parliament/state legislature, it is crucial that the response of the entity has the approval of the Secretary of the ministry/department. The attempt should be to get the audited entity to respond directly to each audit finding and recommendation so that these can be published in final audit report.

Exit conference

13.165 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. Wherever, more than one department/agency is involved, representation from such agencies/departments should be insisted upon. The draft Audit report including the responses of the audited entity must be issued before the holding of the exit conference. The Accountant General or the Group officer should lead the exit conference. All audit findings, conclusions and recommendations are to be discussed and as far as possible direct responses of the audited entity are to be solicited and recorded. It is also a platform to arrive at an agreement with audited entity about audit conclusions and recommendations. It will also allow the audit team to clarify any point of doubt that the entity may like to raise. The minutes of exit conference should be recorded and endorsed to the entity with a request to acknowledge the minutes within two weeks stating that in case of non receipt of acknowledgement within stipulated period, it will be presumed that audited entity concurs with the minutes. In case, head of the audited entity does not respond to audit's request for holding exit conference, Accountant General should try to convince the head of the entity to hold the conference. In case, the exit conference could not be held even after pursuance, this fact should be recorded in the report.

Third party consultations

13.166 While third parties may not generally be the audited entities, their activities affect the program and service delivery, and audit reports often include commentary about their responsibilities and performance. Auditors should not communicate to third parties, neither in writing nor orally any information they obtain in the course of audit work, except where doing so is necessary to discharge the statutory or otherwise prescribed responsibilities. In case any information is required from third parties, audited entity would requisition the same from the third party and provide to Audit. Further, where role of identified third parties is considered very significant to the audit conclusions and recommendations, the audited entities may be encouraged to bring out the concerns of those parties in their replies to audit.

Observations of the headquarters on draft report

13.167 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. The observations and suggestions for improvements by headquarters, which has not been involved on day-to-day basis with the conduct of the audit, provide assurance on the logical development of findings and conclusions, quality and validity of supporting evidence and objective approach. Review by the Department's Senior Management ensures that appropriate procedures have been followed by Accountants General in implementation of the audit. The modifications brought out in the report due to this process should be documented by highlighting the reasons thereof.

Draft Final report

13.168 After incorporating the replies of audited entity and modifications suggested by headquarters, the draft final report should be prepared. The audited entity should be again given the opportunity to comment on the audit findings, conclusions and recommendations. As such, Draft final report, after the approval of the Senior Management, including the responses of the audited entity/minutes of exit conference should be issued to the head of the audited entity or persons charged with governance as a numbered and confidential copy requesting responses to the audit conclusions and recommendations within a period of two weeks. The response of the audited entity to the conclusions and the recommendations received on the draft final report should be included in the final report.

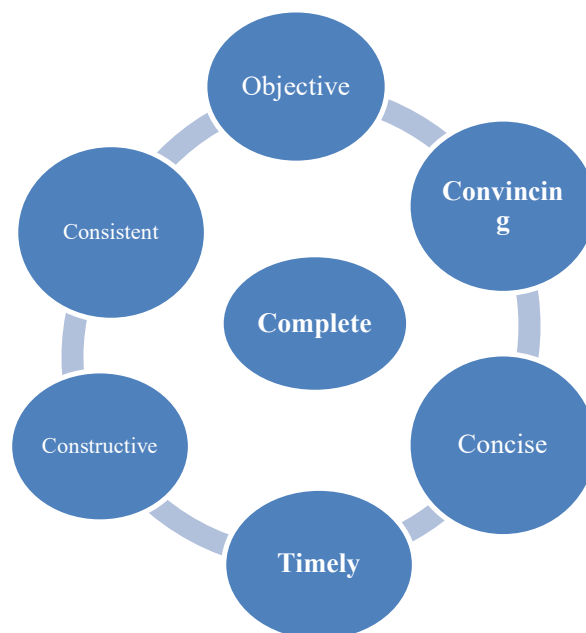
Final report

13.169 On approval of the report by Department's Senior Management, the Accountant General may 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 of the prescribed number of copies, signature copies for signature of the Comptroller and Auditor General in ink and others with his facsimile signature.

13.170 The printed signature copies of the report are to be forwarded to the headquarters for signature of Comptroller and Auditor General. The signed copies of the report should be forwarded to the government for placing it on the table of the Parliament/state legislatures. Simultaneously, intimation on forwarding of the report along with a signed copy of the report is to be sent to the Secretary to the President/Governor in respect of the reports relating to the Union and State governments respectively. The remaining copies of the printed reports are forwarded to the Parliament/Secretariat on their request, generally on the day the report is presented.

Characteristics of a good report

13.171 The following points need to be emphasised in regard to performance audit reports:



- The audit report should be complete i.e. all pertinent information required to satisfy the audit objective, including the information relating to the scope, criteria, evidence, conclusions and recommendations should be available in the report;
- The objectivity of audit report is ensured through fair conclusions and balanced content and tone. A report is balanced if it does not focus on criticism alone but contains fair assessment or evaluation, which would mean that good performance should also be reported;
- The audit report is convincing if the results of audit are presented persuasively and the conclusions and recommendations follow logically from the facts presented;
- The report should be easy to read and understand; it should be concise, no longer than necessary to convey the audit opinion and conclusions;
- Consistency of the report is secured by ensuring that it does not contain contradictory findings or conclusions in similar contexts or the conclusions on the same segment in different sections or parts of the report are not incompatible;
- The report is constructive if it manifests a remedial approach rather than a critical approach and includes appropriate recommendations;
- The report adds value to the entity, if it is timely.

Structure of the report

13.172 The performance audit report should preferably be presented as per the following structure:

- Title: the subject of the performance audit;
- Executive summary: It provides the précis of the main report. The summary should not be very long and should contain only essential information. The major audit findings should be placed in the same sequence as the audit objectives and sub-objectives along with recommendations in brief;
- Introduction: It consists of a brief description of the subject of study, information on programme, activity, or institution, its objectives, inputs, implementation structure, expected outputs and outcome, etc. The introduction should be brief, yet sufficient to enable the reader understand the context of the programme;
- Audit objectives: They are the pivots of the performance audit, which set out the reason for undertaking the audit. The entire exercise of performance audit is built around the audit objectives. These should, therefore, be stated in simple and clear terms. It is useful to set out the audit objectives and sub-objectives within each audit objective in the form of complete statement/question;
- Scope of audit: It is defined in terms of the period of the programme covered in audit and segments of the programme audited should be set out precisely;
- Audit methodology: It describes methods used for data collection/evidence gathering and testing may be stated in brief. This adds to the acceptability of the audit findings and forms a statement for transparency of the audit procedure;
- Audit criteria: to arrive at the audit findings and conclusions with reference to each audit objective and sub-objective which should be stated with appropriate explanations;
- Audit findings and conclusions made during an audit with reference to each objective should be stated;

- Recommendations: They should be presented along with the conclusions wherever applicable in a box or highlighted print;
- Acknowledgement: it may be useful to indicate or acknowledge in brief the co-operation, acceptance of the criteria/findings and recommendations by the entity. In case the co-operation or response was not forthcoming at any stage it may be indicated if it has resulted in any limitation along with its implication and the special efforts made by the Accountant General to seek cooperation or response;
- Glossary of terms: It is helpful to the reader if explanations are provided in a glossary or easy-to-find footnotes. Glossary should be comprehensive, explaining all technical and uncommon terms used in the report.

Enhancing the presentation and readability of the reports

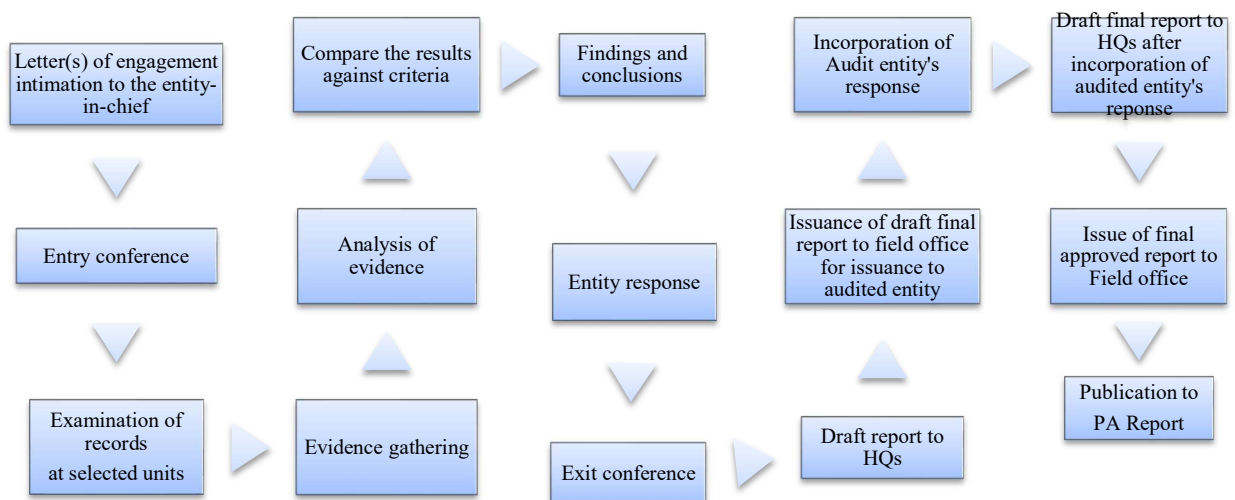
13.173 Readers tend to focus on contents page, headings and subheadings, the executive summary, conclusions and recommendations and distinctive figures such as tables, charts, diagrams, maps, text boxes and photographs. These are to be used to full effect to draw the reader to the most important messages that the Department wants them to receive.

13.174 Significant audit conclusions can be highlighted in box form. The audit findings should be illustrated with the use of graphs and charts and improve the visibility of the analysis and findings. Photographs can also be used to corroborate findings. Facts, findings and conclusions may be reported in different paragraphs to clearly distinguish them.

13.175 Titles for chapters and sections in the reports should be assertive rather than descriptive as this allows the reader to steer through the report better. The audit team needs to consider what data and information will help the reader understand the evidence or arguments. While designing a table, graph or chart, the explicit point that needs to be highlighted will lead to displays that are specific and meaningful. Titles and labels should be clear and concise. All data graphics and other illustrations should be self-explanatory, so that readers should not have to refer to the main text to understand them. Tables and other graphics containing data sourced from outside (including the audited entity) should have an acknowledgement of the source of such data.

Audit implementation cycle

13.176 The following diagram depicts the Audit implementation cycle of a performance audit:



Timelines of Performance Audit

13.177 In order to ensure the timely completion of the performance audits and also that the topics may not lose their importance, all the performance Audits should ideally be completed within a period of ten months. The audit implementation cycle i.e from the date of entry conference to the finalisation of the audit report by the headquarters should be completed preferably within this period. However, some additional time may be required for the complex All India performance audits or performance audits undertaken with the help of outside experts.

Follow-up of Performance Audits

13.178 Performance audit reports are essentially a means to improving public sector performance and accountability. This can be achieved through implementation of the recommendations contained in the performance audits. Consistent and systematic follow-up process in the Department may contribute significantly to the effectiveness of performance audit in improving the programme management.

Follow-up refers to the situation where the auditor examines the corrective actions the audited entity, or another responsible party, has taken on the basis of the results of previous performance audits. It is an independent activity that increases the value added by the audit process by strengthening the impact of the audit and by improving future audit work. It also encourages the user of the reports and the audited entities to take the reports seriously and provides a useful learning basis and performance indicator for the auditors. A follow-up is not restricted to the implementation of recommendations but focuses on whether the audited entity has adequately addressed the problem and remedied the underlying conditions after sufficient time has been allowed for this process. When conducting a follow-up of audit reports, the auditor should concentrate on findings and recommendations that are still relevant at the time of the follow up and adopt an unbiased and independent approach.

Objective of the follow-up programme

13.179 The follow-up of performance audit reports is aimed at the following objectives:

- *Assisting the legislature:* follow-up reports may provide valuable information to the committees of Parliament/state legislature for their examination of the Reports;
- *Achieving improvements in performance of the public sector program:* the prime reason for following up audit reports is to increase the probability that recommendations will be implemented and help in improving the performance of the audited entity;
- *Evaluating the Department's performance:* follow-up programme and outputs may be a good measure for assessing and evaluating Department's performance and improvements in programme management, etc. anticipated at the time of planning the audit; and
- *Providing an input* to the strategic planning of performance audit by the Department.

Assisting the Legislature

13.180 The follow-up procedures in the context of performance audit should be established keeping the following features in mind:

- The performance audits which are selected by the Committees of the Parliament/State Legislatures for detailed examination and oral evidence should be pursued in the context of the decisions of the respective Committees, if any recommendations have been issued. Good quality of performance audit being assured with the help of the quality assurance measures adopted by the Department, it would be expected that the recommendations of the Committees of the Parliament/State legislature would not only support but also strengthen the recommendations by audit. However, even in cases selected by the Committees where the examination and issue of recommendations by the committees of the Parliament/ State Legislature have not taken place, Accountants General may continue to pursue the follow-up on recommendations as in the cases where the subject is not selected for detailed examination;
- In cases of the performance audits that are not selected for detailed examination, Accountants General will carry out follow-up procedures to examine the extent of the implementation of the recommendations, particularly those which had been accepted by the entity. As regards, recommendations not accepted by the audited entity, Accountants General may persist with further discussions and persuasion to either accept or implement the recommendation or transfer recommendations to the audited entities for further action.

13.181 While the orders of the government, generally issued on the recommendation of the legislative committees, in the context of follow-up Action Taken Notes by the entities may vary from state to state, the model applicable to the Union Government, issued at the instance of the Public Accounts Committee may be kept in view.

13.182 As per the extant procedure, applicable in case of the reports on the Union Government, the ministries and departments are to forward the 'Action Taken Note' (ATN) against all matters included in the report of the Comptroller and Auditor General to the Parliamentary Committees within the prescribed time. The ATN is vetted by Accountants General for correctness of facts and figures, adequacy of the remedial measures and explanations for underperformance before they are submitted to the Committees of the Parliament. The ministries and departments submit the ATNs after attending to the comments of Accountants General. In exceptional cases, they may include the vetting comments of Audit along with a response to the comments before submission of the ATNs to the Committee.

13.183 In vetting the ATNs, the substantive action on the recommendations, rather than the form, is the focal point. While no uniform model can be suggested for securing the implementation of the recommendations and the procedure outlined above may be one of the models, the ultimate objective should be to ensure prompt and effective implementation of the recommendations.

Effectiveness assessment

13.184 Accountants General may also carry out an evaluation of the effectiveness of the performance audits annually. The internal evaluation may consist of:

- the expected outcome of each performance audit anticipated at the time of planning vis-à-vis actual outcome; and
- the reasons for significant variation between the expected value addition and the actual. The variations may be attributed to under assessment or over assessment, deficient entity response and deficient quality of performance audit. The evaluation will include the remedial measures also.

13.185 The follow up or evaluation of Performance audits can be performed by:

- carrying out a desk review, which involves more detailed review of the implementation of the recommendations, including meeting, discussions and presentations, but does not necessarily comprise extensive field work; and
- detailed follow-up review consisting of comprehensive field work in relation to the action taken by the entity on Audit's recommendations with the objective of preparing a report to the legislature.

Continuous Improvement

13.186 Continuous improvement is also one of the important outcomes of follow-up procedures. This can be achieved by the following:

- **Quality assurance review programme**

An annual plan of the activities to be performed by the 'Quality Review Group' may be drawn up, which may have the approval of the Department's Senior Management. Only a sample of completed audit engagements should be selected for review by the group. Once the audits are selected, the quality review team may review the audit documentation and meet some of the staff members who worked on those engagements.

- **Peer Review**

A peer review is performed by an independent team which may be internal or external to the Department to evaluate whether an organization's internal quality control system is suitably designed and operating effectively to provide the entity with reasonable assurance that established policies, procedures and applicable government auditing standards were being followed. The peer review involves testing the entire quality control system and not work in process. The Inspection and Peer Review Wing of Department is responsible for carrying out internal peer reviews. Besides, external peer reviews can also be arranged to seek assurance of robustness of the processes.

- **Dissemination of Lessons Learnt**

Regular meetings, workshops and seminars should be organized to deliberate on audit experiences, methodologies adopted, and any changes needed in them in the light of experiences gained so that appropriate steps are initiated for improvement.

Inventory of recommendations

13.187 The starting point for follow-up procedures could be a comprehensive inventory of recommendations maintained in appropriate data base by all Accountants General. The inventory, maintained performance audit wise should consist of all recommendations, with appropriate grading under 'vital or critical', 'significant' and 'important'. The database should also contain other relevant information viz. the year of audit report, status of acceptance viz. accepted, partially accepted, not accepted and not replied, nominal implementation reported by the entity and the time of such reporting, risk associated with non-implementation or poor implementation, besides follow-up reviews. This inventory should be maintained as a permanent database, which may assist in performance audit

planning in future. Where the committee of legislature has examined a performance audit report, the inventory may contain the final recommendations made by the committee.

Annual follow-up programme

13.188 Auditors should follow-up on previous audit findings and recommendations when appropriate. The follow-up should be reported appropriately in order to provide feedback to the legislature together, if possible, with the conclusions and impacts of the corrective actions taken where relevant.

13.189 Follow up results may be reported individually, or as a consolidated report. Consolidated follow-up reports may include an analysis of different audits, possibly including common trends and themes across a number of reporting areas. Follow-up can contribute to a better understanding of the value added through performance auditing in a given time period or subject matter area.



Chapter –XIV **Audit of Deposits**

Audit objectives and scope

14.01 The main objective of audit of deposits is to ensure that:

- (i) funds are not diverted from the consolidated fund and unnecessarily accumulated in deposits, thus affecting the basic discipline of budgetary control.
- (ii) deposit accounts are opened only when necessary and strictly according to the prescribed rules and regulations and
- (iii) credits to withdrawals from and closure of deposit accounts are supported by the necessary documents and strictly conform to the rules and regulations.

14.02 The deposits covered in this Chapter may be classified broadly as (i) Civil Deposits that include revenue deposits, civil court deposits, criminal court deposits etc.(ii) local fund deposits and (iii) Special deposits accounts of Government companies, corporations etc. These deposits may or may not earn interest depending on the decision of the government.

(Authority : Paragraph 3.11.1 and Paragraph 3.11.2 of C&AG MSO 2002)

Source Documents

14.03 The source documents to be audited are the following

- (i) Plus and minus Memoranda
- (ii) Challans and list of challans to be cross-checked with the plus and minus memoranda
- (iii) Challans relating to transfer credits
- (iv) Broadsheets maintained by the Accountant General (A & E)
- (v) Deposits Register
- (vi) Authority for opening of Deposit Accounts
- (vii) Vouchers relating to corpus fund
- (viii) Expenditure sanctions
- (ix) Personal Ledger Accounts Ledger maintained at treasuries
- (x) The Deposits Module of the VLC database maintained by the Accountant General (A &E) containing details of personal Ledger Accounts.

(Authority : Paragraph 3.11.3 C&AG MSO 2002)

Audit Approach

14.04 The monthly plus and minus memoranda , duly supported by the repayment vouchers and the annual statements of lapsed deposits received from the treasuries, courts etc. are checked in the office of the Accountant General (A&E) and posted in the relevant broadsheets. That office also carried out necessary adjustments for crediting the lapsed amounts to Government account.

14.05 Treasuries and departmental officers, on the other hand, maintain accounts of receipts and payments in respect of all kinds of deposits. It will, therefore, be necessary to exercise many of the audit checks in local audit, in addition to certain audit checks to be exercised in

central audit. Checks relating to deposits such as unclaimed Provident Fund deposits, the detailed accounts of which are maintained in the A&E office should, however, be exercised only in Central Audit.

(Authority : Paragraph 3.11.4 and Paragraph 3.11.5 of C&AG MSO 2002)

Issues for audit scrutiny

Receipt and repayment or withdrawal of deposits

14.06 The main points to be checked by audit with reference to the receipt and repayment of deposits are as follows:

(i) Audit should satisfy itself that no monies are received for deposit in the Public Account of the Government unless the deposits are such as are specifically required or authorized to be held in the government custody by virtue of any statutory provisions or of general or special orders of the Government

(ii) It should also be verified that no item, which could be credited as a revenue receipt or in reduction of ordinary expenditure of Government, is credited as a deposit in the accounts of that Government

(iii) Audit should ensure that monies received on account of revenue deposits, civil court deposits, criminal court deposits, etc. are duly supported by challans and necessary vouchers are available in support of withdrawals from such deposits.

(iv) Similarly, the deposits into Local Fund Accounts and Special Deposits Account of government companies, corporations, etc. should be supported by the relevant challans, including those relating to transfer credits. Repayments of such deposits should be made only by cheques.

(v) Principles and rules of audit that govern audit of expenditure apply mutatis mutandis to disbursements under deposit heads as well. Repayments of deposits should be examined to verify that proper vouchers in support of the amounts repaid are available; each repayment should also be checked either individually against the original receipt or against the total of the particular account in order to ensure that it is not in excess of the amount originally received and credited to Government

(vi) Transfer, using the facility of transfer credit, of sums from the Consolidated Fund to deposit accounts for utilization in subsequent financial years violates basic budgeting principles. Audit should verify from the records maintained by the Deposit Section in the A&E Office the actual amounts transferred from Service Heads by transfer credit to each sub-head of the Deposit Account. These should agree with the amounts accounted for in the Register of Nil Payment Vouchers maintained in the Account Current Section. Appropriate audit comments on the irregular transfers should be included in the Audit Report.

(Authority : Paragraph 3.11.6 of C&AG MSO 2002)

Closing Balances

14.07 While reviewing the closing balances of deposits, Audit should ensure that:

(i) balances in deposit accounts have been correctly carried over from year to year and the correctness of the balance in each account at the close of the year has

been acknowledged by the person or body concerned where necessary and practicable; and

(ii) deposits that have remained unclaimed for such period(s) as may be prescribed by Government in this behalf and are to be credited as revenue receipts of Government have been properly adjusted to the revenue head in the accounts.

(Authority : Paragraph 3.11.7 of C&AG MSO 2002)

Lapsed Deposit

14.08 As Annual return of transactions of the Government relating to revenue and civil and criminal court deposits is to be rendered to the Accountant General (A & E). The amounts in respect of deposits that have lapsed should be deducted from the plus and minus memoranda for the month of March. On receipt of the Statement of Lapses in the A & E office, the total will be checked and a transfer entry proposed for crediting the amount to Government.

(Authority : Paragraph 3.11.8 of C&AG MSO 2002)

14.09 Audit of lapsed deposits involves verification

(i) where the lapsed amounts have been correctly written off in the plus and minus memoranda for March,

(ii) whether the lapsing on 31 March each year are transferred to the credit of Government under the Head “0075- Miscellaneous General Service-00.101- Unclaimed Deposit-Deduct refund”. The annual transfer entry crediting the amount to the Government may be made on the basis of the figure reported by the treasury officers in the March Final or March Supplementary accounts; and

(iii) in regard to receipt of the prescribed applications for refund of lapsed deposits and exercise of necessary checks with reference to the original deposits in the Lapsed Deposit Register before issuing authority for payment of refund.

(Authority : Paragraph 3.11.9 of C&AG MSO 2002)

Personal Deposits

14.10 Personal Deposits are maintained in the treasury in the nature of banking accounts. These are commonly known as Personal Ledger Accounts or Personal Deposit Accounts and are established either under any law or rule having the force of law by transferring funds from the consolidated fund of the state for discharging liabilities of the Government arising out of special enactments. Ordinarily, Government sanctions the opening of a banking deposit account or of a Personal Ledger Account after consultation with the Accountant General (A&E). 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 Personal Ledger Account are properly maintained and are subject to audit.

(Authority : Paragraph 3.11.10 of C&AG MSO 2002)

14.11 Besides, Personal Ledger Accounts may also be opened, after prior consultation with the Accountant General (A&E) in favour of specified Government officer by transferring funds from the consolidated fund of the State for discharging the liabilities of the State Government in respect of execution of various projects, schemes, etc. The corpus of such Personal Ledger Accounts is recouped after incorporating the expenditure incurred every

month and reflected in the monthly accounts in the Civil Accounts. Except where Personal Deposit Accounts are created by law or rules having the force of law for discharging liabilities arising out of special enactments, other Personal Deposit Accounts shall be closed at the end of the financial year by minus debit of the balance to the relevant service heads in the Consolidated Fund of the State, the Account being opened again in the following year, if necessary, in the usual manner.

(Authority : Paragraph 3.11.11 of C&AG MSO 2002)

14.12 The Accountant General (Audit) shall determine whether or not the audit of initial accounts should be conducted and also whether such audit should be conducted locally in the office in which the detailed accounts are maintained or centrally in the A&E Office where the detailed monthly accounts of lump sum deposits/withdrawals are received along with the supporting challans/vouchers. If he 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 other reason, the Government may entrust audit of the initial accounts to another recognized authority like the Examiner, Local Fund Accounts, or a qualified auditor.

(Authority : Paragraph 3.11.12 of C&AG MSO 2002)

Other Deposit Accounts

14.13 The audit of other deposit accounts which are governed by special rules and directions issued by Government for the receipt and repayment of the deposits (e.g. deposits for work done for public bodies or individuals, deposits of government companies, corporations, etc.) should be conducted with reference to those rules and directions.

(Authority : Paragraph 3.11.13 of C&AG MSO 2002)

Local Audit

14.14 Local audit of deposits should be conducted with reference to the relevant rules and regulations. The following are the main points to be verified:

- (i) Deposits made on behalf of departmental officers have been properly noted in the prescribed records and reconciled with the treasury records.
- (ii) Repayment or part repayment has been made only to the correct depositor and the face thereof has been noted against the entry in respect of the original deposit as a safeguard against double payment.
- (iii) Deposits remaining unclaimed for more than three completed financial years have been credited to government revenue as having lapsed and the relevant entries deleted from the Deposit Register, and the lapse statements sent to the treasury and the Accountant General (A&E) for adjustment in the accounts.
- (iv) No deposit that has lapsed has been repaid without the authority for the Accountant General (A&E) or the treasury.
- (v) Personal Deposit (Ledger) Accounts have been opened with proper authority and with the prior concurrence of the Accountant General (A&E).
- (vi) Personal Deposit Accounts required to be closed at the end of financial year have been duly closed and unutilized balances, if any, have been refunded by cheque for credit to the relevant functional service major head.

(vii) Scrutiny of all expenditure with reference to the vouchers and other relevant documents retained in the local office to ascertain whether the expenditure was incurred for discharging Government's liabilities according to rules and orders in force from time to time.

(viii) Adherence by administrators of deposit accounts to the applicable acts, rules and regulations and to requirements relating to maintenance of initial accounts records and of the prescribed scheme-wise records.

(ix) Regular reconciliation of balances in deposit accounts by the concerned administrators with the treasury.

In respect of deposits received on behalf of private individuals, public bodies, Public Works and Forest Departments and various other funds, audit shall confine scrutiny to ensuring that (i) the deposits made and expenditure met there from conform to the relevant rules and orders; and (ii) in respect of deposits maintained by the departmental officials, regular statements of expenditure from the deposits are sent to the authority concerned and acceptance of expenditure by the authority is watched.

(Authority : Paragraph 3.11.14 of C&AG MSO 2002)



Chapter –XV

Contingency Fund

15.01 Preamble

The rules regarding the Bihar Contingency Fund set under Article 267(2) of the Constitution of India, Accounts and Audit procedure relating thereto are described in Chapter-IX of the Manual of Book Section. The same principles will apply *mutatis mutandis*, to the Contingency Fund of India established under Article 267(i) *ibid*. The special procedure for the Public Works Department is given in the succeeding paras.

15.02 Receipts and Disposal of sanction orders

All orders sanctioning advances from the Contingency Fund so far as they relate to Public Works (excluding establishment) will be received from Government in Central Audit Supporting Section. All those orders be noted in the Contingency Fund Register maintained by Central Audit Supporting Section and copies thereof will be furnished to A&E Office (if copies are not already endorsed by Government to them).

(Based on Bihar Finance Department letter No. BT/45/79/4892 V dated 11.4.1981)

Note: A statement in the prescribed form showing the advances sanctioned from the Contingency Fund of India during the Vote on Account period for expenditure on “New Service” Items for which necessary provision has been made in the Budget Estimate of that year, will be laid on the Table of the Lok Sabha by the Ministry of Finance before the Appropriation Bill for the year is introduced in that Sabha. This statement will form part of the budget/documents to be sent to audit and other authorities.

(Based on CAG’s letter No.424-AC/168-86 dated 14.5.1968)

15.3 The instructions provided below govern the audit not only of contingent charges proper, but also of other expenditure, which is to be treated in the same manner as contingencies according to the rules of financial procedure made by Government. The term contingent charges or contingencies used in this Chapter covers all such charges.

15.4 The actual classification of contingent charges is determined by the orders of the Government concerned and, as a result, it may be different for different Governments. It will, however, be found that all contingencies fall into one or other of the following five categories:-

- (i) Contingent charges met from a lump sum grant placed at the disposal of a disbursing officer for expenditure, at his discretion, on certain specified objects. Such charges are known as Contract Contingencies and generally consist of charges the annual incidence of which can be averaged with reasonable accuracy.
- (ii) Contingent charges regulated by scale laid down by the competent authority. Such charges may be called Scale Regulated Contingencies.
- (iii) Contingent charges, whether recurring or non-recurring, which cannot be incurred without special sanction in each case of a superior authority. These may be termed Special Contingencies.
- (iv) Certain contingent charges may be incurred without special sanction. They nevertheless require the approval and countersignature of a superior authority before they can be admitted as legitimate expenditure against the Consolidated Fund of India or of a State. Such charges are known as Countersigned

Contingencies. Countersignature is ordinarily obtained after the bills are paid but, in rare cases, it is necessary before payment.

- (v) Contingent charges which require neither special sanction nor countersignature, but may be incurred by the disbursing officer on his own authority subject to the necessity of accounting for them. Such Contingencies may be termed Fully Vouched Contingencies. In actual practice, however, the Comptroller and Auditor General dispenses with the production to audit of vouchers of less than a prescribed amount.

15.5 It must be recognised that the five categories of contingencies described in the foregoing paragraph are not necessarily mutually exclusive. There may be instances of Special Contingencies being regulated by scale, or of a bill relating to Scale Regulated Contingencies requiring countersignature. Where a contingent bill falls under two or more classes, the methods of audit prescribed for each of those categories should, as far as possible, be applied to it.

15.6 It is for the Government to prescribe what classes of expenditure will be brought under the contract system and to which departments the system will be extended. It is also the prerogative of Government to lay down any scale for regulation of contingent charges, to determine the authority competent to sanction special contingencies, and to designate the controlling authority whose signature will be necessary in respect of Countersigned Contingencies.

Source Documents

15.7 The source documents necessary to conduct audit are the following:

- (i) Documents containing details of Grants/appropriations provided by the Government and funds allotted by the Head of the Department.
- (ii) Sanctions accorded by Government and other competent authorities.
- (iii) Vouchers and sub-vouchers of contingent bills.
- (iv) List of abstract contingent bills received from Accounts and Entitlement Office.
- (v) Voucher Level Computerised accounts and packages maintained in the Accounts and Entitlement Office and relevant nodes supplied to the Audit Office.

Audit Approach

15.8 The responsibility for the effective control of contingent expenditure rests primarily upon the heads of offices and departments. The Audit office merely examines the fulfilment of that responsibility by auditing such expenditure, the extent of which varies greatly with the different categories of contingent charges. It is the least in the case of contract contingencies. It is somewhat greater in respect of Scale Regulated and Special Contingencies because Audit has to satisfy itself in the former case that the charges incurred are in accordance with the scale that governs them and watch the expenditure against the necessary sanction of the superior authority in the latter case. Apart from certain definite responsibilities to be discharged by Audit, the countersigning authorities exercise the major portion of the control over Countersigned Contingencies. The responsibility of Audit is the greatest in the case of Fully Vouched Contingencies. For all categories of contingent charges alike, other than Contract Contingencies, these responsibilities should be discharged only in so far as the rules relating to those contingencies permit.

Issues for audit scrutiny

General checks

15.9 The Accountant General (Audit) has the following minimum responsibilities in respect of all contingent bills audited. He must see:

- (i) that each class of expenditure:
 - (a) is a proper charge against the Grant or Appropriation concerned;
 - (b) has received such sanction as is necessary; and
 - (c) has been incurred by a Government servant competent to incur it;
- (ii) that such vouchers as are required by audit have been submitted (see paragraph 14.19);
- (iii) that any certificates required under the financial rules of the Government concerned have been provided;
- (iv) that the rates are apparently not extravagant and that standards of financial propriety have been properly observed;
- (v) that the bill is in proper form and the classification is correctly recorded thereon;
- (vi) that, unusually large incidence of expenditure in the month of March does not lead to irregularities; and
- (vii) that stores not immediately required or in excess of requirement have not been procured merely to avoid lapse of budget grant and remain unutilised.

In addition, the control system in the offices of the drawing and countersigning officers should be checked in local audit to ensure that adequate arrangements exist to prevent more than one drawal against a single sanction or a double payment of a recurring charge.

Audit of Contract Contingencies

15.10 Rules governing Contract Contingencies differ from Government to Government, the principal variations being in the types of expenditure brought under the contract system and in the department to which the system has been extended. In some cases, the contracts are entered into directly with the disbursing officers, while in others the contract grants are placed at the disposal of controlling officers, who distribute them annually among their subordinates, reserving a small portion for subsequent allotment in cases of need. In spite of these and other minor variations, the essential features of the system are common to all Governments. No details of the expenditure beyond such totals of the various contract items as may be required for purposes of classification, need to be furnished in the bills. Disbursing officers are held personally responsible for any expenditure in excess of the contract grant until the excess is regularised by sanction of the competent authority.

Audit of Scale Regulated Contingencies

15.11 Contingencies regulated by scale will include such charges as cost of liveries, rewards for destruction of wild animals, *batta* to witnesses and the like. The authority prescribing the scale will also lay down the conditions precedent for its applicability in each case, making it clear whether the special sanction of a superior authority is necessary, whether bills must be countersigned before or after payment, and what certificates should support the bills. According to the conditions laid down, charges regulated by scale may become Special, Contract, Countersigned or Fully Vouched contingencies. These should be audited under the rules applicable to the particular category within which they fall. In addition, the Accountant General (Audit) should satisfy himself that the charges incurred are in accordance with the scale governing them.

Audit of Special Contingencies

15.12 The principal duty of the Accountant General (Audit) in respect of Special Contingencies is to watch the expenditure against the necessary sanction of the superior authority. When an order or sanction contains no indication of the amount or ceiling of expenditure sanctioned, enquiry should be made from the issuing authority, and the charges should not be admitted in audit until complete sanction is received. When expenditure against a lump sum sanction is incurred in instalments, it should be verified in local audit that arrangements exist in the drawing and countersigning offices to watch the progressive outlay against the sanctioned total.

Audit of Countersigned Contingencies

A. Bills Countersigned after payment

15.13 In the case of bills countersigned after payment, the money is actually drawn on an abstract bill, and the approval of the superior authority as indicated by its countersignature is subsequently received by the Accountant General (A&E)/Pay and Senior Accounts Officer on the monthly detailed countersigned bill. Both the abstract bill and the detailed monthly bill require scrutiny in audit.

15.14 Scrutiny of the abstract bill is limited to seeing that an authorized officer has drawn the bill, the necessary grant or appropriation is available, prescribed certificates have been furnished, the summations are correct and that the bills contains no extraordinary or unusual features. Receipt of a detailed bill in respect of each abstract bill drawn is watched by the Accountant General (A&E)/Pay and Senior Accounts Officer. The Accountant General (A&E) shall arrange regular transmission of Drawing Officer-wise lists of abstract contingent bills along with the vouchers to the Audit Office for audit. The detailed bills received by him should be checked in audit with reference to the principles laid down in paragraph 3.4.8 *supra*.

15.15 In addition, it should be verified during the audit of detailed bills that:

- (i) the bills are duly countersigned;
- (ii) the charges included in the bills cover the amounts drawn on abstract bills and are classified as in the abstract bills; and
- (iii) complete details of the charges are given where necessary.

If any special or scale regulated contingencies included in the bills, the checks prescribed elsewhere in this Chapter in this regard to should also be exercised.

15.16 Except to the extent indicated above, objections may not be raised on items included in a countersigned bill which are within the powers of the countersigning officer. The attention of the countersigning officer should, however, be drawn to any expenditure which seems questionable or excessive in regard to rates, prices or quantum in relation to similar charges incurred elsewhere. If considered advisable, this should also be specifically reported to Government.

B. Bills countersigned before payment

15.17 When countersignature is required before payment, there will be no abstract bill and payment is made on a detailed bill. These bills should be audited in the same manner as detailed bills pertaining to amounts drawn initially on abstract bills.

Audit of Fully Vouched Contingencies

15.18 Payments of Fully Vouched Contingencies are made on detailed bills. The audit of these payments should be conducted as in the case of amounts drawn on bills countersigned before payment. It is the duty of Audit to challenge extravagant rates, prices or amounts in charges not

otherwise objectionable in character and to refer for orders of the competent authority any item of expenditure which is positively objectionable or even of doubtful propriety. A charge should not, however, be held to require the special sanction of Government merely because it is unusual in the sense that it does not occur at frequent intervals. For example, a clock in a Commissioner's office may be a necessary article of furniture, though the need of replacing it may not arise for years together. When the need does arise, the expenditure may be readily passed on the Commissioner's signature if, *prima facie*, the price be reasonable.

Contingent charges relating to wages of mazdoors and pay and allowances of staff paid from contingencies

15.19 Contingent charges on account of wages of mazdoors engaged on manual labour and paid at daily or monthly rates should be passed in Central Audit on the authority of a certificate signed by the disbursing officer to the effect that the mazdoors were actually entertained and paid. Contingent charges on account of pay and allowances of all other staff paid from contingencies should be admitted in Central Audit on the authority of the certificates regarding entertainment, disbursement, etc. prescribed in the Treasury Rules. In all cases, a test check of the paid muster rolls, acquittance rolls and payees' receipts should be undertaken during local audit. Names of offices in which coolies on daily or monthly wages are employed regularly, which come to notice in Central Audit, should be advised to the local audit wing to enable that wing to arrange for local audit in cases where these offices have not been included in the regular programme of local audit.

Audit of sub-vouchers and payees' receipts

15.20 The financial rules of Government prescribe the monetary limits of sub-vouchers and payees' receipts relating to different categories of contingencies which are to be retained by the drawing and disbursing officer and the countersigning officer. Other sub-vouchers and payees' receipts are to be attached to the contingent bills presented at the treasuries or forwarded to the Accountant General (A&E)/Pay and Senior Accounts Officer. The supporting sub-vouchers contain details of the charges included in the contingent bill and they have to be checked in audit to establish that the amounts drawn in the bills are in order. The payee's receipt is the proof of payment, which enables Audit to satisfy itself that the amount drawn from the exchequer has been paid to the correct person. These documents, which are not received in the offices of the Accountant General (A&E)/Pay and Senior Accounts Officer along with the contingent bills, should be test checked during local audit of the offices of the drawing and disbursing or countersigning officers concerned.

Audit of Payments against Contracts

15.21 Payments charged to contingencies are sometimes made against contracts entered into by Government for supplies of materials, stores, etc. Ministries/departments of the Central Government and State Governments enter into contracts either with domestic suppliers or foreign suppliers. The detailed procedure for payments against such contracts and arrangements for their audit (including audit of the contracts themselves) are described in Chapter-7 of this Section.

(Authority : Paragraph 3.4.1 to Paragraph 3.4.19 of MSO 2002)



Chapter –XVI

Compliance Auditing Guidelines and Nature of the guidelines of INTOSAI and ASSOSAI

Compliance Auditing Guidelines

16.1.1 These guidelines contain the framework for the process of compliance auditing within the Indian Audit and Accounts Department headed by the Comptroller and Auditor General (CAG) of India hereinafter referred as IA &AD. The officers and the staff of IA &AD must follow these guidelines in planning, implementation, reporting, observing follow-up processes and obtaining quality assurance in compliance audits. They outline principles, objectives, approach, methodology, techniques and procedures for conducting compliance audits. These guidelines are based on the existing guidelines and instructions applicable within IA & AD and have adapted the ISSAIs (International Standards of Supreme Audit Institutions) for compliance auditing.

16.1.2 Applicability

These guidelines have been formulated to suit the requirements of IA & AD. These provide detailed instructions on preparation of audit plan for compliance risk profiling and reporting for compliance audits. However, the detailed audit checks to be performed while conducting compliance audits prescribed in the MSO (Audit) and the existing area specific checklists, instructions and guidance notes dealing with audit of contracts, fraud and corruption, quality and timelines etc. would continue to remain applicable.

Scope for individual initiative and professional judgment

16.1.3 While these guidelines are prescriptive in nature, they are not intended to supersede the professional judgment of the Accountant General¹¹, relevant to specific situations. The Accountant General is expected to make situation or subject specific adjustments to the provisions set out in these guidelines. However, Accountants General will be expected to document the rationale of all significant departures from the guidelines.

Audit Mandate

16.1.4 The audit mandate of IA&AD is derived from the Articles 149 & 151 of the Constitution of India. Article 149 of the Constitution of India envisages that CAG shall perform such duties and exercise such powers in relation to the accounts of the Union, of the States and of any authority or body as may be prescribed by or under any law made by Parliament. Article 151 of the Constitution of India provides that the reports of the CAG 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 States. The statutory position is established under the CAG's (Duties, Powers and Conditions of Service), Act 1971. In addition to above,

¹¹ The term Accountant General includes all heads of field audit offices of the rank of SAG and above within the IA&AD

Audit mandate is governed by other provisions in the Constitution and other acts of Parliament which provide for audit of specific entities by the CAG. The audit mandate of CAG, therefore, extends to bodies or authorities such as statutory authorities, statutory corporations, government companies, autonomous bodies legally organised as societies, trusts or not-for-profit companies, urban and rural local bodies (the third tier of government below the Union and State Governments) and also to any other body or authority whose audit may be entrusted to the CAG under law. All these entities follow different systems, procedures and norms for their financial and operational management which may or may not conform to those applicable to government departments. The Accountants' General are therefore required to keep this broad consideration in mind while applying these guidelines for compliance audit of these auditable entities. CAG's Regulations on Audit and Accounts, 2007 provides appropriate guidance on the various audits undertaken by IA &AD and Chapter 6 of the CAG's Regulations on Audit and Accounts, 2007 contains specific guidance on compliance audit.

Compliance Auditing: Definition and Objective

16.1.5 The concept of compliance audit is embedded in the description of the purpose of public sector audit in the Lima Declaration of Guidelines on Auditing Precepts¹²:

.....Audit is not an end in itself, but an indispensable part of a regulatory system whose aim is to reveal deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of financial management early enough to make it possible to take corrective action in individual cases, to make those accountable accept responsibility, to obtain compensation, or to take steps to prevent or at least render more difficult, such breaches'

16.1.6 ISSAI 4100 defines compliance audit as follows:

Compliance audit deals with the degree to which the audited entity follows rules, laws and regulations, policies, established codes, or agreed upon terms and conditions, etc. Compliance auditing may cover a wide range of subject matters.

16.1.7 The CAG's Regulations on Audit and Accounts, 2007 define compliance audit as an assessment as to whether the provisions of the Constitution of India, applicable laws, rules and regulations made there under and various orders and instructions issued by the competent authority are being complied with'

16.1.8 The CAG's Regulations on Audit and Accounts, 2007 envisage that compliance audit includes an examination of the rules, regulations, orders and instructions for their legality, adequacy, transparency, propriety and prudence and effectiveness that is whether these are:

- intra vires the provisions of the Constitution of India and the laws (legality);
- sufficiently comprehensive and ensure effective control over government receipts, expenditure, assets and liabilities with sufficient safeguards against loss due to waste, misuse, mismanagement, errors, frauds and other irregularities (adequacy);
- clear and free from ambiguity and promote observance of probity in

¹² adopted by acclamation of the delegates in October 1977 at the IX INCOSAI in Lima

- decision making (transparency);
- judicious and wise (propriety and prudence); and
- effective and achieve the intended objectives and aims (effectiveness).

The CAG's Regulations on Audit and Accounts, 2007 further provide that the compliance audit also examines the rules, regulations, orders and instructions for their consistency with each other.

16.1.9 Seen from the perspective of public sector¹³ audit, compliance with rules, regulations and applicable authorities¹⁴ is the primary and most important requirement for ensuring accountability of the public executive, which primarily relate to safeguard and use of resources – financial, natural, human and other material resources. Compliance audit also performs the function of deterrence, especially in situations where internal controls are not as effective. The objective of public-sector compliance auditing, therefore, is to enable the CAG to assess whether the activities of public-sector entities are in accordance with the authorities governing those entities. Compliance audits are carried out by assessing whether activities, financial transactions and information comply, in all material respects, with the authorities, which govern the auditable entity. It is concerned with regularity and propriety audit.

- **Regularity**—that the subject matter of the audit adheres to formal criteria emanating from the relevant laws, regulations and agreements which are applicable to the auditable entity.
- **Propriety**— that general principles of sound public sector financial management and ethical conduct have been adhered to, legality and competence are ensured.

As such compliance audit not only includes examination of rules, regulations, orders, instructions but also every matter which, in the judgment of the auditor, appears to involve significant unnecessary, excessive, extravagant or wasteful expenditure of public money and resources despite compliance with the rules, regulations and orders.

It also includes audit of sanctions to expenditure, which is guided by the principles of legality, propriety, competence of the sanctioning authority, adherence to the criteria for sanction, availability of funds, determination of physical targets, objects of expenditure and the accounting procedure. Thus, besides verifying compliance by the auditable entities to the applicable regulatory framework, compliance audit is also expected to examine the regulatory framework for consistency and raise questions on grounds of propriety also.

Elements of compliance audit

16.1.10 Compliance audit in Public Sector audits have certain basic elements (i) Three parties in the audit i.e. the auditor, the responsible party, intended user, (ii) Subject matter and (iii) Authorities and criteria to assess the subject matter.

¹³ Public sector refers to the sector that is controlled by Central, State and Local Governments. Public sector entities include all Central and State Government Ministries, Departments, Directorates /Commissionerates, and all other entities/bodies owned/controlled by the Central and/or State Governments

¹⁴ Authorities include the Constitution of India, laws, regulations etc. A detailed definition is provided in para 1.14

The three parties

16.1.11 The three parties involved in compliance audit are briefly described below:

The auditor: represents the Indian Audit & Accounts Department and the persons delegated with the task of conducting audits. However, clear cut demarcation of roles and responsibilities of officers and staff for various audit functions is done through a hierarchical structure. Auditors in compliance audits typically work as a team with different and complementing skills. The auditor is responsible for planning and implementation of audit and issuing a compliance audit report.

The responsible party: represents the executive branch of government and/or its underlying hierarchy of public officials and entities responsible for the management of public funds and the exercise of authority under the control of the legislature. The responsible party in compliance auditing is responsible for the subject matter of the audit.

The intended users: represent the individuals, organizations or classes thereof for whom the auditor prepares the audit report. In compliance auditing the users generally comprise the executive which includes auditable entity and those charged with Governance, the legislature and the citizens who are the ultimate users of compliance audit reports.

Subject matter

16.1.12 Subject matter refers to the information, condition or activity that is measured or evaluated against certain criteria while conducting an audit. Compliance auditing may cover a wide range of subject matters depending upon the audit scope. Subject matter may be general or specific in nature. Some of these may be easily measureable (for example – compliance with a specific requirement like adherence to environment laws) while others may be more subjective in nature (for example- financial prudence or ethical behaviour).

Authorities and criteria

16.1.13 Authorities are the most fundamental element of compliance auditing, since the structure and content of authorities furnish the audit criteria and therefore form the basis of how the audit is to proceed under a specific constitutional arrangement. Authorities include the Constitution, Acts, Laws, rules and regulations, budgetary resolutions, policy, contracts, agreements, PPP contracts, established codes, sanctions, supply orders, agreed terms or the general principles governing sound public-sector financial management and the conduct of public officials. Most authorities originate in the basic premises and decisions of the legislature, but they may be issued at a lower level in the organisational structure of the public sector.

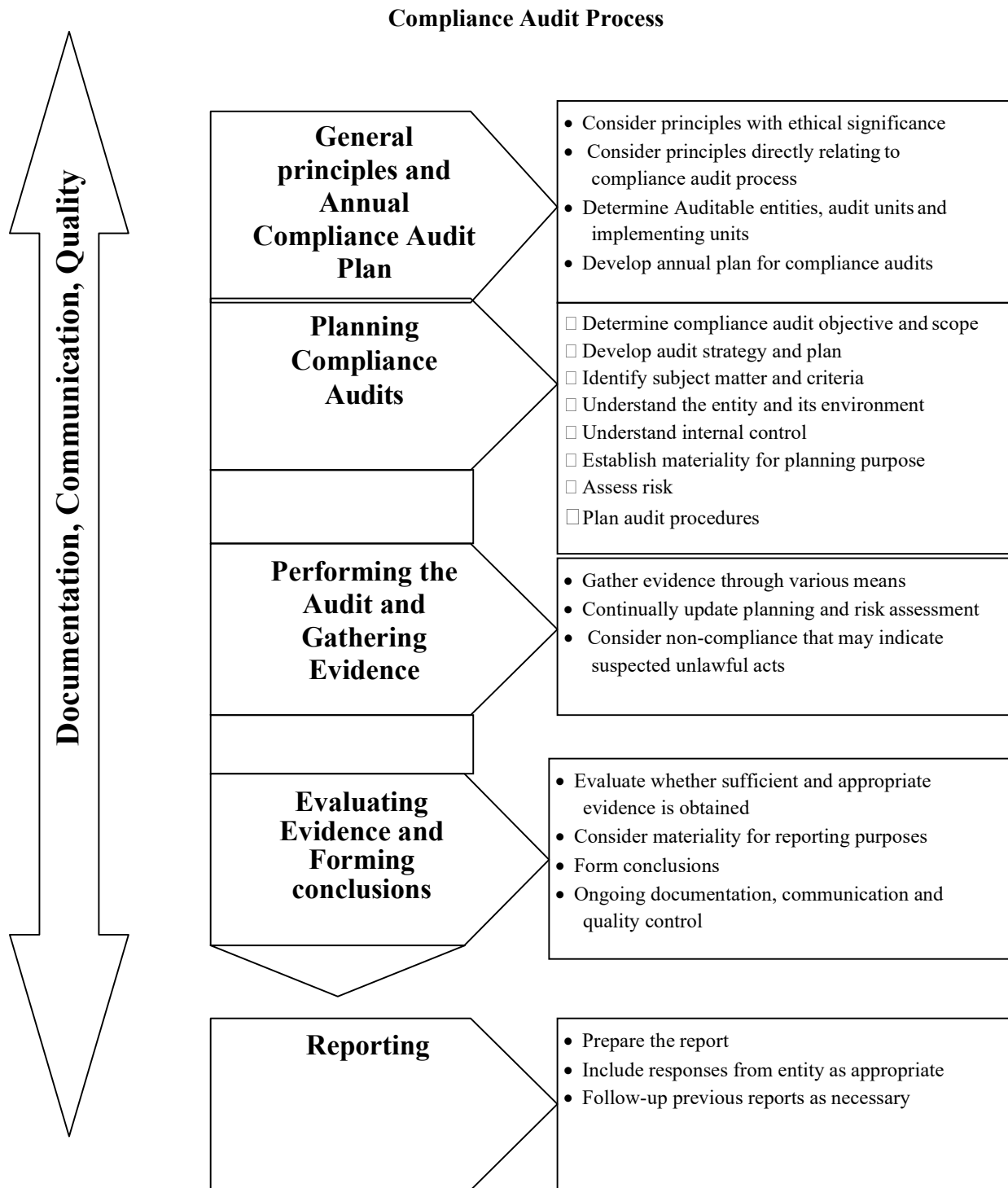
16.1.14 Because of the variety of possible authorities, they may have mutually conflicting provisions and be subject to differing interpretations. In addition, subordinate authorities may not be consistent with the requirements or limits of the enabling legislation and there may be legislative gaps. As a result, to assess compliance with authorities in the public sector it is necessary to have sufficient knowledge of the structure and content of the authorities themselves. Authorities are, typically the source of the criteria.

16.1.15 Criteria are the benchmarks used to evaluate or measure the subject matter consistently and reasonably. The auditor identifies criteria on the basis of the relevant authorities. To be suitable, compliance audit criteria must be relevant, reliable, complete, objective, understandable, comparable, acceptable and available. Without the frame of

reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding. Where formal criteria are absent audits may also examine compliance with the general principles governing sound financial management. Suitable criteria are needed both in audits focusing on regularity and in audits focusing on propriety.

General outlay of Compliance Auditing Guidelines

16.1.16 These guidelines are being presented sequentially to typically represent the process flow of compliance audit



General Principles for Compliance Audits

16.2.1 The General principles that apply during the conduct of compliance auditing and are relevant throughout the audit process are enumerated below.

Auditors should plan and conduct the audit with ‘professional scepticism’ and exercise ‘professional judgement’ throughout the audit process.

16.2.2 Professional scepticism refers to the attitude of the auditor, which must include a questioning mind. The auditor should plan and conduct the audit with an attitude of professional scepticism, recognising that certain circumstances may cause the subject matter to diverge from the criteria. An attitude of professional scepticism means that the auditor makes a critical assessment, with a questioning mind, of the sufficiency and appropriateness of evidence obtained throughout the audit. The concept of professional scepticism is fundamental to all audits.

Professional judgement refers to application of relevant training, knowledge, skills and experience, within the context provided by auditing standards, so that informed decisions can be taken about the courses of action that are appropriate given the circumstances of audit. The auditor must apply professional judgement at all stages of the audit process to assess the subject matter, suitable criteria, audit scope, risk, materiality, audit procedures to be used in response to the defined risks, in reporting and in determining the form, content and frequency of communication throughout the audit.

Auditors should possess the necessary skills

16.2.3 The audit team should collectively possess the knowledge, skills and expertise necessary to successfully complete the audit. This includes an understanding and practical experience of the type of audit being undertaken, familiarity with the applicable standards and authorities, an understanding of the auditable entity’s operations and the ability and experience to exercise professional judgement. Auditors should be able to maintain their professional competence through ongoing professional development.

Audits may require specialised techniques, methods or skills from disciplines not available within IA&AD for which external experts may be deployed without involving them in actual conduct of audit. The confidentiality of the specific information/records made available by the auditable entity should be maintained in such interface with external experts. Auditors should evaluate and document whether experts have the necessary competence, capabilities and objectivity and determine whether their work is adequate for the purposes of the audit.

16.2.4 Auditors should observe the code of ethics

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 the key principles of the code - Integrity, Independence and Objectivity, Confidentiality and Competence. The conduct of auditors should be beyond reproach at all times and in all circumstances.

16.2.5 Auditors should take responsibility for the overall quality of audit

The auditor is responsible for the conduct of audit and should implement quality control procedures throughout the audit process. Such procedures should be aimed at ensuring that the audit complies with the applicable standards and providing assurance that the audit report, conclusion or opinion is appropriate under the given circumstances.

16.2.6 Auditors should consider audit risk throughout the audit process.

Audits should be conducted in such a way as to manage, or reduce the audit risk to an acceptable level. Audit risk is the risk that the audit report – or more specifically the auditor's conclusion - will be inappropriate in the circumstances of the audit. The auditor should consider three different dimensions of audit risk – inherent risk, control risk and detection risk – in relation to the subject matter and the reporting format, i.e. whether the subject matter is quantitative or qualitative. The relative significance of these dimensions of audit risk depends on the nature of the subject matter and the nature of assurance to be provided.

16.2.7 Auditors should consider materiality throughout the audit process.

Determining materiality is a matter of professional judgement and depends on the auditor's interpretation of the users' needs. A matter can be judged material if knowledge of it would be likely to influence the decisions of the intended users. This judgement may relate to an individual item or to a group of items taken together. Materiality is often considered in terms of monetary value, but it also has other quantitative as well as qualitative aspects. The inherent characteristics of an item or group of items may render a matter material by its very nature. A matter may also be material because of the context in which it occurs. Materiality should be considered for the purposes of planning, evaluating the evidence obtained and reporting, though the materiality levels would differ for each of the processes. An essential part of determining materiality is to consider whether reported cases of compliance or non-compliance (potential or confirmed) could reasonably be expected to influence decisions by the intended users. Factors to be considered within this judgment are mandated requirements, public interest or expectations, specific areas of legislative focus, requests and significant funding and include other issues, which may have a low level of monetary value or incidence, such as fraud.

16.2.8 Auditors should prepare sufficient audit documentation.

Documentation should be sufficiently detailed to enable an experienced auditor, with no prior knowledge of the audit, to understand the following: the relationship between the subject matter, the criteria, the audit scope, the risk assessment, the audit strategy and audit plan and the nature, timing, extent and results of the procedures performed; the evidence obtained in support of the auditor's conclusion or opinion; the reasoning behind all significant matters that required the exercise of professional judgement; and the related conclusions. Documentation should be prepared within a reasonable period before the issue of audit report and as far as possible audit processes may be documented simultaneously. The documentation should be retained for an appropriate period of time.

16.2.9 Auditors should maintain effective communication throughout the audit process. Communication takes place at all audit stages - before the audit starts, during initial planning, during the audit process, and at the reporting phase. Any significant difficulties encountered during the audit, as well as instances of material non-compliance, should be communicated to the appropriate level of management or those charged with governance.

16.2.10 Auditors should determine the audit scope.

The audit scope is a clear statement of the focus, extent and limits of the audit in terms of the subject matter's compliance with the criteria. The scoping of an audit is influenced by materiality, risk and legal requirements, and it determines which authorities and parts thereof will be covered.

16.2.11 Auditors should identify the subject matter, authorities and suitable criteria. Determination of the subject matter, authorities and criteria are one of the first steps in a compliance audit. As stated in Chapter 1 subject matter could be either general or specific. The

subject matter should be identifiable, and it should be possible to assess it against suitable criteria. It should be of such a nature that it enables sufficient and appropriate audit evidence to be gathered in support of the audit conclusion. The auditor should identify authorities and suitable criteria to provide a basis for evaluating the audit evidence and developing audit findings and conclusions. The authorities and criteria should be made available to the intended users and others as appropriate.

16.2.12 Auditors should understand the auditable entity

Compliance auditing may cover all levels of the executive and can include various administrative levels, types of entities and combinations of entities. The auditor should therefore be familiar with the structure and operations of the auditable entity and its procedures for achieving compliance. The auditor will use this knowledge to determine materiality and assess the risk of non-compliance.

16.2.13 Auditors should understand the control environment

An understanding of the auditable entity and/or the subject matter relevant to the audit scope depends on the auditor's knowledge of the control environment and the system of internal controls. The control environment - encompassing the attitude and measures adopted by the management in the form of policies and procedures to instil a culture of honesty and ethical behaviour- forms the basis for the system of internal controls. In compliance auditing, a control environment that focuses on achieving compliance is of particular importance.

The particular type of controls which the auditor focuses on will depend on the nature of subject matter, nature and scope of the audit. In evaluating internal controls, the auditor should assess the risk that they may not prevent or detect material instances of non-compliance. The auditor should consider whether the internal controls are in harmony with the control environment so as to ensure compliance with the authorities and criteria in all material respects.

16.2.14 Auditors should perform a risk assessment

In the light of the audit criteria, audit scope and characteristics of the auditable entity, auditor should perform a risk assessment to determine the nature, timing and extent of the audit procedures to be performed. The identification of risks of non-compliance and their potential impact on the audit procedures should be considered throughout the audit process. As part of risk assessment, the auditor should evaluate any known instances of non-compliance in order to determine their materiality.

16.2.15 Auditors should consider the risk of fraud

Fraud in compliance auditing relates mainly to the abuse of public authority and to fraudulent reporting on compliance issues. Instances of non-compliance with authorities may constitute deliberate misuse of public authority for improper benefit. The execution of public authority includes decision making and avoidance of decision making, preparatory work, advice, information handling and other acts in the public service. Improper benefits are advantages of a non-economic or economic nature gained by an intentional act by one or more individuals among management, those charged with governance, employees or third parties.

While detecting fraud is not the main objective of compliance audit, auditors should include fraud risk factors in their risk assessments and remain alert to indications of fraud when carrying out their work. If the auditor comes across instances of non-compliance which may be indicative of fraud, the auditor should exercise due professional care and caution so as not to interfere with any future legal proceedings or investigations. When such suspected fraud has been identified,

auditors should take action to ensure that they respond appropriately based on existing Headquarters instructions in this regard.

16.2.16 Auditors should develop an audit strategy and an audit plan

Audit planning should involve discussion among members of the audit team with a view to developing an overall audit strategy and an audit plan. The purpose of the audit strategy is to devise an effective response to the risk of non-compliance. It should include consideration of the planned audit responses to specific risks through the development of an audit plan. Both the audit strategy and the audit plan should be documented. Planning is not a distinct phase of the audit, but a continuous and iterative process.

16.2.17 Auditors should gather sufficient and appropriate audit evidence

The auditor should gather sufficient and appropriate audit evidence to provide the basis for the conclusion or opinion. Sufficiency is a measure of the quantity of evidence, while appropriateness relates to the quality of evidence – its relevance, validity and reliability. The quantity of evidence required depends on the audit risk (the greater the risk, more the evidence that may be required) and on the quality of such evidence (the higher the quality, lesser the evidence that may be required). Therefore, sufficiency and appropriateness of evidence are interrelated. However, merely obtaining more evidence does not compensate for its poor quality. The reliability of evidence is influenced by its source and nature, and is dependent on the specific circumstances in which it was obtained. The auditor should consider both the relevance and the reliability of the information to be used as audit evidence and must respect the confidentiality of all audit evidence and information received.

The audit procedures should be appropriate in the circumstances of the audit and suited to the purpose of obtaining sufficient and appropriate audit evidence. The nature and sources of the necessary audit evidence are determined by the criteria, subject matter and scope of the audit. The auditor will often be needed to combine and compare evidence from different sources in order to meet the requirements for sufficiency and appropriateness of evidence. If audit evidence obtained from one source is inconsistent with that obtained from another, or if there are any doubts about the reliability of the information to be used as evidence, the auditor should determine what modifications or additions to the audit procedures would resolve the matter and consider the implications, if any, for other aspects of audit.

16.2.18 Auditors should evaluate audit evidence and form relevant conclusions

After completing the audit, the auditor will review the audit evidence, which includes consideration of the responses provided by the auditable entities, in order to reach a conclusion. The auditor should evaluate whether the evidence obtained is sufficient and appropriate so as to reduce the audit risk to an acceptably low level. It also includes considerations of materiality. After evaluating the evidence, the auditor should consider how best to conclude in the light of the evidence. The auditor should also determine whether the risk assessment and initial determination of materiality were appropriate in the light of the evidence collected, or whether they need to be revised.

16.2.19 Auditors should prepare a report based on the principles of completeness, objectivity, timeliness and a contradictory process

The principle of completeness requires the auditor to consider all relevant audit evidence before issuing a report. The principle of objectivity requires the auditor to apply professional judgement and scepticism in order to ensure that all reports are factually correct and that findings or conclusions are presented in a relevant and balanced manner. The principle of timeliness implies preparing the report in due time. The principle of a contradictory process implies checking the

accuracy of facts with the auditable entity and incorporating responses from responsible officials as appropriate.

Compliance Audit Plan

16.3.1 Compliance with rules and regulations is the primary and the most important requirement for ensuring accountability of the public executive. Decision makers need to know whether relevant laws and regulations are being complied with, whether they have achieved the desired results, and whether the accepted standards of financial propriety are being adhered to; and if not, what corrective action is necessary. It is imperative that compliance audits are planned to achieve adequate coverage at an acceptably low level of audit risk, audit processes are carried out in an economic, efficient and effective manner and result in a high quality audit report. However, given the size of Government and its implementing arms and the limited audit resources it is impracticable to plan for audit coverage of all audit units in the audit universe-as defined at present. Proper planning and prioritisation of compliance audits based on an appropriate risk assessment, is therefore, paramount.

Audit Universe and Annual Compliance Audit Plans

16.3.2 Understanding the Audit Universe and prioritisation of compliance audits to be taken up is essential, which is in it self a complex task, given the various layers of Government and the Government implementing a significant number of programs /schemes with various implementing agencies, some of which could even be private sector entities. To implement the mandate entrusted to CAG by the Constitution of India, we are expected to cover, over a reasonable period of time, all the sectors/departments of the concerned State Governments/Central Government wherever public funds are spent or revenues are generated or nation's wealth or resources are utilised. While the various departments/sectors are accountable for policy formulation and implementation, the organisational hierarchies within each Department /sector are typically organised as Directorates/Commissionerates, zones, divisions, circles, ranges etc., and further down to the last mile implementing agencies. All these units together implement the Government policy and expend public money or collect public revenues and can be called as the audit universe. This Audit universe is required to be broken down into audit units for the purpose of planning and scheduling audits.

16.3.3 This requires top down, risk based, Department centric mechanism for macro level planning and conducting compliance audits and preparation of annual compliance audit plans by (a) defining the apex auditable entities and audit units and (b) risk profiling. This exercise can provide a holistic view of functioning of the auditable entities without the risk of dismissing audit findings as a random view and statistically insignificant.

Defining the Apex Auditable Entities and Audit Units

16.3.4 A top down and risk based approach to 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. The Department / Sector in the State Government or the Central Government being the top layer would be defined as the Apex Auditable Entity¹⁵. Since policy formulation and oversight flow from the Departments/Sectors (Apex Auditable Entities) and responsibility for implementation of schemes/programs vests with the lower formations of the Government (Directorates /Commissionerates/zones, divisions, circles, ranges etc.) a significant portion of the risk is embedded in these layers, while the lowest layer is typically the implementing arm and accountability for its performance invariably rests with the higher organisational hierarchies. The top down approach for identification of audit units mentioned in these guidelines therefore envisages that audit units are identified beginning with higher organisational hierarchies of the Apex Auditable Entity and fanning out to operational units at the field level.

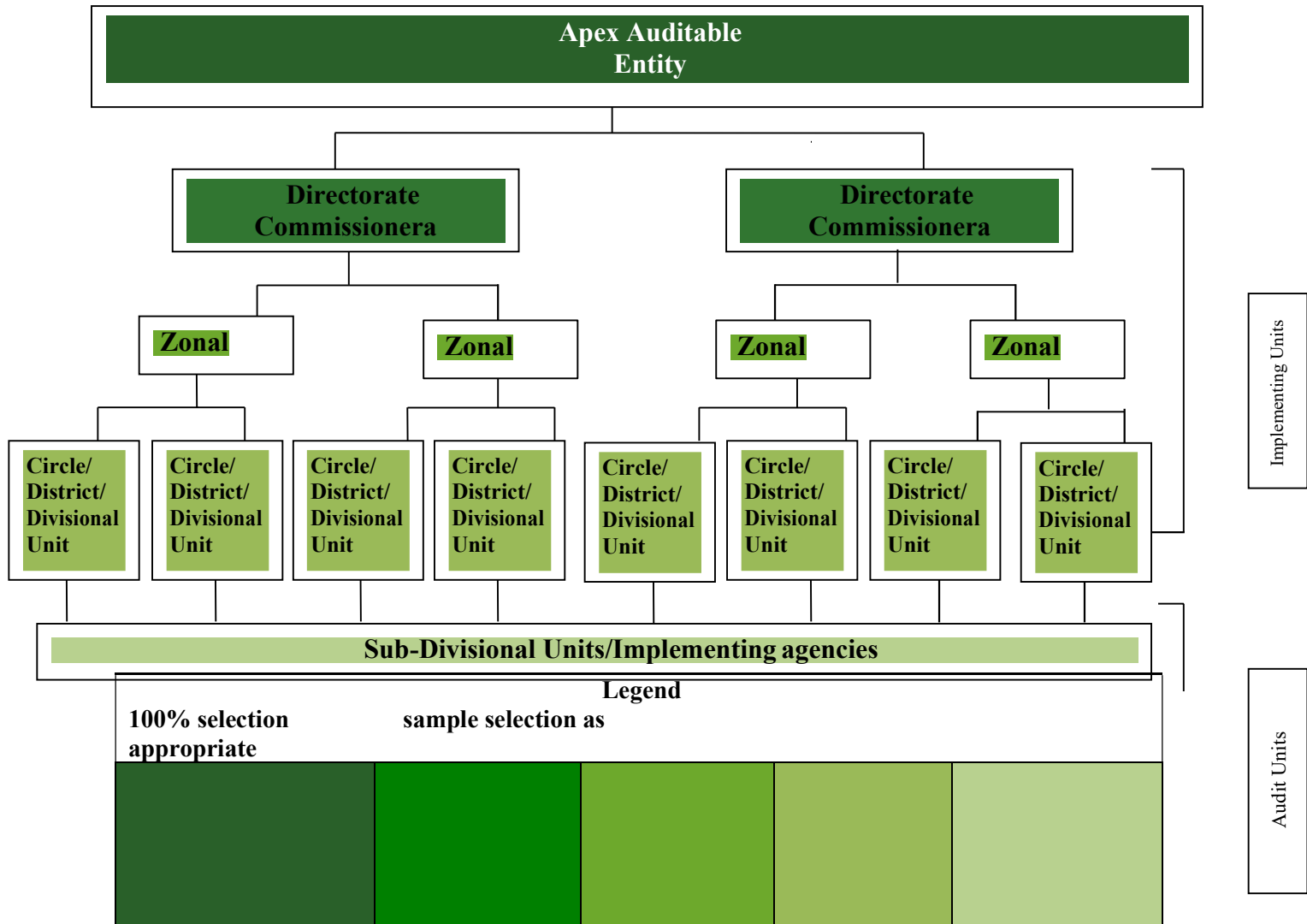
16.3.5 The audit units may be defined based on the quantitative measures of devolution of administrative and financial powers, the qualitative measures of functional autonomy and operational significance attributable to the unit for achievement of objectives of the Department. The devolution of powers would have to be substantial and not limited to the routine delegation of powers for managing the establishment and contingent expenses. This would ensure that the administrative authority for allocation of funds and delegation of powers are at the centre of compliance audit.

An Audit Unit is therefore 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.

16.3.6 After determination of Audit Units based on the aforesaid parameters, the organisational hierarchies and implementing agencies below the Audit Units are to be categorised as Implementing Units. The Implementing Units are typically the last mile service providers and implementation arms of Government, with very limited delegation of financial and administrative powers - of contingent nature and for managing establishment. These Implementing Units would be audited, based on a sample selection, as a part of audit of their respective Audit Units. The process of sample selection is explained in the subsequent sections. The envisaged typical representation of Apex Auditable Entity, Audit Units and Implementing Units is shown below:

¹⁵ The Regulation 2 of the CAG's Regulations of Audit and Accounts, 2007 defines Auditable entity as 'an office, authority, body, company, corporation or any other entity subject to audit by the CAG'. The highest authority or Head of Department under the audit jurisdiction of the Accountant General would be the Apex Auditable Entity.



16.3.7 Preparation of audit universe by defining Apex Auditable Entity and Audit Units in terms of these guidelines would be carried out by the respective Accountants General in field offices. Each field office would be required to prepare an organisation chart of the Departments to identify the audit units based on the above parameters. The list of Audit Units and the Implementing Units would have to be maintained in the field offices, which would henceforth form the basis of planning compliance audits. While the above representation showcases organisational structure from the State Government’s perspective, the central functions such as Central Revenue, Railways, Commercial, Posts and Telecommunications etc. and the Local Self Government – the Local Bodies shall also define their Apex Auditable Entities and Audit Units keeping in view the philosophy described in paras 16.3.4 to 16.3.6 above.

16.3.8 With the evolving governance structure, the nation’s wealth/natural resources are being dealt with not only by the Union, State or its instrumentalities but also by the private parties, for delivery of public goods and services, it has become important that these implementing agencies or service providers are made accountable to the people and to the Parliament. These implementing agencies would also, therefore, be included in the aforementioned category of implementing units.

Records of these implementing agencies are required be accessed through the respective audit units. Detailed instructions of the procedure to be adopted for access and audit of records of such agencies are contained in the Guidance Note issued by Headquarters in this regard. However, the scope and extent of examination of records of such implementing agencies will depend upon the applicable regulatory framework including any contract/ agreement which the implementing agency may have entered into with the government, professional standard or practice used by the industry in which the entity operates and also judicial pronouncements.

Risk Profiling

16.3.9 The risk based approach to planning compliance audits is about focussing audit efforts on the perceived high risk areas/activities. Risk profiling of the Apex Auditable Entities and their Audit Units has to be done considering their structures, roles they are expected to perform and compliance requirements. As governments and other organisations transition into digital environment, they generate, process and store voluminous data. Also, useful and relevant data in disparate forms and continuously produced by various government and non-government agencies and entities. When collated, they provide the contextual framework and valuable insight into the functioning of an apex auditable entity. Capacity and infrastructure limitations have so far restricted the reach of auditors in the big data environment. The advent of big data marks a paradigm shift, which by design integrates data from various sources and in various formats to transform data into actionable information. This aims to enhance the efficiency and effectiveness of audits. IA&AD has adopted a Big Data Management Policy to harness such opportunities. This policy is expected to facilitate greater and deeper insights into the Apex Auditable Entity's environment to clearly identify risk areas and prioritise the audit units.

16.3.10 Apex Auditable Entities while being responsible for delivery of public goods and services and expending public funds or collecting revenues may also be responsible for administering and / or enforcing various laws, rules or regulations. At the same time, these are also governed by various rules, laws and regulations. Similarly, officials entrusted with management or stewardship of public funds and public entities are expected to act with propriety in all matters concerning the discharge of their responsibilities. Keeping all the above factors in mind, the field audit offices are encouraged to apply the risk assessment methodology by evaluating high risk areas/activities of these entities relating to:

- Administration and/ or enforcement of laws, rules and regulations etc.,
- Compliance with applicable laws, rules and other authorities;
- Responsibility for government receipts and expenditure;
- Safeguarding of assets and liabilities;
- Prevention of losses and wastage, frauds, leakage of revenue;
- Promoting transparency, prudence and probity; and
- Internal control environment

16.3.11 The risk assessment methodology should include a review of the following:

- Latest socio-economic survey of the Centre/ State
- Current Budget & Demands for Grant
- Outcome budgets
- Five year plans and Working Group reports/ Annual plans
- Finance Commission Report
- Annual/ Performance/ Activity Reports of Ministries /

- Departments/ Companies and other information on Government websites
- Major policy announcements/initiatives of Government
- VLC data & Report on State Finances
- Finance & Appropriation Accounts
- Geographical location
- Past audit coverage
- PAC/COPU suggestions
- Court orders
- Audit Advisory Board suggestions
- Reports of Legislative Committees
- Changes in legislation
- Replies to questions given to the Legislature
- Past Audit findings/ Inspection Reports
- Media reports and visibility of topics
- Trend of expenditure and /or receipts

Preparing Annual Compliance Audit Plans

16.3.12 The exercise, as described above, would help in creating risk profile of the apex auditable entities as well as audit units under these entities. Based on their risk profile, the audit units should be prioritised for planning and conduct of compliance audits. The risk profile of the audit units should be considered vis-à-vis the audit capacity of the field office- in terms of availability of resources, and an annual Audit plan of compliance audits to be taken up and completed during the year should be prepared by each field office.

The field offices under the IA&AD conduct financial audits, performance audits and compliance audits each year and the Annual Audit Plan of each office shall therefore be prepared by adopting a holistic approach of covering Apex Auditable Entities/Audit Units for each type of audit and leveraging common processes. The Annual Audit Plan of each office would therefore indicate the Apex Auditable entities/Audit Units for which compliance audits would be conducted. The outcome of analysis of sanctions and vouchers by the Financial Audit Wing, detailed processes of which are provided in the Financial Attest Auditing Guidelines for audit of State Government Accounts and other existing manuals and instructions, can be leveraged for planning compliance audits.

16.3.13 It must be the endeavour of the field offices to ensure coverage of all Apex Auditable Entities in a reasonable period of time, between three to five years. The risk profile of the audit units would have to be reviewed and updated periodically to assess continued maintenance or to consider revision in the risk profile assigned to the apex auditable entities and audit units based on new intervening developments, changes and increase/decrease in irregularities noticed by various stakeholders, etc.

16.3.14 The formulation of annual Compliance Audit Plan would therefore require:

- a. Updating the Audit Universe such that it comprises all units that qualify as audit units. A separate inventory of implementing units under their respective Audit units may be maintained.
- b. Applying risk assessment methodology to the Apex Auditable Entities for arriving at risk profile of the Apex Auditable Entities and Audit Units under these entities.
- c. Preparing the annual Compliance Audit Plan by selecting audit units after considering available audit resources. This would include a risk based selection of Apex Auditable Entities and an appropriate sample of audit units at various hierarchies and implementing units within each Apex Auditable Entity. The selected sample of units shall be auditable both from the propriety and regularity perspective. Where evaluation of high risk areas/activities against regularity involves complexity and multifarious aspects, a specific subject matter may be selected within the high risk area/activity for evaluation of compliance against regularity.

16.3.15 Components of Annual Compliance Audit Plan

- a. Selection of Apex Auditable Entities and Audit Units that would be taken up for compliance audits;
- b. Selection of Implementing units under the audit units as necessary;
- c. Determination of specific subject matter, where considered necessary; and
- d. Allocation of audit resources for the audits to be undertaken.

16.3.16 With the introduction of risk based approach to planning compliance audits, tempered by the audit capacity of each field office, as envisaged in these guidelines, the question of audit arrears would generally not arise.

Planning Compliance Audits

16.4.1 A compliance audit has to be planned in a manner which ensures that a high quality audit is carried out in an economic, efficient and effective way and in a timely manner. Adequate planning will ensure that appropriate attention is accorded to crucial areas of audit and that potential problems are identified in a timely manner. It is essential that Auditors plan the audit with an attitude of professional scepticism and exercise professional judgement. Further, auditors should possess the knowledge, competence and skills to understand the compliance requirements that apply to the auditable entities.

16.4.2 After the preparation of the annual Compliance Audit Plan as discussed in Chapter 3, the process of planning for individual compliance audits commences. Individual compliance audit, hereafter means audit of the identified Apex Auditable Entity along with the selected Audit Units.

Planning for individual compliance audits

16.4.3 Planning for individual compliance audits includes preparing the audit strategy and an audit plan. Preparation of audit strategy for the identified audit entity would include:

- An understanding of the auditable entity and its internal control

environment, including the statutory, regulatory and legal framework applicable to the auditable entity and the applicable rules, regulations, policies, codes, significant contracts or agreements etc;

- An understanding of relevant principles of sound public sector financial management and expectations regarding the conduct of public sector officials for propriety related issues;
- Identification of the intended users, including responsible party and those charged with governance;
- Consideration of materiality and risk assessment including suspected unlawful acts or fraud;
- Determining the scope of audit with reference to the selected specific subject matter, if selected, as well as proprietary concerns;
- Development of audit objectives for the specific subject matter, if selected;
- Identification of audit criteria for specific subject matter;
- Sampling considerations, specifically for implementing units below the selected audit units; and
- Considerations related to direction, supervision and review of the audit team(s).

16.4.4 Once the audit strategy is in place, the audit plan could be prepared. The plan for the identified apex auditable entity would include:

- Description of selected audit units;
- Sample selection of implementing units under the selected audit units;
- Extent of audit in each selected unit;
- Timing of audit;
- Formation of audit team/s (in case more than one audit team is needed for the auditable entity);
- Assignment plan detailing the duties of the audit team members;
- Planned audit procedures; and
- Potential audit evidence to be collected during the audit.

16.4.5 Both the overall audit strategy and the audit plan should be documented in the audit file. Planning for individual compliance audits is a continual and iterative process. The overall audit strategy and plan are therefore required to be updated as necessary throughout the audit.

Scope of Audit

16.4.6 The scope is the boundary of audit. It defines “what to audit”, “who to audit”, “where to audit” and “which period to audit”.

- What to Audit - The propriety issues are to be seen in all units selected to be audited. However, the selected specific subject matter for regularity audit would define the scope for “what to audit” and would also determine the criteria.
- Who to Audit - The issue of “who to audit” is decided by the predetermined annual compliance audit plan as discussed in Chapter 3 that specifies the

auditable entity and selected audit units below the auditable entity.

- Where to audit - brings us to selection of units for audit within the auditable entity, and also to the selection of transactions, areas etc. Sampling decisions would be crucial for this stage.
- Which period to Audit - the period of audit to be covered would have to be determined as per the risk assessment. In case of audit units, the period of audit should ordinarily cover period from the previous audit to the current period. However, specific circumstances may exist where current risk assessment reveal areas of concern that warrant coverage of period included in previous audit(s). In case of implementing units, the period of audit to be covered would correspond with the audit period of audit units.

Compliance Audit Objectives

16.4.7 The overall Compliance Audit Objectives can be summarized as below:

- To assess whether the subject matter adheres to the formal criteria arising out of the laws, regulations and agreements applicable to the auditable entity;
- To assess whether the general principles of sound public sector financial management and ethical conduct have been adhered to; and
- Report the findings and conclusions to the responsible party, those charged with governance, legislature and/or other parties as appropriate.

16.4.8 The particular objectives of a compliance audit for the identified apex auditable entity are to be derived from the scope of audit. Illustrative and not comprehensive, instances of scope and detailed audit objectives of compliance audits are given below:

Compliance audit scope	Detailed audit objectives
Contracting and procurement	<ul style="list-style-type: none"> • Verify whether procurement was carried out as per extant rules and in accordance with delegated financial powers. • Verify whether financial propriety was ensured during the stages of tendering, evaluation and award of contract.
Tax receipts	<ul style="list-style-type: none"> • Verify whether assessments were in accordance with the relevant tax laws and rules thereunder. • Verify whether the assessed demands were collected and properly accounted for.
Establishment audit	<ul style="list-style-type: none"> • Verify whether payments in respect of salaries and other entitlements were in accordance with the relevant rules and instructions.

Availability of infrastructure in Health Department	<ul style="list-style-type: none"> • Verify whether health center has been set up in accordance with specified population norms. • Verify whether the necessary infrastructure facilities (medical equipment, operation theatre, UPS, water supply, stock of drugs, etc) have been provided as per Indian Public Health Standards (IPHS). • Verify whether the complement of doctors and other staff are as per IPHS.
Plant efficiency	<ul style="list-style-type: none"> • Verify whether the usage of power, fuel are as per approved norms. • Verify whether plant shutdowns are as per approved norms. • Verify whether the production is as per the prescribed scale. • Verify whether the installed capacity of the plant is designed as per regulatory approvals. • Verify whether the operation of plant complies with environmental norms.
Corporate social responsibility	<ul style="list-style-type: none"> • Verify whether corporate social responsibility framework is as per regulatory approvals. • Verify whether activities of corporate social responsibility are as per corporate policy. • Verify whether the corporate policy is in consonance with relevant regulations and DPE guidelines.
Audit of sanctions	<ul style="list-style-type: none"> • Verify whether the sanction is within the general or express powers delegated to the sanctioning authority. • Verify whether the criteria for sanction such as - availability of funds, determination of physical targets, objects of expenditure and accounting procedure- have been adhered to. • Verify whether the sanction is not split to avoid obtaining sanction of a higher authority. • Verify whether sanction is conflicting with general principles of public sector financial management or other orders • /instructions.

Criteria

16.4.9 Criteria are the benchmarks used to evaluate or measure the subject matter consistently and reasonably. The criteria provide the basis for evaluating audit evidence, developing audit findings and conclusions. Criteria may be formal, such as a law or regulation, terms of a contract or agreement or less formal such as a code of conduct, principle of propriety or they may relate to expectations regarding behaviour. Generally, criteria for regularity audits would therefore emanate from specific authorities while criteria for propriety issues would emanate from the General Financial Rules of the Government of India and those codified in the corresponding State Financial Rules.

The criteria should have the following characteristics:

Relevant– relevant criteria provide meaningful contributions to the information and decision making needs of the intended users of the audit report.

Reliable– reliable criteria result in reasonably consistent conclusions when used by another auditor in the same circumstances.

Complete–complete criteria are those that are sufficient for the audit purpose and do not omit relevant factors. They are meaningful and make it possible to provide the intended users with a practical overview for their information and decision making needs.

Objective – objective criteria are neutral and free from any bias on the part of the auditor or on the part of the management of the auditable entity.

Understandable – understandable criteria are those that are clearly stated, contribute to clear conclusions and are comprehensible to the intended users.

Comparable – comparable criteria are consistent with those used in similar audits of other agencies or activities and with those used in previous audits of the entity.

Acceptable –acceptable criteria are those to which independent experts in the field, auditable entities, legislature, media and the general public are generally agreeable.

Available – criteria should be made available to intended users so that, they understand the nature of audit work performed and the basis for the audit report.

16.4.10 Understanding internal controls

Understanding internal controls is normally an integral part of understanding the entity and the relevant subject matter. The CAG’s Regulations on Audit and Accounts, 2007 explain that the auditor should examine and evaluate the reliability of internal controls. In compliance audit, this includes understanding and evaluating controls that assist the executive in complying with laws and regulations applicable to the auditable entity. The type of controls that need to be evaluated depends on the subject matter, nature and scope of the particular compliance audit. In evaluating internal controls, auditors assess the risk that the control structure may not prevent or detect material non-compliance. The internal control system in an entity may also include controls designed to correct identified instances of non- compliance, presence and effectiveness of institutionalised mechanisms such as Internal Financial Adviser system, Internal Audit system etc.

Auditors should obtain an understanding of the internal controls relevant to the audit objectives and test controls on which they expect to rely. The assurance derived from the assessment of internal controls will assist the auditors to determine the confidence level and hence, the extent of audit procedures to perform. This would also determine the sample size of implementing units to be selected as well as the sample selection of transactions etc.

Materiality

16.4.11 Materiality consists of both quantitative and qualitative factors. Materiality is often considered in terms of monetary value but the inherent nature or characteristics of an item or group of items may also render a matter material. As mentioned in Chapter 2, determining materiality is a matter of professional judgement and depends on the auditor’s interpretation of the users’ needs. A matter can be judged material if knowledge of it is likely to influence the decisions of the intended users. The CAG’s Regulations on Audit and Accounts, 2007 state that in formulating audit opinion or report, the auditor should inter-alia give due regard to the materiality of the matter keeping in view the amount, nature and context. In performing compliance audits, materiality is determined for

- Planning purposes;
- Purposes of evaluating the evidence obtained and the

effects of identified instances of non-compliance; and

- Purposes of reporting the results of the audit work

16.4.12 During the planning process, information is gathered about the entity in order to assess risk and establish materiality levels for designing audit procedures. Issues that may be considered material even if the monetary value is not significant would include the following:

- Fraud;
- Intentional unlawful acts or non-compliance;
- Incorrect or incomplete information to executive, the auditor or to the legislature (concealment);
- Intentional disregard to the executive, authoritative bodies or auditors; and
- Events and transactions made despite knowledge of the lack of legal basis to carry out the particular event or transaction.

Risk assessment

16.4.13 Risk assessment is an essential part of performing a compliance audit. Due to the inherent limitations of an audit, a compliance audit does not provide a guarantee or absolute assurance that all instances of non-compliance will be detected. Inherent limitations in a compliance audit may include factors such as:

- Judgement may be applied by the executive in interpreting laws and regulations;
- Human errors;
- Systems may be improperly designed or function ineffectively;
- Controls may be circumvented; and
- Evidence may be concealed or withheld

16.4.14 In performing compliance audits, auditors assess risks and perform audit procedures as necessary throughout the audit process. This is done in order to reduce audit risk to an acceptably low level in the particular circumstances, so as to obtain reasonable assurance to form the basis for the auditor's conclusions. The risks and the factors that may give rise to such risks will vary depending on the particular subject matter and circumstances of audit. Results of the risk assessment would again affect the sampling considerations.

Risk assessment considerations with regard to fraud

16.4.15 As a part of audit, auditors should identify and assess fraud risk and gather sufficient appropriate evidence related to the identified fraud risks by performing suitable audit procedures. As mentioned in Chapter 2, while detecting fraud is not the main objective of compliance audit, auditors should include fraud risk factors in their risk assessments and remain alert to indications of fraud when carrying out their work. If the auditor comes across instances of non-compliance which may be indicative of fraud, the auditor should exercise due professional care and caution so as not to interfere with any future legal proceedings or investigations.

Planning audit procedures

16.4.16 Planning audit procedures involves designing audit procedures to respond to the identified risks of non-compliance. The exact nature, timing and extent of audit procedures to be performed may vary widely from one audit to another. Nonetheless, compliance audit procedures in general involve establishing the relevant criteria and then measuring the relevant subject matter information against such criteria.

16.4.17 After determination of the scope of audit, development of audit objectives, identification of relevant criteria for measuring the selected subject matters, when specifically selected for an apex auditable entity or across auditable entities, both for regularity and propriety issues, auditors should prepare a Compliance Audit Design Matrix for the identified apex Auditable entity in the following format.

Compliance Audit Design Matrix

Audit objective/Sub objective	Audit questions on selected subject matters	Audit criteria	Data collection and analysis method	Audit evidence

16.4.18 The Compliance Audit Plan would detail out the selected Apex Auditable Entity, the selected Audit Units and the Implementing Units. However, the selection of sample of transactions within the audit units may be necessary for detailed scrutiny. When compliance audit is planned and conducted based on a top down and department centric approach, sampling for selection of transactions may have to be conducted at multiple levels. This multi stage sampling typically involves the following:

- Selection of transactions from the selected Audit Units falling directly under the chain of command of the selected Apex Auditable Entity (either in whole or in part depending upon the selected specific subject matter) relevant to evaluation of the selected subject matters for regularity and propriety audits respectively; and
- Selection of transactions from the Implementing Units, as considered necessary, relevant to evaluation of the selected subject matters for regularity and propriety audits respectively.

16.4.19 Statistical sampling may be adopted for selection of transactions, which would enhance the level of verifiable audit assurance. Accountants General may exercise professional judgement with regard to adoption of a suitable sampling methodology depending upon the selected subject matters, audit objectives being pursued and the envisaged scope of audit, as per extant instructions.

Compliance auditing in digital environment

16.4.20 In case of departments/ sectors where e-governance has taken roots and transactions are being conducted in virtualised environments, digital auditing can also be adopted by the audit

teams. Digital auditing facilitates looking at whole of the population for outliers or unexpected variations. Such outliers can be taken up for detailed scrutiny. Data analytical tools can be of immense help here.

Team composition

16.4.21 Audit team(s) with an appropriate team composition should be constituted for each audit. As mentioned in Chapter 2, the audit team should collectively possess the knowledge, skills and expertise necessary to successfully complete the audit. This includes an understanding and practical experience of the type of audit being undertaken, familiarity with the applicable standards and authorities, an understanding of the auditable entity's operations and the ability and experience to exercise professional judgement. The work allocation for each member of the audit team should be clearly delineated and it must be ensured that each member understands his/her role in the audit team. Appropriate arrangements should be ensured for providing direction, supervision and review of audit teams. In some cases, it may be possible to conduct the audit of the apex auditable entity and its selected audit units by one dedicated team. However, in case of large entities, it may become necessary to constitute multiple teams for audit of the apex auditable entity and its selected audit units. In such a scenario, a lead team may be constituted from amongst the audit teams, which should be entrusted with the responsibility of providing a cohesive and synergised approach to compliance audit. The lead team in such cases may also be required to provide guidance, liaison support to other teams throughout the audit process and also consolidate audit findings of all other audit teams to enable achieving a holistic analysis and a reasoned conclusion.

Intimation to the auditable entity

16.4.22 After the overall strategy and audit plan as discussed above have been drawn up intimation should be provided to the identified auditable entity (executive) and all other audit units down the line regarding the audit being taken up. The intimation to the executive should include the scope of audit, audit objectives being pursued, subject matters that have been selected, criteria that would be used to evaluate the subject matters, designed sampling of audit units /implementing units. The intimation should indicate the composition of audit team(s), duration and schedule of audit and should solicit the requirements from and co-operation of the executive for the smooth conduct of audit.

Conducting compliance audits

16.5.1 Conduct of audits start after the finalisation of audit strategy and audit plan. Conduct of audits is about gathering evidence, evaluating evidence, forming conclusions, documenting the audit process and communicating with the auditable entities.

Audit evidence

16.5.2 Audit evidence is the information used by the auditor for arriving at the audit conclusions. Auditors design and apply appropriate audit procedures to obtain sufficient and appropriate audit evidence in order to form a conclusion or opinion as to whether a subject matter complies, in all material respects, with established criteria.

The CAG's Regulations on Audit and Accounts, 2007 state that the auditor shall verify compliance with applicable laws, rules and regulations and highlight deviations, if any (Regulation 29(4)). Further, the auditor has to obtain competent, relevant and reasonable evidence to support his/her judgement as well as conclusions regarding the organisation, programme, activity or function under audit (Regulation 168).

16.5.3 In the planning phase, as mentioned in Chapter 4 (para 4.10) auditors review the internal controls and institutional arrangements established by the auditable entity to prevent, detect, and rectify instances of noncompliance. Based on this review auditors identify control risks and other risks and keep these in consideration while they start gathering audit evidence. The audit procedures to be applied would depend on the particular subject matter and criteria and auditors' professional judgment. When the risks of noncompliance are significant and auditors plan to rely on the controls in place, such controls are required to be tested. When controls are not considered reliable, auditors plan and perform substantive procedures to respond to the identified risks. Auditors perform additional substantive procedures when there are significant risks of non-compliance.

16.5.4 The compliance auditor will often need to combine and compare evidence from different sources in order to meet the requirements for sufficiency and appropriateness of audit evidence. Professional judgment needs to be exercised in considering the quantity and quality of available evidence when performing the engagement, in particular when determining the nature, timing and extent of procedures.

Sufficiency and appropriateness of audit evidence:

16.5.5 The sufficiency and appropriateness of evidence are interrelated. Sufficiency is the measure of the quantity of evidence. 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). Obtaining more evidence, however, may not compensate for its poor quality. In assessing the sufficiency of evidence, the auditor needs to determine whether enough evidence has been obtained to persuade the intended users that the findings are reasonable. The need for further evidence is weighed against the cost and time needed to collect it.

16.5.6 Appropriateness is the measure of the quality of evidence; that is its relevance, its validity and its reliability in providing support for the auditor's conclusion.

- Relevance refers to the extent to which the evidence has a logical relationship with, and importance to, the issue being addressed;
- Validity refers to the extent to which the evidence is a meaningful or reasonable basis for measuring what is being evaluated. In other words, validity refers to the extent to which the evidence represents what it is purported to represent; and
- Reliability refers to the extent to which the evidence is consistent when measured or tested and includes the concepts of being verifiable or supported. The reliability of evidence is influenced by its source and by its nature. While recognising that exceptions may exist, the following generalisations about reliability of evidence are useful, when:

- It is obtained from sources outside the responsible party;
- It is obtained directly by the auditor e.g. by observation, inquiry and verification of the application of a control, by substantive checks;
- It exists in documentary form whether paper, electronic or other media; and
- It is obtained from different sources.

16.5.7 The auditor's professional judgment as to what constitutes sufficient and appropriate evidence is influenced by factors as the following:

- Significance of a potential non-compliance or compliance deviation and the likelihood of its having a material effect, individually or when aggregated with other potential non-compliance, on the subject matter information;
- Effectiveness of the responsible party's responses to address the known risk of noncompliance or compliance deviations;
- Experience gained during previous audit with respect to similar potential non-compliance or compliance deviation; and
- Results of procedures performed, including whether such procedures identified specific noncompliance or compliance deviation.

Gathering and Evaluating Evidence

16.5.8 The evidence gathering and evaluation is a simultaneous, systematic and an iterative process and involves:

- Gathering evidence by performing appropriate audit procedures
- Evaluating the evidence obtained as to its sufficiency (quantity) and appropriateness (quality)
- Re-assessing risk and gathering further evidence as necessary

16.5.9 The evidence gathering and evaluation process should continue until the auditor is satisfied that sufficient and appropriate evidence exists to provide a basis for the auditors' conclusion.

Gathering Evidence

16.5.10 Audit evidence is gathered using a variety of techniques such as the following:

- **Document scrutiny** - This is the predominant mode of obtaining audit evidence and involves scrutiny of a wide variety of documents – Cabinet Notes, Expenditure Finance Committee minutes and recommendations, agenda and minutes of Board of Directors files, cash books and accounting records, reports etc.
- **Physical inspection/site visits**-This involves inspection of physical assets (eg a dam, road, bridge, stores and stock etc). Generally such inspection is conducted jointly with departmental personnel to ensure acceptability to the audit findings. Where the auditable entity does not co-operate with physical inspection, the fact of such non-cooperation may be appropriately documented and reported to the top management of the auditable entity, but the physical inspection may continue nevertheless by the audit team on its own. Photographs taken during

physical inspection/site visits are an acceptable form of evidence, provided the location and date of photograph are amply clear.

- **Observation**-Observation involves looking at the process or procedure being performed. In performing compliance audit, this may include looking at how transactions are processed in real time by staff of the auditable entity, including processing of information and transactions in an IT system.
- **Questionnaires**- This involves seeking information from relevant persons within the auditable entity through issue of a formal questionnaire to elicit further information and gather relevant audit evidence.
- **Surveys**- This involves interaction with persons outside the auditable entity to get the information from the affected parties or the beneficiaries of programmes/ schemes, as the case may be. This would involve careful selection of the survey sample, formulation of an appropriate survey questionnaire, collation and analysis of the survey responses. Evidence gathered from surveys would be corroborative in nature to support evidence gathered by conventional techniques.
- **Confirmation** - Confirmation is a type of inquiry and involves obtaining, independently of the auditable entity, a reply from a third party with regard to some particular information – for example confirmation of balances from the banks.
- **Re-performance** - Re performance involves independently carrying out the same procedures which have already been performed by the auditable entity. This can be carried out either manually or by computer assisted audit techniques. Where highly technical matters are involved experts may be involved for re- performance.
- **Analytical procedures** - Analytical procedures involve comparing data, or investigating fluctuations or relationships that appear inconsistent. Data analytics tools, statistical techniques or other mathematical models could also be used in comparing actual with expected results.

Evaluation of Evidence

16.5.11 Audit evidence, collected through above mentioned audit procedures, is to be evaluated against the relevant, already identified criteria. This involves consideration of evidence collected vis-à-vis the subject matter information as well as the written responses obtained from responsible officers of the auditable entity against the applicable criteria. The evaluation process enables auditors to assess whether the subject matter information is, in all material aspects, compliant with the identified criteria.

What constitutes material non-compliance is a matter of professional judgement and includes consideration of the circumstances, quantitative and qualitative aspects of the transactions or the issues concerned. Auditors consider a number of factors in applying professional judgement to determine whether or not the non-compliance is material. Such factors may include the following:

- Extent and importance of amounts involved, which include both monetary values and other quantitative measures;
- Nature of the non-compliance;

- Cause leading to the non-compliance;
- Possible effects and consequences of the non-compliance;
- Visibility and sensitivity of the program in question; and
- Needs and expectations of the legislature, public and other users of audit reports

16.5.12 After evaluating the evidence and considering its materiality, the auditor should decide how best to conclude in the light of the evidence collected, which would be the supporting key documents and arrive at audit conclusions. While evaluating evidence auditors can find that audit evidence is conflicting i.e. while some evidence supports the subject matter information other evidences seem to contradict it. In such situations, auditors need to weigh the extent and credibility of conflicting evidence in order to reach a conclusion or collect more evidence to resolve the conflict.

16.5.13 Audit conclusion should clearly bring out the nature and extent of non-compliance, cause of such non-compliance, its materiality and also the effect of non-compliance, if possible. The audit conclusions in case of regularity issues should also indicate whether non-compliance is a solitary one-off case, or wide spread systemic issue in the auditable entity.

16.5.14 Auditors are encouraged to prepare an Audit Findings matrix in the following format. The Audit Findings matrix is an extension of audit design matrix as discussed in para 4.17. The Audit Findings matrix is intended to provide a link between the audit objectives, criteria, evidence gathered and evaluated and the audit findings that emerged on evaluation of the selected subject matters, if specifically selected, both for regularity and propriety issues. This should include all findings - both positive and negative findings. The Audit Findings Matrix has to be prepared for each audit unit.

Audit Findings Matrix				
Audit objective /Sub objective	Audit questions on selected subject matters	Criteria	Audit Evidence	Conclusions

Documentation

16.5.15 Documentation of audit evidence supports audit conclusions and confirms that the audit was carried out in accordance with relevant standards. CAGs Auditing Standards on Audit evidence state that

Auditors should adequately document the audit evidence in working papers, including the basis and extent of planning, work performed and the findings of audit. Working papers should contain sufficient information to enable an experienced auditor, having no previous connection with the audit, to ascertain from them the evidence that supports the auditor's significant findings and conclusions.

16.5.16 The Standards further add that “Adequate documentation is important for several reasons. It will

- confirm and support the auditor's opinion and report;
- increase the efficiency and effectiveness of audit;
- serve as a source of information for preparing reports or answering

- any; enquiries from the auditable entity or from any other party;
- serve as evidence of the auditor’s compliance with Auditing Standards;
- facilitate planning and supervision; and
- provide evidence of work done for future reference”

16.5.17 Documentation should take place throughout the entire audit process. The confidentiality of documentation should be maintained and they should be retained for a period sufficient to meet the professional, legislative and legal requirements as mentioned in para 16.2.8 of this Chapter.

16.5.18 Documentation in compliance audits should comprise

- (a) Audit file and
- (b) Working papers.

The Audit file for each compliance audit may include documentation relating to the audit strategy, scope and methodology, sample selection, nature and timing of planned audit procedures, audit design matrix, supervision and monitoring the progress and quality of audit, audit findings matrix, conclusions reached and the significant professional judgements made in reaching those conclusions. Audit file may also include discussions of significant matters with management, those charged with governance and others.

Audit file, maintained in one or more folders or other storage media in physical or electronic form, therefore contains documents that summarises the specific compliance audit engagement. Audit file should be properly indexed, referenced with and supplemented by the set of working papers.

Working papers for each compliance audit comprise of all documents collected during the field audit process. They include the documents relating to the nature timing and extent of audit procedures that were performed by individual members of the audit team, details of contracts/ agreements that were examined etc, evidences that were gathered, evaluation of evidences, consideration of written responses from responsible officials of the auditable entities, supporting key documents and the process of arriving at the results of audit procedures – audit findings and conclusions. The working papers could also be in one or more folders and should be similarly indexed and referenced. Working papers serve as a link between the field work and the audit report and should therefore be complete and appropriately detailed to provide a clear trail of audit.

16.5.19 Some of the broad characteristics of working papers are set out below:

- Completeness and accuracy: Provide support to audit conclusions.
- Clarity and conciseness: Facilitates understanding the entire audit process without need for any supplementary examination.
- Legibility and neatness : Applies particularly to photocopies.
- Relevance: Working papers should be restricted to matters, which are important, pertinent and useful for the intended purpose.
- Ease of reference: Working papers may be organised in volumes in a manner that facilitates easy reference. An omnibus, easy to follow, index may be created for all the volumes with a proper narration to broadly explain their contents. Each of the volumes may further be internally indexed.
- Ease of review: Working papers should contain cross references to

audit memoranda, discussion papers, audit observations, field audit report and the compliance audit report as the case may be to enable Accountants General and supervisory officers to link the working papers to audit findings and conclusions.

- Complete audit trail of analysis: Working papers should provide a complete trail of the audit procedures performed, evidence that were gathered and evaluated, audit findings and conclusions that were drawn. This should contain evidence for positive findings as well.
- Documentation of significant audit findings.

Communication with the auditable entity

16.5.20 Good communication with the auditable entity throughout the audit process will help make the process more effective and constructive. Communication takes place at various levels and at various stages – during initial planning, conduct of audit and reporting as mentioned in para 2.9 of Chapter 2 of this guidelines, which should be retained for future reference. During planning phase –the audit strategy, suitable audit criteria and other elements of planning should be discussed with the appropriate level of management and those charged with governance. Regular interaction needs to be maintained throughout the audit conduct phase – to make enquiries of relevant persons, communicate any significant difficulties being encountered in audit and significant instances of non-compliance to the appropriate level of management or to those charged with governance.

16.5.21 Audit teams should also hold entry meeting(s) with the heads of audit units before the commencement of audit. During these meetings, the audit team should explain the purpose, objectives of audit, timelines and cooperation expected from the head of the audit unit. Similarly at the close of audit, the audit team leader or the Group officer in charge should also hold an exit meeting with the officer in charge of the audit unit to discuss the audit findings and request responses. The minutes of the exit meeting should be prepared and shared with the audit unit and acknowledgement requested.

16.5.22 If auditors come across instances of non-compliance, which may be indicative of unlawful acts or fraud, due professional care and caution needs to be exercised so as not to interfere with the potential future legal proceedings or investigations and respond appropriately as mentioned in para 2.15 of Chapter 2 of the guidelines. Auditors may communicate their findings to the appropriate level of Management or to those charged with governance and then follow up to ascertain whether appropriate action has been taken.

Reporting compliance audits

CAG's Regulations on Audit and Accounts, 2007 (Regulation 205) state that the form, content and time of submission of audit reports shall be decided by the CAG.

16.6.1 Reporting is an essential part of any audit as through this process the results of audit are presented to the intended users on the responsible party's compliance with the stated criteria. Compliance audits involve reporting the deviations from the applicable criteria and violations of the applicable rules, regulations etc., so that corrective actions may be taken, and those responsible for such deviations or violations could be held accountable for their actions.

16.6.2 Auditors should consider materiality for reporting purposes and adhere to the principles of completeness, objectivity, timeliness and contradictory process while reporting.

- The principle of completeness requires the auditor to consider all relevant audit evidence before issuing a report;
- The principle of objectivity requires the auditor to apply professional judgement and scepticism in order to ensure that all reports are factually correct and that findings or conclusions are presented in a relevant and balanced manner;
- The principle of timeliness implies preparing the report in due time; and
- The principle of a contradictory process implies checking the accuracy of facts with the apex auditable entity and incorporating responses from responsible officials as appropriate.

Forms and Content of Reports

16.6.3 The top down, risk based approach to conducting compliance audit, as described in earlier chapters, is envisaged to provide a department centric view of the extent of compliance. As the compliance audit involves evaluation of both regularity and propriety aspects, as discussed in earlier chapters, Auditors are required to report results of audit on both these aspects. The audit findings on the selected specific subject matter are to be relied upon for providing the audit conclusion on the extent of compliance. Other audit findings noticed during the conduct of audit are to be reported separately.

As the compliance audit is conducted at various levels of the organisational hierarchy and needs to be reported to the responsible party, those charged with governance, and the legislature, the form of reports to present compliance audit findings and conclusion would have to address these perspectives. Therefore, Auditors shall present the results of compliance audit in the following reports.

- **Inspection Report**
 - **Departmental Appreciation Note¹⁶**
 - **Compliance Audit Report**

Inspection Reports¹⁷

16.6.4 On completion of audit, an Inspection Report presenting all the findings – both positive and negative – shall be issued within 30 days of completion of audit to each of the selected Audit Units with a copy to the corresponding next higher level in the organisational hierarchy and to the lead team if constituted. The findings pertaining to implementing units shall be included in the Inspection Report of the respective Audit Units. A period of four weeks may be allowed to the Audit Units to provide responses to the audit findings contained in the Inspection Report.

16.6.5 The Inspection Report of an audit unit should provide a perspective of the unit level compliance and may comprise the following parts:

- **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

¹⁶ Where considered necessary

¹⁷ Even though compliance audits conducted in accordance with these guidelines are not in the nature of an inspection, the existing terminology of Inspection Report is continued because of its historical import

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 implementing units, the subject matter(s) selected and the sources of criteria that have been adopted to evaluate the selected subject matter(s). It may indicate that the audit has been conducted in accordance with the applicable Auditing Standards of CAG.

- **Part II – Audit findings**–This part shall contain all findings – both positive and negative findings that pertain to the audit unit and may be arranged in two distinct parts - Part IIA and IIB - the first part comprising significant audit findings relating to evaluation of the regularity related subject matter(s)/ specific subject matter(s) and propriety related subject matters and the second part – IIB comprising other incidental findings relating 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 enunciated in this Chapter 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 Inspection Reports 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 persons holding the leadership positions in the audit units.

16.6.6 The responsibility of drafting the Inspection Reports shall vest with the respective audit team and that of review and approval with the respective Group Officer in field offices.

Departmental Appreciation Note

16.6.7 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. A consolidation of audit findings presented through the Departmental Appreciation Note would enable appreciation of both the audit findings that form the basis for Auditor’s conclusion on compliance by departments as well as the audit findings that would feature as standalone findings. The Departmental Appreciation Note shall be issued to the Head of the Department typically the Principal Secretary, for initiating remedial measures with a copy provided for information to the Secretary Finance, Chief Secretary - the next higher level charged with governance and to Headquarters Office.

16.6.8 The Departmental Appreciation Note may comprise the following features:

Title: Departmental Appreciation Note on compliance audit of (name of the Apex Auditable entity)

Introduction: This part may commence with a broad overview of the Department, the organisational goals, governance structure, jurisdiction, and challenges of the Department, financial and operational performance, which may be followed by a broad description of the high risk areas and the related internal controls to enable the responsible party/intended users to appreciate the factors that were considered by auditors while selecting the area for compliance audit during the year.

Objectives and scope: A brief explanation of the objectives and scope of audit should be provided.

Audit findings: This part shall contain all significant audit findings – both positive and negative findings aggregated from all audit units and may be arranged in two distinct sections – the first section comprising audit findings relating to evaluation of the selected subject matter(s), and the second section comprising audit findings on other subject matters and other incidental findings

These findings may be organised in decreasing order of materiality and significance. The audit findings included in the Departmental Appreciation Note, which could potentially feature in the next level of reporting through the Compliance Audit Report (discussed in para 6.10 to 6.12 below) should be clearly indicated to the responsible party.

Conclusion: Depending upon the extent and pervasiveness of compliance of the selected subject matter observed during audit, auditors may provide conclusion of compliance of the selected subject matter with the applied criteria. Further based on the veracity and pervasiveness of findings relating to adherence of sound financial management principles and ethical conduct and other findings, Auditors may conclude, as appropriate, on the efficiency and effectiveness of internal controls in the areas audited.

Acknowledgement: This part may contain acknowledgement of the extent of Department's cooperation in all matters including production of records.

16.6.9 The responsibility of drafting the Departmental Appreciation Note may vest with the Audit team and that of approval with the Accountant General in field offices. In cases where multiple teams were deployed for audit of an Apex Auditable Entity and a lead team has been identified for conduct of compliance audit, lead team may draft and finalise the Departmental Appreciation Note, for approval by the respective Accountant General.

Compliance Audit Report

16.6.10 The Compliance Audit Report represents the last phase of reporting the results of compliance audits and shall feature significant audit findings which require the attention of the legislature and other intended users including the public at large. Presently, the significant audit findings that could potentially feature in the Compliance Audit Report are communicated to the Apex Auditable Entity by issuing Draft Paragraphs and/or Statement of Facts. The significant audit findings would therefore emerge from the Inspection Reports, Draft paragraphs, Statement of Facts and from the Departmental Appreciation Notes containing conclusion if any on a specific subject matter, which shall be carried forward for reporting in the form of a Compliance Audit Report of the CAG of India.

To ensure objectivity of the audit findings and conclusions of the Compliance Audit Report, confirmation of facts and figures by the Apex Auditable Entity and incorporation of responses of the responsible party is very crucial. Auditors shall therefore ensure that facts and figures are accepted by the Apex Auditable entity and shall pursue responses from the Apex Auditable Entity.

16.6.11 The responsibility of preparing and ensuring the quality of the Compliance Audit Report before it is submitted to CAG for approval would be with the head of the field audit office.

16.6.12 The Compliance Audit Report could be brought out as a separate Audit Report or alternatively could be included as distinct Chapter(s) in a consolidated Report with findings of other types of audit. The decision with regard to the manner of featuring the compliance audit report shall vest with the respective DAI/ADAI.

Follow up

16.6.13 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. The need for follow up will vary with the nature of non-compliance and the particular circumstances. While some findings pointing out deviations from authorities and violations of principles of sound financial management may have to be followed up at the audit unit level the audit findings warranting systemic changes may have to be followed at higher levels of the organisational hierarchy. Further some findings may be fully/partially accepted by the apex auditable entity/ audit units while there may be findings that have not been accepted by the apex auditable entity/ audit units.

16.6.14 The following process shall be adopted by field offices for follow up of audit findings and conclusions included in the Inspection Report and the Compliance Audit Report:

Inspection Report

The outstanding paragraphs of previous Inspection Reports shall be reviewed during the conduct of audit and their status included in the current Inspection Report as envisaged in para 6.5 above. The responses to paragraphs included in the Inspection Report shall be pursued by regular reminders to the respective audit units. There shall be a regular interaction with the Departmental Audit Committees¹⁸ to review and settle old paragraphs as per extant orders.

Compliance Audit Report

The receipt of explanatory notes/ Action Taken Notes (ATNs) to the paragraphs that have appeared in the Compliance Audit Reports shall be monitored in all field offices and Heads of Department shall be impressed upon to send explanatory notes/ATNs within the prescribed time frame as per extant orders.

Accountants General may encourage the Heads of Department to send suo moto replies to all observations which have appeared in the Compliance Audit Reports but have not been discussed by the Public Accounts Committee/Committee on Public Undertakings.

¹⁸ Departmental Audit Committees are constituted in all Departments of the Government headed by the Secretaries of the respective Departments

16.6.15 Introduction of New Pattern of Inspection Reports

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 organizational goals.
- This may be followed by a brief explanation of the scope of audit, the sampling procedure followed and the audit sample – including the implementing units, the subject matter(s) selected and
- The sources of criteria that have been adopted to evaluate the selected subject matter(s).

It may indicate that the audit has been conducted in accordance with the applicable Auditing Standards of CAG

Part-II

All positive and negative audit findings to be arranged in two parts

Part-II A

Important audit findings relating to evaluation of regularity and propriety related subject/ specific subject matter.

Part-II B

Any other incidental audit findings related to regularity and propriety aspects.

Part-III

Follow up on findings outstanding from previous Inspections Reports

- 1) Paras recommended for settlement of audit findings from previous Inspection Reports.
- 2) List of outstanding findings.

Part -IV

Good practices/ innovations done by the unit, if available/ found

Part -V

- (i) Acknowledgement of audit units' co-operation in all matters including production of records called for audit and details of persons holding leadership positions in audit units
- (ii) Records not produced.

Compliance Audit Design Matrix

Audit objective/Sub-objective	Audit questions on selected subject matters	Audit criteria	Data collection and analysis method	Audit evidence
Planning of schemes				

Allocation, release and utilization of fund				
Implementation of schemes				
Human Resources				
Objective of the schemes				
Monitoring				

Audit Findings Matrix

Audit objective/Sub-objective	Audit questions on selected subject matters	Audit criteria	Audit evidence	Conclusions
Planning of schemes				
Allocation, release and utilization of fund				
Implementation of schemes				
Human Resources				
Objective of the schemes				
Monitoring				

[Authority C&AG's letter no. 378/PPG/22-2012 dated 12.04.2016]

Contents under Part-II, Section A

16.6.16 Part II Section 'A' of the Inspection Report should contain only such objections as are either likely to find a place in the Report of the CAG, or would result in considerable economy to the state or at least of such serious consequences as to merit attention of govt. or the Head of the department. As in effect part II section 'A' of the IR would contain only potential draft para objections for the Report of the CAG. (Civil) the materials should be very carefully selected and properly developed in the light of general instructions contained in CAG's Manual of standing orders (A) 2nd edition 2002. Adequate care must be taken to make the objections self-contained in respect of all matters with which they deal and to ensure accuracy of the information and every opportunity should be given to the departmental officers to explain their point of view which should be suitably incorporated in the Report. All such objections should also be got expressly accepted or refuted by them in order to avoid subsequent disputes regarding the correctness or completeness of the facts. It is not enough to obtain the signature of the departmental officers on the draft report in token of discussion. They should be requested to give their concurrence or remarks on a separate sheet. The object is to keep indisputable evidence with us to show that we have done all that was possible for us to do.

16.6.17 The drafting and presentation of such materials in the Report is also of paramount importance and the general principles outlined by Report section should be properly understood and carefully followed.

16.6.18 All-important irregularities involving recoveries, question of principle, losses, embezzlement etc. execution of scheme i.e. results of working of schemes, farms and other production centers running at loss (if the loss is very heavy) etc. should be embodied in this part of the Report.

16.6.19 Presentation of Draft Inspection Report¹⁹:

- i. Each para should clearly bring out whether the deficiency/best practice is an isolated case or it has a systemic connotation.
- ii. The paras should be drafted in an orderly manner by identifying the criteria) both for regularity and propriety subject matters) against which the subject matter is being evaluated, describing the condition (deviation from criteria as observed in audit), correlating the cause of deviation and determines the effect of deviation. The reply of the audited entity should be incorporated and audit rebuttal/contention thereon should be clearly presented.
- iii. While reviewing paras outstanding from previous Inspection Reports, in case of a continuing deficiency or a persistent irregularity the audit team should identify systemic issues/control deficiencies rather than routinely updating the para with latest information/revised monetary value

16.6.20 Principal governing categorization of Para under Part-IIA and Part-IIB

Classification principle	Category	Part – II A	Part –II B
a)Nature of objection	1) Systemic issues 2) Isolated cases	Systemic Issues: Systemic deficiencies/weaknesses/deviations (other than issues that are only procedural) subject to materiality as per (b) below. Isolated cases: Individual cases of deviations/violation and aberrations that relate to operational, functional and financial matters subject to materiality as per (b) below	Systemic issues: Procedural deviations that do not significantly impair process (es), outputs and outcomes. Isolated cases: Individual cases of deviations/violation and aberrations that relate to establishment, personnel, administrative and other miscellaneous matters.
b) materiality	1) Quantitative 2) Qualitative	Issues that are quantifiable (Quantitative) – Materiality value has to be determined for each entity. Issues where materiality is determined by context	Cases of (a) above and those that ordinarily pertain to P art –IIA but are not material. However, cases

¹⁹ Headquarters letter No-226-09-PPG/2017 dated 23 August 2017

		(Qualitative) – Materiality has to be determined based on professional Judgment after considering various factors that are enumerated in Compliance Auditing guidelines (para 5.11).	that can be classified as trivial need not be reported.
c) Fraud and misappropriation, presumptive fraud, Leakage of revenue	NA	All cases to be taken as Part –IIA	NA

Note-Please see Annexure III regarding weightage of paras

16.6.21 There will be a note at the end of Part II Section "B" which will contain the following information:

- (i) Name and designation of the officer-in-charge of account during the period covered by the report.
- (ii) Names of Asstt. Audit officers and Auditors who conducted the audit
- (iii) The dates from and to which the audit was conducted.
- (iv) Names and designations of the Inspecting Sr. Audit officers who supervised the audit if any.

16.6.22 At the end of the Audit Note the signature of the head of the office or the Drawing & Disbursing officer should be obtained as token of having seen all audit objections and the report. If he refuses to discuss or sign on the Audit Note, it may be mentioned as “Refused to sign on the Audit Note”.

Test Audit Notes

16.6.23 All other objections involving procedural defects and minor irregularities having apparently no financial implications which cannot be settled locally during the inspection, and do not merit inclusion either in part I or Part II of Inspection Report should be written out in the form of a Test Audit Note to be issued separately to the local office concerned.

16.6.24 The other copy of the Test Audit Note shall be kept with the records and sent out to the AAO concerned when the next audit of that particular office is taken up. These objections shall not be pursued from the Headquarters section, but it will be the duty of the next Audit party to verify the action taken thereon by the local office concerned, and incorporate the outstanding items in the next Inspection Report.

Procedure for Signing and Endorsing the Inspection Reports

16.6.25 At the end of each draft Inspection Report, the AAO should put his full and dated signature. When the Inspection Report is drafted by the Inspecting Sr. Audit officer personally, he should himself sign the report. In case of unsupervised and partially supervised audits, the officer responsible for editing the report should write on the left side "edited" in the Notes portion under his full and dated signature.

Title Sheet

16.6.26 While submitting the draft Inspection Report to the Inspecting officer or Head office, the Asstt. Audit officers will attach a title sheet together with six proforma therein as given below. This form has been designed to serve as a History card for each Inspection Report. Printed copies of such forms will be supplied by AMG-I (Hqrs) section.

16.6.27 Improvement in Quality of Inspection Report.

Para 6.5 of CAG'S Compliance Auditing Guidelines states that:

“The Inspection Report of an audit unit should provide a perspective of the unit level compliance and may comprise the following parts:

Part I – Introduction-

Part II – Audit findings – This part shall contain all findings – both positive and negative findings that pertain to the audit unit and may be arranged in two distinct parts – Part II A and IIB-

- *The first part comprising significant audit findings relating to evaluation of the regularity related subjects matters and*
- *The second part – IIB comprising other incidental findings relating to both regularity and propriety aspects.*
- *The audit findings should be organized in decreasing order of materiality and significance, if possible.*

Presentation of audit findings shall conform to the Auditing Standards and other reporting principles enunciated in this Chapter and clearly bring out the applied criteria, the results of evaluation of the subjects 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 issue or represent isolated cases of non-compliance.”

In addition, ***Para 6.1.22 of CAG'S Manual of Standing Order(Audit) states that*** the settlement of outstanding paragraphs of earlier inspection reports is one of the important duties of an Inspecting Officer. The discussion and settlement of such outstanding objections in respect of offices situated at a station visited by an Inspection Party but which are not selected for inspection should as far as possible be done by the Inspection Officer during his stay at that station.

Para 6.1.23 of CAG'S Manual of Standing Order(Audit) further states that the results and findings of audit of cash management and physical verification of cash by the Drawing and Disbursing Officer in the presence of Audit may be forwarded along with inspection report. The factual notes/Factual statements relating to potential draft paragraphs are to be prepared and forwarded by the Inspecting officer to the Accountant General.

Authority –O/o the Accountant general (Audit), Jharkhand, Ranchi

Standing Order on role of Audit in relation to cases of fraud and Corruption

16.7.1 Examination of system for detection and prevention of fraud and corruption is an integral part of all regularity audits and also of performance audits, when it forms one of the audit objectives. The present standing order is issued with immediate effect. The sector specific guidelines/checklist with particular reference to Public Works Audit is enclosed as **Appendix-G**.

16.7.2 The provisions contained in the present standing order are in supersession of the existing instructions on the subject. (Copy of C&AG's letter no. 126/Audit (AP)-1-2006 dated 6 September 2006 enclosed as **Appendix-H**).

16.7.3 The expression 'Accountant General', used in this standing order, includes the Director General of Audit, Accountant General (Audit), Accountant General (Audit) and Principal Director of Audit.

16.7.4 The expressions 'Auditor' and 'Audit Personnel' include all officials engaged in audit work irrespective of their designation.

Fraud examination

16.8 Fraud examination is a part of the normal auditing procedures and includes:

- Being alert for situations, control weaknesses, inadequacies in record keeping, errors and unusual transactions or results, which could be indicative of fraud, corruption, improper expenditure or lack of probity; and
- Focusing audit strategy on areas and operations prone to fraud and corruption by developing effective high risk indicators for fraud.

Characteristics of fraud

16.9 Fraud should be distinguished from error. The distinguishing factor between fraud and error is whether the underlying action is intentional or unintentional. The meaning and nature of Fraud can be understood by referring to the following definitions.

- Fraud is an intentional work 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.

16.10 Fraud involving one or more members of management or those charged with governance is referred to as "management fraud," fraud involving only employees of the entity is referred to as "employee fraud." In either case, there may be collusion within the audited entity or with third parties outside of the audited entity.

16.10.1 *Fraud has a legal (criminal) connotation. Auditors do not make legal determination of whether fraud has actually occurred. They can report suspected or presumptive fraud.*

16.10.2 Ample caution needs to be exercised before terming an act as 'Fraud'. For an act to come within the ambit of 'Fraud,' the following elements are required to be present.

- The act is intentional on the part of one or more individuals working in collusion with each other;
- The object of the act is to obtain or give illegal advantage in violation of the laws, rules and guidelines existing on the subject;

- The intention, collusion and object of obtaining illegal advantage will have to be present when a particular act is committed. An act committed in good faith, which by subsequent turn of events, proves to be incorrect or based on wrong information is not fraud;
- The advantage or benefits to an individual or a group of individuals will have to be tangible and not notional or presumptive; and
- Normally, any such act would cause loss to exchequer or be against public interest.

16.10.3 Fraud may involve:

- Manipulation, falsification or alteration of records or document;
- Misappropriation/misapplication of assets;
- Suppression or omission of the effects of transactions from records or document;
- Recording of transaction without substances; and
- Misapplication of accounting policies.

16.10.4 The mandate of Government Audit is broader than that of financial statement auditor and includes responsibility for verification of regularity and performance. Hence, the auditor should be aware of the possibility of fraud not only in the preparation and presentation of financial statements but in other areas covered by regularity (compliance) and performance audits as well.

16.10.5 Audit can not always establish and determine whether a misrepresentation was an error or fraud. While Audit looks at records, fraud examination goes beyond audit. Hence, Audit can put red flags (an indication that further scrutiny of the items would be required) which need further investigation by appropriate agencies and reporting the results to Audit.

Characteristics of corruption

16.11 Corruption is a complex issue. The following definitions indicate the nature of corruption.

- ❖ *Corruption involves behavior on the part of officials in the public and private sector, in which they improperly and unlawfully enrich themselves and/or those close to them, or induce others to do so, by misusing the position in which they are placed*
- ❖ *Corruption is the abuse of public power for personal gain or for the benefit of a group to which one owes allegiance*

16.12 An act of corruption would comprise of one or more of the following elements:

- There must be at least two parties, vi., the person who offers the reward or inducement and the part accepting it;
- There must be misuse of office or position of authority for private gain;
- There is either an offer and/or acceptance of inducements;
- An attempt to solicit an offer of inducement or reward as benefit for performance of an official act;
- Any act through which public or entity property is dishonestly misappropriate'
- There may be an attempt to camouflage; and
- Corruption involves breach of trust.

Nexus between fraud and corruption

16.13 Corruption and fraud are not mutually exclusive. There is, in most cases, a nexus between the two.

16.14 Fraud is most likely to involve deliberate misrepresentation of information that is recorded and summarized by an entity; its impact can be compared to an accounting error and would involve issues such as measurement, occurrence, and disclosure. Fraud poses a serious problem from an audit perspective because it is normally accompanied by efforts to cover/falsify/misdirect the entity records and reporting. Thus, fraud can directly affect the financial statements and records of the audited entity.

16.15 Quite often, the efforts to misrepresent may involve the management itself. When management gets involved in the perpetration of fraud, the activity assumes the proportion or the additional bearing of corruption. Fraud and corruption are therefore interlinked, although certain types of fraud do not necessarily qualify for being viewed as corruption and can be perpetrated by an individual or a small group to cover lapses.

16.16 One problem which corruption poses for audit is that it is linked with the acts of bribery. It is possible to conceive of situations where bribery may have a direct impact on financial statements. For example, where a tax officer collects a bribe from an entity to provide a tax relief or where an entity pays an influential decision maker a bribe to secure a contract. In such situations the issue of proper disclosure is involved because the corrupt practice of the illegal payment/expense is normally covered up through an accounting, compliance or reporting fraud.

16.17 In some cases, corruption may have only a consequential, and not a visible and direct effect on the accounting records, for example, when the quality specifications are compromised in a supply order to benefit a supplier.

16.18 In many instances corruption does not necessarily reflect in the transactions that are recorded and reported by the entity. This especially applies to situations where a position of authority or discretion available under rules is misused by an official. Such corruption does not normally get reflected in information that comes in the purview of audit, for example, when a tax officer collects a bribe to give a refund which is lawfully due to taxpayer. Thus, whereas the loss to the auditee is usually fairly apparent in cases of fraud, in the case of corruption, the corrupt employee may benefit from the act, but there may not be any loss to the auditee or effect on financial information.

16.19 Both fraud and corruption are without proper authority and involve breach of trust and therefore are illegal or irregular. They also involve an element of non-transparent conduct or behavior. In fact corruption is a special type of fraud and treated as such in many jurisdictions. In any case audit teams/officers should be well aware of the complex distinction as well as correlation between the two.

Types of fraud and corruption

There are several types of fraud and corruption. Some illustrative types (relating to contracting for goods and services) are indicated in **Appendix-I**.

Responsibilities of Audit

16.20 Detection of fraud is not the primary objective of audit. Audit must, however, evaluate and report on the adequacy and competence with which the management has discharged its responsibility in relation to prevention, detection, response and follow-up/remedial measures in relation to fraud and corruption. The auditor should make the management aware that the absence or lack of application of reliable and valid performance measures and indicators could increase the possibility of occurrence of fraud and corruption.

16.21 Audit should be alert to shortcomings in systems and controls that are likely to provide an environment conducive for fraud and corruption and should recommend to the management measures to improve the control environment and minimize the risk of fraud and corruption.

16.22 Any indication that an irregularity, illegal act, fraud or error may have occurred which could have a material effect on the audit finding/opinion should cause the auditor to extend procedures to confirm or dispel such suspicions.

16.23 It should be borne in mind that if a material fraud was perpetrated but not discovered in audit, the conduct of audit personnel can be called in question, particularly if the evidence was such as would arouse suspicion in an auditor of normal prudence. Hence, the audit personnel need to be aware of the possibilities of fraud at the planning stage and should be vigilant while carrying out the audit work.

Considerations of fraud in performance audits

16.24 Similar considerations apply in case of performance audits. In performance audits, while selecting objectives, sub-objective and issues, the vulnerability/risk to fraud and corruption should be given due consideration.

16.25 In the course of performance audit, the effectiveness of internal controls to prevent and detect fraud and corruption should be considered as one of the audit objectives, depending upon the materiality and risk analysis.

16.26 Where the performance audit team comes across any possible indicators of fraud, it should probe the matter further and report its findings. Some of the significant areas for scrutiny from fraud angle could be the integrity of performance information and evidence of delivery of goods and services.

16.27 Audit should not in any way substitute itself for the revenue authorities in the performance of their statutory duties. However, Auditors should satisfy themselves that the requirements of legality and regularity are observed in individual assessments and in general that the departmental machinery is sufficiently safeguarded against error, fraud and corruption.

Professional skepticism

16.28 Professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. Professional skepticism requires an ongoing questioning of whether the information and audit evidence obtained suggests the existence of fraud having a material effect on audit findings/opinion.

16.29 Due to the characteristics of fraud, the auditor's attitude of professional skepticism assumes particular importance when considering the risk of fraud having material effect. When obtaining reasonable assurance, an auditor should maintain an attitude of professional skepticism throughout the audit, consider the potential for management override of controls and recognize the fact that audit procedures that are effective for detecting error may not be appropriate in the context of an identified risk or fraud having material effect.

Fraud awareness at the audit planning stage

16.30 The field officers should carry out an independent risk assessment and prioritize their audit planning accordingly. This should include consideration of any information received from the public or media on suspected cases of fraud and corruption. The audit plans should focus on high risk areas.

16.31 Though audit cannot insure against frauds, the possibility of their occurrence should be kept in mind while preparing for and conducting audit, by maintaining an attitude of professional skepticism.

16.32 The auditor may keep in view that the risk of fraud and corruption could be higher in certain organizations like those involved in procurement of goods and services.

16.33 Based on the risk assessment, the auditor should develop the audit objective and design audit procedures so as to have reasonable expectation of detecting and evaluating material misstatement and irregularities arising from fraud and corruption.

Identification of areas requiring attention

16.34 An understanding of the audited entity should enable the auditor to identify potential higher-risk areas and suitably modify audit procedures and techniques. Some of the common high risk areas (illustrative) are:

- Contracts of service/ procurement: The fraud risk includes violation of prescribed laws and regulations concerning the procedures for inviting receiving and processing of tenders, selection of bidders.
- Inventory and/asset management;
- Sanctions/clearances;
- Programme management and performance management information;
- Revenue receipt (for example, incorrect valuation of goods, inadmissible duty draw back claims, misuse of exemptions and notifications regarding refund claims, embezzlement through incorrect account of receipts etc)
- Cash management;
- Expenditure on AC bills;
- Computerized environment;

Vigilance about fraud at audit execution stage

16.35 During the course of audit work, the audit personnel should be vigilant and seek explanations, if it comes across possible fraud indicators.

16.36 The auditor may keep in view that when a fraud is conducted there is a deliberate effort to conceal the facts and distract the auditor.

Fraud indicators

16.37 Some possible fraud indicators (red flag areas) are given in **Appendix-J**. They are illustrative only, and should not be taken as exhaustive. The audit personnel should exercise professional skepticism and professional judgment in dealing with possible fraud indicators.

16.38 It should also be recognized that failure to appreciate the significance of what appears to be a trifling irregularity may result in failure to discover an important fraud or defalcation. Therefore, notice may be taken of the cumulative effect of numerous petty errors or irregularities as being indicative of carelessness and inefficiency in the maintenance of accounts or in financial administration generally.

16.39 If no satisfactory explanations are offered and the auditor suspects that irregularities may have occurred, he should probe the matter further and inform management of the audited entity. If the irregularities had a material effect on the accounts, suitable qualification in the accounts may be warranted. Audit should also recommend improvement in the control procedures to management for preventing recurrence of bad practices and/or irregularities.

Information to be sought from the audited entity management

16.40 At the commencement of each audit, information about the fraud awareness and related environment should be collected from the audited entity management.

16.41 The information should include *inter-alia* :

- Policy and system to prevent and detect fraud/corruption and reporting;
- System to establish accountability for fraud/corruption;
- Fraud/corruption indicators;
- Instances of fraud and corruption noticed since last audit;
- Action taken on such cases, including strengthening of internal control system;
- Special areas prone to risk of fraud and corruption; and
- Guidelines issued by management with regard to control of fraud and corruption.

Audit evidence

Nature of evidence

16.42 The auditors should clearly understand that the audit evidence obtained can be only persuasive and not conclusive. Yet the evidence in case of suspected fraud and corruption ought to be closer to conclusive. While reporting all cases of suspected fraud or corruption, they should refrain from making any judgment regarding the existence of fraud or corruption but should suggest suspected fraud/ corruption or presumptive fraud.

16.43 Analytical procedures are helpful in identifying the existence of unusual transactions or events, and amounts, ratios, and trends that might indicate, matters having audit implications. When performing analytical procedures at the planning stage or during the course of audit unusual or unexpected relationships may indicate risk of fraud.

16.44 Fraud detection measures need to be built in the audit procedures, so that during the audit, the auditor can highlight a transaction for a possible fraud or identify such consistent system failures, which can lead to a fraud. Some of the checks, which could be applied to determine the red flag items during the course of audit, are illustrated below:

- examine the use of delegation of powers particularly in vulnerable areas;
- examine the effectiveness and adequacy of internal controls in various areas;
- check for collusion between the supplier and employees/management;
- examine cases of misuse of financial powers;
- Check of false statements and false claims; whether information presented to justify a transaction is incorrect and at the point of time when such information was presented, the person submitting the information had access to correct information;
- examine evidence for cartelization, split purchases, collusive bidding, over and under invoicing and making payments on the basis of false progress reports;
- check for loss of revenue due to evasion and/or non-accountal or receipt;
- examine for payment made for services/supplies not received;
- seek confirmation with other related parties;
- checking of cross-linking of documents for evidence of known wrongdoing; and
- Cases of misclassification; etc.

16.45 Wherever the management of the audited entity makes changes and improvements in the internal control system either due to changes in its environment. Such changes and improvements should be particularly studied and evaluated during audit.

Audit approach

16.46 Since complete evidence about cases of fraud and corruption may not be available to Audit, due care should be exercised in arriving at an audit conclusion. In many circumstances additional tests may have to be performed and additional evidence acquired than would normally be considered appropriate and necessary for arriving at an audit opinion.

16.47 Whenever a material instance of failure to comply with the applicable laws and regulations is observed the auditor should, without automatically assuming that the management and staff are dishonest, investigate the control failure with an appropriate degree of professional skepticism. He may also examine if the supporting evidence has been tampered in any manner or any individual (s) could have benefited from the material violation.

16.48 When auditors suspect the possibility of fraud and corruption, they should establish whether it has taken place and there has been resultant effect on the financial reporting, especially whether the audit certificate requires qualification. Similar considerations apply in case of performance audits, where there has been effect on the programmed execution or performance reporting.

16.49 When auditors intend to report on fraud and corruption, they should ensure the reliability of audit evidence by verifying it with source documents including third party evidence. Auditors should carefully determine how much evidence they should gather in support of audit findings. Auditors should also keep in view that the possibility and the evidence gathered by them and their findings could become the basis for legal or disciplinary proceedings.

16.50 The auditor may identify a risk of material misstatement due to fraud affecting a number of accounts and assertions, including asset valuation, estimates relating to specific transactions and other significant accrued liabilities. The risk may also relate to significant changes in assumptions relating to recurring estimates. Information gathered through obtaining an understanding of the entity and its environment may assist the auditor in evaluating the reasonableness of such management estimates and underlying judgments and assumptions. A retrospective review of similar management judgments and assumptions applied in prior periods may also provide insight about the reasonableness of judgments and assumptions supporting management estimates.

16.51 Since many records are produced by computers in the usual and ordinary course of work, auditors should understand how to collect and handle those records as audit evidence. Collecting computer evidence requires careful planning and execution. Auditors should examine whether appropriate controls are in place in order to ensure the authenticity of computer evidence.

Compliance with the provisions of GFRs

16.52 . The Audit personnel should also check compliance with the provisions of Rules 33,34,37 and 38 of the General Financial Rules (GFRs) 2005 (Rules 16 to 19 and 21 of earlier GFRs) regarding:- Reporting losses or shortage of public moneys, departmental revenue or receipts, stamps opium, stores or other property held by, or on behalf of, Government irrespective of the cause of loss and manner of detection by the subordinate authority concerned to the next higher authority as well as to the Statutory Audit Officer.

Role of Audit in relation to IT fraud

16.53 Since many records are produced by computers in the usual and ordinary course of work, auditors should understand how to collect and handle those records as audit evidence. Collecting computer evidence requires careful planning and execution. Auditors should examine whether appropriate controls are in place in order to ensure the authenticity of computer evidence.

16.54 In case of fraud involving use of computer systems, the audit personnel should also comply with the instructions on Information Technology Audit (IT Audit) issued by the IT Audit Wing of Headquarters Office and the comptroller and Auditor General's Manual of Standing Orders (Audit).

Documentation

16.55 The auditors should collect adequate documentation which may provide evidence during subsequent enquiries, investigations, court cases, etc.

16.56 The documentation should include *inter alia*:

- (a) the identified and assessed risks of fraud, the overall response of the auditor to the assessed risk of fraud and the nature, timing and extent of audit procedures, and the linkage of those procedures with the assessed risk of fraud;
- (b) The results of the audit procedures, including those designed to address the risk of management override of controls;
- (c) Communications about fraud made to management, etc.

16.57 The documentation should also be capable of proving that the Audit personnel have discharged their functions with reasonable care and due diligence and should enable a review of working procedures and working papers.

Reporting

16.58 Report of individual cases of suspected/presumptive fraud/corruption should be addressed confidentially, in the first instance, to the controlling authority concerned with the approval of Group Officers. Copies may simultaneously be sent confidentially to higher authority in cases that are regarded to be so grave or serious. In the case of Controlling Officer (with a copy to the Chief Controlling Officer concerned) whereas in the case of Drawing and Disbursing Officer based audits, the report should be sent confidentially to the concerned Drawing and Disbursing Officer (with a copy to the Controlling Officer concerned).

16.59 The situations/events that may be suggestive of fraud/presumptive fraud should be highlighted in the inspection reports with a recommendation to the executive for detailed investigation and response.

16.60 The report of the audit party should indicate *inter alia* the scope of audit, main findings, total amount involved, modus operandi of the suspected fraud or the irregularity, accountability for the same and recommendations for improvement of internal control system, fraud prevention and detection measures (including changes in the systems and procedures) to safeguard against recurrence of fraud/serious financial irregularity.

16.61 In addition to reporting to the management of the audited entity. Material/significant cases of fraud and corruption may be reported through separate confidential letters to be specified investigating agency like Central Bureau of Investigation (CBI), Central Vigilance Commission (CVC) in case of Union Government and State Vigilance Commission/ Lok Ayukta, etc. in case of State Government with the approval of the Accountant General or by him/her, depending upon the seriousness of the cases.

Qualification in Audit Opinion of financial statements

Printing cases relating to fraud and corruption

16.62 Cases relating to suspected/presumptive fraud and corruption should be highlighted in the Inspection Reports, Audit Notes, etc. and also in the Audit Reports. All such cases should be printed in bold type.

Reporting to investigating agencies

16.63 Accountants General, Principal Directors of Audit, etc. should carry out a quarterly review of the audit findings contained in the inspection reports, audit notes, etc. relating to different wings of their officers and bring specific material/ significant cases of suspected fraud or corruption.

16.64 While forwarding the Bond Copy of the Audit Reports to Headquarters, the Accountant General, Principal Director of Audit, etc. should highlight in the forwarding letter the number of cases of suspected fraud and corruption together with the money value of the concerned paras included in the bond copy. All such cases should be taken up immediately after approval of the bond copy with the appropriate vigilance or investigative authorities by the Accountant General, even if these cases were reported to them earlier. Such cases should be forwarded to the

vigilance or investigative authorities such as the Central Bureau of Investigation, Central and State Vigilance Commissions, Lok Ayukta, etc. through confidential letters, drawing reference to earlier correspondence, if any and with additional information that these cases have been included in the CAG's Audit Report to Parliament/State Legislature. While forwarding such cases, the Accountant General/Principal Director should also send a brief write-up of such cases with details of the names of individuals, firms, address, etc. and any other necessary information available in field offices which are not mentioned in the Audit Report as per our reporting policy. It should be clearly stated in the communications that in view of the intent of Audit to bring the matter to the notice of Parliament/Legislature, strict confidentiality should be maintained about the matter to avoid any likely breach of privilege of Parliament/Legislature.

16.65 The communication to vigilance or investigative authorities should clearly indicate that the audit evidence is obtained from the original documents of the audited entity. They should also indicate that the audit findings are based on the test check carried out and the information and records received from the audited entity. The investigative agency should use information given by us as a lead and make their own examination of the primary/original records which are available with the audited entity/Department.

16.66 The reporting to the vigilance or investigative authorities may be completed after approval of the bond copy, without waiting for the availability of printed audit reports. While, for the Audit Reports relating to State Governments and Union Territories, the concerned Accountant General will be Nodal Officer, for the Audit Reports relating to Union Government, the reports may be sent by the respective report controlling wings under orders of the ADAI/DAI concerned.

16.67 In the submission note to CAG, of the bond copy the number of cases of fraud and corruption included in the Draft Report should be mentioned together with the money value of concerned paras.

Post-Audit Report letter to the Chief Minister

16.68 The draft of the annual post-Audit Report letter to the Chief Ministers should contain a brief mention of issues relating to fraud and corruption where such cases appear in the Audit Reports. The field Accountants General should put in place a system of monitoring paras relating to fraud /corruption and a brief mention of this should be made in the annual post-audit letters to Chief Ministers. Such letters should be submitted immediately after reports are laid in the State Legislatures.

Follow-up

16.69 The field offices shall institute mechanism for recording the cases of fraud and corruption (including possible indicators of fraud and corruption) noticed during the course of audit in separate registers maintained for the purpose. Such cases should be followed up vigorously with the concerned audited entity and with higher executive authorities and should not be settled in a routine manner. All significant cases should be followed up with the Secretary of the Administrative Department concerned.

16.70 In following up on reported cases of fraud and corruption the auditor should determine whether the necessary action is being taken with due regard to urgency that the situation

demands and become aware of the changes in the systems and procedures which could be validated through subsequent audits.

16.71 The Accountant General may send annual confidential letters to the Secretaries of the concerned Administrative Departments (in cases where the inspection reports, audit notes, etc. throw a pattern of fraud across the Department) indicating the details of the important cases of suspected fraud and corruption.

16.72 It should be noted that once a matter has been referred to the investigative or vigilance agencies, the responsibility and scope of audit is to provide the information and assistance sought by them in accordance with the extant instructions. The matter may, however, be followed up through discussions in formal meetings with the investigative or vigilance agencies.

Additional instructions

Memorandum/Certificate of Assurance to be obtained from the Audit Party

16.73 The Accountant General may require the Audit Party to provide a Memorandum/Certificate of Assurance, which should include, *inter alia*, examination of issues relating to fraud and corruption and compliance with the provisions of this Standing Order and other applicable instructions by the Accountant General supported by detailed documentation.

Objection Book

16.74 Cases of fraud or corruption etc. should also be recorded along with cases of misappropriation, defalcation, etc. in an Objection Book in accordance with the instructions contained in the Comptroller and Auditor General's Manual of Standing Orders (Audit) as amended from time to time.

Skill development

16.75 The field offices should have an adequate inventory of skills to deal with cases of fraud and corruption and, for this purpose, arrange for training of their officials at the Regional Training Centres/Institutes.

Reporting to Headquarters

16.76 The field offices should send half yearly reports on cases of suspected fraud and corruption noticed by them to the Headquarters Offices.

16.77 In view of the ongoing rationalization process of management Information System (MIS), the half yearly reports may be sent electronically or placed on intranet in such manner as may be prescribed upon completion of the rationalisation of MIS.

Continuance of the existing provisions relating to reports on defalcations and losses

16.78 The existing provisions in the Manual of Standing Orders (Audit) relating reports on defalcation or loss of public money or property and action to be taken thereon shall continue to be in force.

Appendix-G

Statement showing sector specific Fraud indicators (Red flags) & detective (Anti-Fraud) Measures in Public Works

(Para 16.7.1)

1. Needs analysis/Estimates preparation

Red flags (Fraud indicators)	Anti-fraud measures (Detective)
1.1 Estimates made for excess goods or goods not needed at all.	Check whether there is any abnormal increase or decrease in the quantities executed by the contractor.
1.2 Estimates of requirements prepared piece meal (to avoid complying with procurement provisions for high value purchases.)	(i) Check whether all important items were included in the estimates. (ii) Check whether there were changes in specifications that resulted in extra items. (iii) Check whether any important item was omitted and subsequently executed through 'Extra Item Rate List'.
1.3 Specifications prepared that exclude all but certain favoured suppliers.	Check whether selected specification which is available only with certain favoured supplier is intentionally given to the supplier.
1.4 Different specifications prepared for subsequent purchases, even though the same goods were acquired subsequently.	Compare the specifications of the goods procured originally with those procured subsequently.
1.5 Estimates prepared using costs higher than the market price.	Check whether incorrect rates were applied while preparing estimates to benefit contractor
1.6 (Project selected without a feasibility study and cost estimation leading to) frequent revisions in design and cost and time overruns.	Verify whether the project was selected after proper survey and after preparing project report based on detailed study and research.
1.7 Higher cost estimates (due to inflating the quantity of material, manpower required and rates).	Compare the rates in respect of some important items indicated in the estimates.
1.8 Single work divided into different pieces (so that it can be approved within the initiator's authority. As a result, competition may be restricted).	Compare the prices and date/s of placing of orders of items with similar specifications.
1.9 Significant purchase made in small lots (increasing the unit cost of the purchase).	i) Check whether purchase is made in one lot for getting lower price benefit or not. ii) If quantity is significant check whether quotations were obtained from approved vendors or not.
1.10 Non-identification of working quarries.	Check whether there was any change in quarry site during execution of work. Determine the impact of changing the quarry with regard to the payment made to the contractor.
1.11 Rates to be executed in the initial stages (like foundation of a building or a bridge) are high and the rates for the finishing items are low. Note : In such cases, contractor gets most of	(i) Verify the nature of tender called for. (ii) Compare quantities in the tender with those in the estimates.

his profit in the initial stages of the work and has limited incentive to continue through the finishing stage.	
1.12 Quantities of items of work in the schedule attached to the tender vary substantially in actual execution.	The changed quantities are put in the original offer and the offer is re-evaluated. It may happen that the offer which was considered the lowest with the original quantities is no longer the lowest.
1.13 Vague concessions or rebates are offered by tenderer on certain conditions not included in the tender documents. For e.g : rebate may be offered if mobilization advance is given, if material like cement and steel are arranged by the department and for prompt payments.	Assess Govt.'s liability due to grant of concession with contractor's rebate offer.

2. Direct purchases

2.1 Purchase of material exceeded the ceiling for direct or quotation based purchases.	<p>i) Compare the amount of purchase made with the limit prescribed.</p> <p>ii) In case of deviations, examine the validity of reasons recorded.</p>
2.2 Purchases made at rates higher than the market prices.	Check whether rates quoted and paid were more than the market rates of same goods and of same quality.

3. Procurement through quotations

3.1 Material purchased without quotation though the amount of purchase exceeded the prescribed limit.	Check whether required quotations were obtained or not before making purchases beyond permitted limits
3.2 Purchases are consistently from the same supplier (to avoid tendering process and restrict competition).	<p>i) Check whether quotations were obtained in cases where purchases exceeded the prescribed limit for direct purchases.</p> <p>Check whether the prescribed procedures were followed while inviting quotations/tenders for purchases.</p>
3.3 (In order to favor some supplier) the notice asking for quotations were sent early to some and late to others.	Check acknowledgement of dealers receiving notice seeking quotations to verify whether notices were served to all and in time.
3.4 Quotations called from too few suppliers (even though more existed/could exist).	--do--
3.5 Information on amounts quoted by suppliers not kept confidential.	Check that rates quoted by dealer were of not leaked and a system exists to keep all the related papers confidential.

4. Procurement without Tender/Quotation (unlimited amount)

4.1 Material purchased directly at the manufacturer's price that is falsely claimed to meet the required specifications.	<p>i) Check that no purchase is made directly from particular dealer without inviting quotations and tender on the ground that material of particular specification is available only with the dealer.</p> <p>ii) Check whether purchase Committee was appointed/framed for selecting the dealer and determining quality standard.</p> <p>iii) Check whether sanctions from proper authority were obtained before procurement.</p>
4.2 Purchase was described as "propriety" even though there were other suppliers. (The price charged was more than the manufacturer's list price).	<p>i) Check whether competent authority's approval was obtained when propriety goods were purchased from single source.</p> <p>Check that price quoted and paid for goods did not exceed Maximum Retail Price.</p>
4.3 Goods purchased at higher rate.	Check whether rate quoted & paid were more than the market rate of goods of same quality of other similar supplier.

5. Invitations to tender

5.1 Inadequate time given for submitting tenders (to avoid competition).	Analyse the time schedule of inviting/submission of tender followed.
5.2 Tender documents sold to contractors were not prequalified	Compare the contractors to whom tender documents were sold with the list of prequalified contractors available with the department.
5.3 Time extension given arbitrarily, regardless of the number of tenders received.	<p>i) Check whether extension of time limit given was necessary and proper.</p> <p>ii) Verify whether sanction from proper authority was obtained before giving such extension.</p>
5.4 In case of limited tendering, tender document sold to non-enlisted tenderer.	Compare the names & addresses of the tenderers with those enlisted.

6. Terms and Conditions of Tender

6.1 Terms and conditions are vague. e.g : incorrect mentioning of quantity of dewatering and abnormal increase in expenditure under 'dewatering'.	Compare the rate of payment and methodology followed for dewatering in similar soil and other topological conditions in and around that region.
6.2 Updated estimated cost not mentioned in the agreement.	Analyse the expenditure in excess of 125 % of quantity put to tender and determine the reasons for its non inclusion in the agreement.
6.3 Non-mention or vague mention of period	Check whether there were any instances of

of defect liability.	expenditure on repairs was to be borne by Gov. due to non/vague mention of Defect Liability period.
6.4 Deliberate deletion of items of ‘Controlled Blasting’.	Analyse the expenditure under extra items and determine the reasons for their non inclusions in the estimates.
6.5 Favorable conditions to contractor enable payment of advances like secured advance, mobilization advance etc.	Analyse the conditions of contract on advances and determine the likely impact
6.6 Price escalation clause misused (by contractor) due poor definition of the same in contract.	<ul style="list-style-type: none"> i) Examine the circumstances that led to delay and determine whether the reasons for delay were due to contractors’s fault. ii) Check whether contractor was benefited due to incorrect mention of percentage of components. iii) Instead of considering average of 3 months of exemption of work, quarter of calendar year is considered for average purposes.
6.7 Extra ordinary discretionary power of interpretation of terms of condition to Engineer in charge.	Verify instances of excess payment to contractor due to misuse of discretionary powers of interpretation of terms of agreement, like lead charges, prices-escalation, change in strata, dewatering, if any.

7. Tender Opening

7.1 Tender opening committee did not have officers competent to open tenders.	<ul style="list-style-type: none"> i) Compare the grade/qualifications of the committee with those stipulated in the provisions. ii) Check whether tenders were opened in presence of all nominated members of the committee and signatures of all members were obtained on documents opened.
7.2 Response to Tender Notice (i) Poor response to Tender Notice1. Limited no. of offers received.	<ul style="list-style-type: none"> i) Study reasons for poor response. ii) Verify whether evaluation of offers was consistent and fair. iii) Analyse whether the offers were realistic (to avoid unfair competition).
2. Unrealistic offers. 3. Unfair revaluation of items. (ii) Similar works are tendered in given period of time to facilitate the bidders to form a cartel and get the work.	<ul style="list-style-type: none"> iv) Verify whether the option of retendering was considered. If ‘no’, ascertain the reasons.

(iii) One work is split-up in different parts by official to accommodate likely bidders. (iv) Suspicion of collusion between bidders/officials.	
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8. Tender Evaluation

8.1 Some tenders were excluded from the tender opening meeting.	<ul style="list-style-type: none"> i) Check the tender documents sales book against tenders received and reasons for non-receipt of all tenders. ii) Check whether any reasons were recorded for not considering all the tenders. iii) Assess the reasonableness of the reasons recorded.
8.2 (With the intention of awarding the contract to a favoured second lowest bidder), the lowest bid was improperly rejected for trivial reasons.	<ul style="list-style-type: none"> i) Check whether the lowest tender was rejected to favour the second lowest tender and check that the reasons offered are in tune with instructions issued by the Central Vigilance Commissioner (CVC) from time to time on the subject. ii) Ensure that negotiations are not held with LI unless in case of the circumstances (procurement of proprietary items, items with limited sources of supply and items where there is suspicion of a cartel) indicated by the CVC. iii) If tender was rejected for minor procedural violations, call for adequate justification.
8.3 In between the time period of opening of tenders and evaluation, changes in the amounts in the priced bill of quantities, as well as in the terms of tender were made which affected the price.	<ul style="list-style-type: none"> i) Check whether tender documents were kept in safe custody. ii) Check whether all the documents submitted with tender were initiated or not by those present at the opening of tender. iii) Check whether any changes in the terms of contract were made in between opening of contract and its evaluation. iv) Analyze the reasons for the making changes in quantities.
8.4 (As a result of collusion amongst tenderers) even the lowest tender submitted was extraordinarily higher than the cost estimates.	<ul style="list-style-type: none"> i) Check the number of tenders received. ii) Check whether comparative statements were prepared. iii) If lowest rate quoted was more than market rate of same quality, check whether the option of retendering was considered or not.
8.5 (As a result of collusion among	Check whether extension of time limit of bid

contractors) the lowest bidder may not agree to extend the period of bid validity.	evaluation and award was given without valid reasons.
8.6 Abnormal delay in tender evaluation.	Compare the date/s of receipt of the tenders with the dates on which the tenders were evaluated. In case of delay, ascertain the reasons.

9. Holding negotiations with bidders

9.1 Negotiations held with the lowest bidder (L1)	<p>i) Check that the exceptional circumstances attributed are in tune with those situations illustrated by the CVC. These situations would include procurement of proprietary items, items with limited sources of supply and items where there is suspicion of a cartel formation.</p> <p>ii) The justification and details of such negotiations should be duly recorded and documented without any loss of time.</p>
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10. Award of contract

10.1 Abnormal delay in acceptance, negotiations and award of contract.	Assess the time taken at various stages of tendering and determine why the tender could not be awarded before the validity period of the tender
10.2 Contracts repeatedly awarded to one contractor.	Select a sample of contracts awarded over a period of time and compare the names and addresses of the contractors to determine the trend.
10.3 Work order issued without collecting security deposit and signing the agreement.	Verify the existence of appropriate security or bank guarantee in prescribed format against work orders issued.
10.4 Qualified bidder declared as disqualified.	<p>i) Check whether reasons for disqualifying a qualified Contractor were recorded and analysed.</p> <p>ii) Verify the strength of reasons recorded.</p>
10.5 Contractor submitted false bank guarantee or bank vouchers and it was accepted.	Check whether the concerned authorities made enquires with the concerned bank and if no, verify the reasons for the same.

11. Advance payment

11.1 Advances made without guarantee.	Compare all the advances made with relevant documents showing Bank Guarantee/Security deposit.
11.2 Advances made for material not brought to the site, or for material not related to the construction or at prices higher than agreed.	<p>i) Compare details of Material Advances paid to Contractor with the concerned receipt of Material.</p> <p>ii) Check whether the material brought to site related to the construction work.</p> <p>iii) Compare the prices in the receipts with those agreed to.</p>
11.3 Advances given for more material than is needed for the construction works as per the cost estimates.	Check whether advance was paid for the excess material /material not required for construction.
11.4 Material against which advance received was used in construction works (items), included and paid in the running bills. But the cost of materials financed through advances not deducted.	Verify whether advances paid were recovered from Running Account/bills and material received against which advance paid were actually used for construction work as per approved plan and estimates.

12. Return of retention money and extension of time

12.1 Extension of time given without sufficient reasons.	Check whether reasons were recorded for not completing the work in time. If delay is due to contractor's omissions, verify why penalty was not levied.
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13. Early termination of the contract

13.1 (a) (Because of collusion between contractor and the contracting authority) contracts on which the contractor could lose money were terminated prematurely, without seizure of the security deposit.	Select contracts terminated prematurely and check whether security deposits of contractors were seized.
(b) After termination of contract on the basis of non-progress as per the contract agreement which requires seizure of his realization of the cost for completing the remaining work from him, which may be completed through other contractor, the contract may be finalized by returning the whole amount to the contractor himself.	Check whether extra expenditure incurred for completion of work through the new contractor who abandoned the work and his security deposit was not refunded.
13.2 After terminating the contract, the remaining work was given to selected contractor through negotiation, without competitive bidding.	Check whether sanction from competent authority was obtained for giving contract to selected contractor without competitive bidding and analyze the reasons recorded

14. Alterations, additions and omissions

<p>14.1 Some items were altered or varied in quantity or quality or even omitted from the work, all to the advantage of the contractor. For example :</p> <p>a) cost estimates called for high density polythene pipes, but later, the material specified was said not available in the market, and more expensive galvanized iron pipes which were in the contractor's store were used.</p> <p>b) The quantity of cement concrete works in the proportion 1: 2: 4 the quoted rate for which was lower than the estimated rate, was reduced substantially, while the work in the proportion, 1: 4: 8 which was quoted at higher rates than estimated cost, was increased.</p> <p>c) The provision of wooden windows and doors which could cause a loss to contractor was omitted and later on this work was given to another contractor at a higher rate.</p>	<p>i) Check the reasons why expensive material was used which was not in the estimates.</p> <p>ii) If reasons are recorded, verify the justification given.</p> <p>iii) Check whether payments made were as per the price fixed in the tender or not.</p> <p>iv) Check whether any extra amount was paid.</p> <p>i) Select cases of alterations, additions and omissions.</p> <p>ii) Check reasons/circumstances under which the original contractor would have omitted certain items of work.</p> <p>iii) Check why the same work was given to new contractor at higher rates</p> <p>Since while accepting tender original contractor agreed to do that item of work at agreed rate then left that work, verify whether extra cost was recovered from the original contractor</p> <p>-----As above-----</p>
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15. Payment of claims

<p>15.1 Late submission of claim by the contractor. (For example, soon after a work order was issued for construction of a building, the order was suspended because the design was not ready. To that point, only digging for the foundation had been started. Ten months later, the contractor submitted a claim for idle time for 90 different workers, including mason and woodworks, for 150 days. The claim was paid in full, without questioning the apparent irregularity).</p>	<p>i) Ascertain why work order was given when design of the work was not ready.</p> <p>ii) Check the reasons why contractor submitted the claim late.</p> <p>iii) Check why claim for idle time was passed?</p> <p>iv) Check whether delay was on account of contractor's fault.</p>
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16. Execution & Inspection

<p>16.1 Material that failed to meet the specifications for the quality or quantity or are defective were received</p>	<p>i) Check the specifications of the material received with those specified with reference to the quantity and quality indicated in the purchase</p>
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16.2 Inferior material used in construction.	<p>orders/estimates.</p> <p>ii) Check whether full payments were made even though the material did not conform to the quality norms.</p> <p>i) Check whether quality of material supplied was checked before receiving material.</p> <p>ii) Check whether inferior quality of material received was not returned and why penalty from supplier was not recovered as per agreement conditions.</p> <p>iii) Check whether inferior quality of material was used in construction.</p> <p>iv) Check whether periodical inspection was carried out by a higher authority? If not, check the recorded reasons thereof.</p>
16.3 Work not executed as per specifications & drawings.	Verify the inspection notes of the Chief Engineer/Superintending Engineer from time to time to note the deviations recorded.

17. Final Payment

17.1 Payments were made of bills higher than contract rates.	Check the rates shown in the bill with the rates agreed in the contract so as to detect excess rates applied, if any,
17.2 Payment made for bills submitted before receipt of materials or for materials never received or for materials already paid for.	Check the quantity shown in the bill claimed with the entries of store accounts receipt and issue so that no payment is made without receipt of actual material shown as used by contractor in construction.
17.3 Payments made on the basis of photocopies of bills or invoices.	<p>i) Check whether claim was made in original bill or duplicate bill or on a photo copy of the bill.</p> <p>ii) Compare the numbers of duplicate bills or copies of the bills based on which the payments were made with the contractor bills paid to determine double payments, if any.</p>
17.4 Payment made for the following goods instead of returning them. a) Material not mentioned in the contract or	i) Check whether payment for material is made which is mentioned in contract so that no payment is made

<p>purchase order.</p> <p>b) More than specified quantities or incorrect items.</p> <p>c) Material for which the order was already cancelled.</p> <p>d) Material not meeting specifications.</p>	<p>for material not required and not included in contract.</p> <p>ii) Check whether payment is made only for the quantity received to ascertain whether any excess payment was made to suppliers of goods.</p> <p>iii) Check whether any payment of material was made against the purchase order cancelled and material not received.</p> <p>iv) Check whether payment was made for substandard material or of specification not matching with the specification in contract.</p> <p>v) Quantities executed be checked with estimated tendered quantities and deviations examined.</p>
<p>17.5 Work which bear rates substantially higher than the cost estimates may be undertaken in larger quantity and works which bear lesser rate may be undertaken in smaller quantity than stated in the agreed bill of quantities.</p>	<p>i) Analyse the works undertaken with reference to their rates and determine the trends of execution.</p> <p>ii) Check/analyse that why work of higher value taken/executed in large quantity than the work of less value taken/executed than stated in the agreed bills of quantities.</p> <p>Determine the unintended benefit accrued to contractor in the process.</p>
<p>17.6 Final bill paid without recording/obtaining relevant completion, handing over and no dues certificate.</p>	<p>Check the following in support of the final payment bills paid</p> <ul style="list-style-type: none"> • appropriate entries in Measurement Book. • completion certificate, and • no dues certificate.
<p>17.7 Final bill paid without adjusting the excess or savings with reference to the quantities mentioned in the relevant schedule of the agreement.</p>	<p>Check the final bill to determine whether the excess or saving of the quantities mentioned in the agreement were adjusted.</p>
<p>17.8 Item paid under Extra Item Rate List was outside the scope of the agreement.</p>	<p>Check whether payment was made for extra items</p> <p>a) which was already included in</p>

	original contract/agreement, b) for the items not included in extra items agreement/contract.
17.9 Extra item executed without the approval of the competent authority.	<ul style="list-style-type: none"> i) Select the list of extra item cases. ii) Check whether permission of competent authority was obtained before giving permission for executing extra items of work and before making payment for such works. iii) Check whether rate for extra item was arrived at correctly by checking the rate analysis with reference to estimated DSR. iv) Ensure that percentage above is not for EIRL items. v) Check whether extra item was sanctioned at higher rate by deleting a tender item at lower rate and seek justification for such extra expenditure. vi)

18. Contract Performance and Evaluation

18.1 Changes in the contract resulted in large increase in the cost.	Check whether any changes were made in agreement in between i.e. before completion of period of agreement resulting in increase in cost of work and extra payment to contractor.
18.2 Complaints about quality received.	<ul style="list-style-type: none"> i) Verify inspection notes of CE/SE/EE from time to time to note the deviations recorded, if any. ii) Check whether any action was taken against supplier /contractor, if any compliant was received about quality of material received of work executed? iii) Check whether full payment was made even after receipt of complaints of quality of material received and work executed.
18.3 Changes made without adequate explanation.	Check whether any changes were made in items of work to be executed or material to be used without proper permission of higher authority or without obtaining proper justification from person responsible for

	suggesting such changes or persons who executed such changes.
18.4 Evidence of overcharging.	<ul style="list-style-type: none"> i) Select cases of overcharging and analyse the reasons for overcharging ii) Check whether proper permission from authority/sanction from higher authority/sanction from higher authority was obtained before making payment for overcharges bills.
18.5 Insufficient pre-audit of contractors payment.	<ul style="list-style-type: none"> i) Determine whether pre audit was conducted for a sample of bills paid. ii) Verify whether there was an evidence of pre-audit of the bills before making the payments.

19. Accounting and Accounting Record

19.1 Missing vouchers.	<ul style="list-style-type: none"> i) Check whether all the payments were supported by relevant vouchers. ii) Verify that the amount of any voucher is not less than the amount entered in the cash book. iii) Whether wanting vouchers were received subsequently and subjected to same checks if they were received in time.
<p>19.2 (i) Unreasonable delay in submission of “Schedule of settlement of account with treasuries” to AG.</p> <p>(ii) Persisting pendency of agreement between figures of cheques drawn and cheques encashed.</p> <p>(iii) Persisting pendency of agreement between amounts deposited into treasury and amounts acknowledged by the treasury.</p>	<ul style="list-style-type: none"> i) Check whether the passbooks were updated for the months showing the amount of cheques drawn and amounts of money deposited into treasury. ii) Reconcile the figures of cheques drawn from treasury and remittances acknowledged by treasury with entries in the Divisional Cash Book. iii) Check the reconciliation statements emerged out of the meeting of the Nodal Officers and TOs and adjustments made in the outstanding list of remittances and cheques. iv) Ascertain from the Bank Scroll/list of encashed cheques, whether items

	<p>shown as pending as unencashed cheques beyond their validity period (3 months after the month of issue) are still pending.</p> <p>v) Check whether time-barred cheques were cancelled after 3 months from the month of issue and their amounts written back in the accounts of the Division.</p> <p>vi) As a thumb rule, no remittances (i.e. deposits into Bank/Treasury) should be lying unacknowledged by the Treasury. Reconcile Receipts in the Cash Book with the challan copies and Pass Books.</p>
19.3 Certificate of entry (in Cash book and Deposit Register) in case of refund vouchers not seen.	<p>i) (To ensure that no double refund of deposit has been made), check in case of a sample refund vouchers whether the certificate in question was recorded on the refund vouchers.</p> <p>ii) Review the Cash book and Deposit Registers whether the entries were actually made against the original entries in these registers.</p>
19.4 Copies of documents were produced, instead of originals	Check whether payments to contractor/supplier were made on the bill without obtaining original documents.
19.5 Alterations and erasures seen.	<p>i) Check whether the orders of competent authority were obtained in support of the alterations/erasures.</p> <p>ii) Verify whether valid reasons were recorded for the alterations made.</p>
19.6 Unusual accounting entries	-do-
19.7 Discrepancies between control accounts and subsidy records.	Carry out a sample check of control totals with the figures recorded in the subsidiary records for their correctness.
19.8 Employees in sensitive posts not taking leave.	<p>i) Verify staff rotation policies in place, if any.</p> <p>ii) In cases of non transfer, check the validity of reasons offered.</p> <p>iii) Conduct an in-depth examination of a</p>

	selected key area of selected individuals not transferred for quite some time.
<p>Cash book</p> <p>19.9 Receipts as per money receipts book does not tally with amount indicated in the cash book.</p> <p>19.10 Self check amount and the amount indicated in the cash book do not agree.</p> <p>19.11 Abnormally high cash balance.</p> <p>19.12 Cash balance certificate not seen.</p>	<p>Trace all receipts as per money book receipt with the cash book.</p> <p>i) Tally amounts of all cheques issues with the amount entered in the cash book.</p> <p>ii) Trace entries of self cheque on receipt side of cash book.</p> <p>Review the cash balances maintained over a period of time and determine the reasons for the trend.</p> <p>i) Verify whether there is a system of certifying cash balances by DDO.</p> <p>ii) Trace the existing cash balance to the cash book.</p>
<p>Imprest Account</p> <p>19.13 Amount granted and retained when not needed as seen from the imprest account received after long intervals.</p> <p>19.14 Cash missing from the imprest.</p> <p>19.15 Account not submitted regularly before closure of monthly account.</p>	<p>i) Check whether the imprest account was closed every month before the due date for monthly closing of the Cash Book of the Division.</p> <p>ii) Compare the main Cash Book with imprest cash book to ensure that no money received on behalf of the Government was mixed up with the imprest cash and brought into imprest cash book.</p>
<p>Measurement book (MB)</p> <p>19.16 Events not recorded in chronological order.</p> <p>19.17 (Fictitious) measurements recorded prior to date of issue of MB.</p> <p>19.18 MB not maintained properly.</p>	<p>i) Trace the chronology of events recorded in the measurement books with those details available in the muster rolls.</p> <p>ii) Check the date of first record of measurements in the measurement book with the date of issue of MB.</p> <p>iii) Check if measurement is by Executive Engineer to the prescribed extent and register of check measurements maintained for that.</p>
<p>Running account bills</p> <p>19.19 Quantities do not tally with those in the estimates.</p> <p>19.20 Adjustment of advances not done.</p>	<p>i) Check quantities/rates with reference to estimates/tender.</p> <p>ii) Verify whether advance payments/secured advance were recovered promptly.</p> <p>iii) Verify whether analysis of part rates</p>

	<p>was given when work (item) was given when work (item) was executed partially.</p> <ul style="list-style-type: none"> iv) Verify whether consumption of material was as per standard rates. v) Verify whether hire changes of machineries were recovered correctly i.e. on daily/hourly basis and recovery was commensurate with quantity of work done. (check log books also) vi) Check whether justification for non execution/excess execution in respect of certain items was available. vii) Check whether % check measurements were exercised by E.E. before payment of bill.
<p>Material-at-site account (MAS) 19.21 Actual material balance did not tally with balance indicated in the work abstract. (according to the physical verification report) (a) Non-rendering of Material-at-site account by Sub Divisional Engineer to Divisional Engineer or Divisional Officer in the wake of transfer/demotion of the former. (b) Incomplete or absence of MAS Account with SDE.</p>	<ul style="list-style-type: none"> i) Cross check receipt and consumption of materials with stock accounts/bills of contractor. ii) Check balance with balances indicated in work abstract. iii) Verify whether balances were outstanding for long intervals/not consumed at all indicating unnecessary/much early issue of materials with the intention of utilization of budget provision. i) Cross verify of Stock Account, Work Abstracts with MAS. ii) Review the Handing Over Report of the SDE to check the MAS details.
<p>Contractor's ledger 19.22 Work remains to be executed even though advance was paid long back.</p>	<ul style="list-style-type: none"> i) Cross check balances with those in the Works Abstract under Contractors Other Transactions column. ii) Verify the correctness of calculation of amounts recoverable with reference to quantity issued/stipulated rate.
<p>Bin Cards 19.23 Quantities recorded in the bin cards and goods received sheets/indents do not tally.</p>	<ul style="list-style-type: none"> i) Cross verify whether quantities in bin cards were posted correctly from goods received sheets/indents. ii) Whether physical balances were verified periodically by EE/person other than storekeeper. iii) Cross verify balances with priced stores ledger.
<p>Remittance book 19.24 Documents supporting remittances not seen.</p>	<ul style="list-style-type: none"> i) Cross verify entries of remittance in the cash book. ii) Check whether entries were supported

	by acknowledgement from Treasury.
<p>Muster rolls</p> <p>19.25 The proportion of work indicated in the muster roll and indicated in the muster roll and the quantum of work as indicated in MBs do not go together.</p> <p>19.26 Departmental labour engaged for execution of contractor's share of work.</p> <p>19.27 Daily checking of attendance position not done.</p>	<p>i) Verify that work done is in proportion to the labour indicated in the muster roll.</p> <p>ii) Verify the nature of work for which the departmental labour was deployed.</p> <p>iii) Verify whether any wood work was over but not concrete work.</p> <p>iv) Verify whether wages paid were as per approved rates.</p> <p>v) Verify certificate in Part-II that 'work is not susceptible of measurements' is given incorrectly if measurements for work were rendered in MB for similar works.</p>

Appendix-H
(Para 16.7.2)

No. 126/Audit (AP)/1-2006

6 September 2006

To,

All Directors General (Audit)/Principal Accountants General (Audit)/Principal directors (Audit)/ Accountants General (Audit) (as per the mailing list)

Sir/Madam,

Sub : Standing Order or role of Audit in relation to cases of Fraud and Corruption

Examination of system for detection and prevention of fraud and corruption will henceforth be an integral part of all regularity audits and also of performance audits. Whenever it forms one of the audit (sub) objectives. The standing order in the annexes to this communication is issued in Super session of the existing instruction on the subject. As and when the need arises detailed guidelines will be issued. Some of the important points to be kept in view are as under:

(1) Corruption and fraud are generally interlinked. In fact corruption is a special type of fraud and treated as such in many jurisdictions. In any case audit teams/ officers should be well aware of the complex distinctions as well as correlation between the two. Appendix –A to the Annexes contains some illustrative (not exhaustive) types of fraud and corruption that the audit teams may come across.

Fraud examination

(2) Fraud examination is a part of normal auditing procedures. Fraud has a legal (criminal) connotation. Audit teams/officers do not make legal determinations of whether Fraud has actually occurred. Hence, audit teams/ officers can put red flags (an indication that further scrutiny of the items would be required) which need further investigation by appropriate agencies. When the evidence is clear, audit teams/officers can come to a conclusion about a suspected fraud and include it in their findings.

Respective responsibilities of management and audit

(3) The responsibility for the prevention and detection of Fraud and error rests primarily with the management of the audited entity through the implementation and continued operation of accounting and control systems designed to check Fraud. Audit must, however, evaluate and report on the adequacy of the systems in place and competence with which the management has discharged its responsibility in relation to prevention, detection, response and follow – up/remedial measures in relation to Fraud and corruption.

(4) During audit of financial statements, two types of intentional misstatements are relevant to the audit terms/officers, viz., misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Similar considerations apply in case of performance audits. In performance audits, while selecting themes and issues/sub-issues, the vulnerability to fraud and corruption should be given due consideration.

Professional skepticism

(5) Audit terms/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.

Fraud awareness at the audit planning stage

(6) The field offices should carry out independent risk assessment and prioritize their audit planning accordingly. The audit plans in relation to fraud and corruption should focus on high risk areas. Some of the common high risk areas (illustrative) are contracts of service/procurement, inventory and asset management sanctions/clearances, performance information, revenue receipts, cash management general expenditure, grants, financial statements, operating information, computerized environment, privatization of Government entities and any other areas involving public interface.

(7) While planning audit, the field Accountant General, etc. should assess the risk that fraud may cause to the financial statements to contain material misstatement or record material irregular transactions. Based on the risk assessment, the Accountants General should develop the audit objectives and design audit procedures so as to secure reasonable expectation of detecting the evaluating material misstatement and irregularities arising from fraud and corruption.

Vigilance about fraud at audit execution stage

(8) At the commencement of each audit, information about the fraud and corruption awareness, detection and prevention policy and related environment (including any instances of fraud and corruption noticed since last audit and action taken on such instances including strengthening of internal control system) should be collected from the audited entity misstatement.

(9) During the course of audit work, the audit teams/officers should be vigilant and seek explanations, if they come across possible fraud indicators. Some illustrative fraud indicators (red flag areas) are given in **Appendix-I** to the Annexure.

Audit evidence and documentation

(10) Any indication that an irregularity, illegal act, fraud or error may have occurred which could have a material effect on the audit finding/opinion should cause the audit team/officers to extend procedures to confirm or dispel such suspicious. Instructions regarding the illustrative procedures to be adopted are given in the Annexure. If the irregularities had a material effect on the accounts, suitable reporting and qualification in the audit opinion may be warranted. Audit should also recommend improvement in the control procedures to management.

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

(12) The audit teams / officers should check compliance with provisions of Rules 29, 33, 34, 37, and 38 of the General Financial Rules (GF Rs) 2017

(13) The audit teams / officers should clearly understand that the audit evidence obtained can be only persuasive and not conclusive. While reporting all cases of suspected or presumptive fraud or corruption, they should refrain from making any judgment regarding the existence of fraud or corruption. The evidence should also be capable of proving that the audit teams /officers have discharged their functions with reasonable care and due diligence.

Reporting and follow –up

(14) Reports of individual cases of suspected fraud / corruption should be confidentially addressed, in the first instance, to the controlling authority concerned, with the approval of Group Officers. More serious cases should also be confidentially reported to the Secretary of the Administrative Departments (where they are not the controlling officers) concerned and the investigative authorities like Central/State Vigilance commission, Lok Ayukta, etc. As applicable in the manner indicated in the Annexure either over the signature of the Accountant General or with his/her approval.

(15) Cases relating to suspected/presumptive fraud and corruption should be specially highlighted in the concerned Inspection Reports. Audit Notes etc. and also in the Audit Reports. All such cases should be printed in bold type.

(16) While forwarding the Bond Copy of the Audit Reports to Headquarters. The Accountant General should indicate in the forwarding letter the number of cases of fraud and corruption

included in Report together with the money value of the concerned paras. In the submission note of the file relating to the bond copy, the number of cases of suspected/presumptive fraud and corruption in the Report should be highlighted together with the money value of concerned paras.

(17) The draft of the annual post –audit report to the Chief Ministers should have a brief mention of issues relating to suspected fraud and corruption where such cases appear in the Audit Reports and the system put in place by the field As.G. etc. to monitor paras relating to fraud/corruption. In addition, all such cases should be taken up immediately after approval of the bond copy with appropriate authorities in the Union and State Governments, viz., Central/State Vigilance Commission .est.’s a follow-up. If such cases have been reported earlier by the AG, reference may be drawn to them with the additional information that these cases have been included in CAG’s Audit Report to the Parliament/Legislature.

Miscellaneous

(18) The Accountant General may require the Audit teams/officers to provide a Memorandum/Certificate of Assurance which will include, *inter alia*, examination of issues relating to fraud and corruption.

(19) The Accountant General should develop sector specific guidelines/checklists for audit of fraud and corruption in the audit of entities belonging to specific sectors (viz., health, education; works, etc.), for the guidance of the field staff deployed in such audits and furnish a copy of such guidelines/checklists to DG (Audit).

(20) The field offices should submit half-yearly reports on cases of material fraud and corruption noticed by them to the Headquarters Office or through the rationalized management information system, when introduced.

Yours faithfully,

**Sd/-
(Ajanta Dayalan)
Director General (Audit)**

Encl. As above.

No. 127/Audit (AP)/1-2004

6 September 2006

Copy to all Officers in Headquarters Office

**Sd/-
(Ajanta Dayalan)
Director General (Audit)**

Appendix-I
Illustrative fraud and corruption
in contracting for goods and services
(Para 16.19)

Bribery and Kickbacks – Money or any other form of reward or favour is exchanged between a public functionary and a provider of goods and services in order to obtain some benefit e.g. acceptance of substandard goods or obtaining unauthorized information.

Changes in Original Contracts –Changes are made in the original contract requiring flow of additional funds from the government to the contractor or supplier, which may affect the basis on which the contract was awarded to the contractor or supplier in the first instance. This may also involve front-loading of contract in the hope of increasing the price of the original contract through change orders or subsequent modifications to the contract.

Duplicate Payments -The contractor or supplier claims and receives payment for the same service or work done or goods supplied under the same or different contracts.

Collusive or Cartel Bidding – Contractors or suppliers form cartels to fix artificially high prices for goods and services supplied by them.

Conflict of Interest – Contracts are awarded on the basis of vested interests of the decision makers.

Defective Pricing – The contractor or supplier submits inflated invoices.

False Invoices - The contractor or supplier submits invoices for goods that have not been delivered or do not properly represent the quantity or quality of goods and services supplied or work done as per contracted specifications.

False Representations – The contractor falsifies the goods specifications or his ability to provide certain services.

Splitting of Purchases – The purchases of goods and services are split either to avoid open competition or having to seek the approval of higher authority.

Phantom Contractor – Purchases are made from a fake supplier or contractor.

Pilferage of Public Assets – Public funds are used to acquire goods for personal use or public assets pilfered by officials.

Tailored Specifications – Specifications and time limits are manipulated to favor a certain contractor or supplier.

Supply Orders – In excess of, or without establishment the requirement/ need and much ahead of actual requirement.

(Authority CAG letter No.126/Audit (AP)/1-2004 dated 6.9.2006)

Appendix-J

Some indicators (red flags) for possible fraud and corruption (illustrative) (Para 16.37)

Procurement and contracting of goods and services

Requirements defining stage:

- Inadequate needs analysis;
- Inadequate information about potential suppliers;
- Inadequate review of existing and required inventory;
- Unduly short supply period;
- Need analysis is product rather than needs oriented;
- Someone other than the user defines the user requirements; and
- Unwarranted involvement of senior officials.

Bidding and selection stage;

- The specifications are not clearly defined;
- A very limited number of offers is received;
- Documentation indicates unusual involvement of an official;
- Suspicion about conflict of interest;
- Evidence of early receipt of information by some contractors or suppliers ;
- Request for proposal is not properly advertised;
- Unusual handling of the bidding process;
- Evaluation criteria is not consistent for different offerors ;
- Exceptions to the tender deadlines;
- Change in the bids made after their formal receipt;
- Lowest responsive bidder is not selected;
- Contractor or supplier submits unrealistic bid indicating collusion or bid rotation;
- Unusual withdrawal of bids;
- Re-bid results identical to original bids;
- Successful contractors or suppliers use competitors as sub-contractors or sub-Suppliers; and
- Justification for single source procurement is inadequate, etc.

Contract performance and evaluation stage:

- Changes in a contract result in the large increase in the cost of goods and services;
- Changes made without adequate explanations;
- Unwarranted contract extension;
- Complaints about the quality of goods and services received;
- Inadequate inspections and quality assurance of goods and services received;
- Evidence of over charging and duplicate billings;
- Dubious invoices;
- Insufficient pre-audit of contractor payments;

- Contracts repeatedly awarded to one contractor; and
- Unduly high labour payments; etc.

Accounting records

- Missing vouchers;
- Production of photocopies of documents instead of originals;
- Alterations and erasures in accounting records;
- Any unusual accounting entries;
- Discrepancies between control accounts and subsidiary records;
- Discrepancies between predicted figures and actual figures during analytical review procedures; and
- Employees in sensitive posts not taking leave; etc.

Performance Information

- Performance information about delivery of goods/services, assets creation, etc. not supported by original documents and downstream data;
- Theoretical calculation not supported by actual measurements, muster rolls, inspection notes, quality reports, etc;
- Non-production of basic records, viz., asset register, muster roll, measurement books, etc.
- Non-availability of transparent evidence of expenditure and receipts into Government Account; and
- Inconsistency between financial and physical information about progress of scheme/work.

Note: These are only illustrative examples. Accountants General may please prepare a comprehensive list of ‘red flag’ items in audit of various Departments/sectors and establish procedures to ensure that such items are reckoned while planning the audits; transparently documented and evidence of addressing all such items and their treatment are recorded and retained.



Chapter-XVII

Drinking Water and Sanitation Department

17.01 The Drinking Water & Sanitation Department (DWSD) is under the control of Drinking Water & Sanitation Department. The Engineer-in Chief/ Chief Engineer, DWSD assisted by the Superintending Engineers will supervise all Drinking Water & Sanitation Department works, both of government and local authorities. The work of direct supervision has been allotted circle wise amongst the several Superintending Engineers of DW & S branch.

Powers of the Chief Engineer, Superintending Engineers and Executive Engineers of DW & S Department:

17.02 The Chief Engineer, Superintending Engineer of DWSD should exercise the same powers of the corresponding ranks of the officers of the Roads & Building Department vide Chapter III, Paragraphs 3.23 and Paragraphs 3.24 of this Manual (Delegation of Financial Powers).

17.03 The Superintending Engineer, DW & S Department has been delegated with all powers of a Superintending Engineer of PW Department. In regard to sanction of estimates, acceptance of tenders and contracts relating to water supply and sanitary works carried on by him on behalf of the PWD and executive and administrative purpose in general.

(Authority: Rule 292 of JPWD Code)

Audit Procedure

17.04 The expenditure incurred by the department should be audited in the same way as PW expenditure but the Accountant General (Audit) may simplify the details treating each case on its merit.

17.05 The procedure described in Rule 414 of BPWA Code as adopted Government of Jharkhand in respect of Deposit Work is equally applicable of Drinking water and Sanitation Division works to be executed by the DWSD on behalf of a local body such as Municipality etc. on a grant-in-aid system. As soon as the adjustment of grant-in-aid will appear in the account of the DW & S necessary advice should be sent to the local body concerned so that its book may be completed.

17.06 (a) The fee shall be payable for the preparation of plans and estimates by the Superintending Engineer, DW & S Circle, (b) for preparation of detailed plans and estimates according to estimate cost of work which is revise time to time by the circle.

Provided that when an existing survey on record of levels can be utilized but further work is required the fees charged for such works shall be reduced on the certificate of the Superintending Engineer, DW & S Circle to the existing survey or records of levels. Further, the fees payable under this clause shall be reduced by the amount paid under clause (b) for any preliminary project in respect of which detailed plans and estimates are subsequently prepared.

17.07 One half of the fees payable under clauses (a) and (b) of the rule shall be payable before the preliminary project of the detailed plans and estimates as the case may be.

17.08 When a preliminary or detailed estimate is revised, no fee shall be charged for such revision, if the cost of the estimate is revised merely in accordance with charged rates or prices, nor if the estimate is reduced shall any refund be made of any portion of the fee already paid. But

when the project itself is modified, the SE, DW & S Circle shall fix the fees payable for such modification. If the modified project is, in the opinion of the SE, DW & S Circle substantially a new project, the fee shall be the fee payable under this rule such fee being reduced in proportion to the extent to which in the opinion of the SE, DW & S Circle,. The original preliminary or final project can be utilized in the preparation of the modified project. Provided the modification is not due to any defect in the original scheme.

17.09 The fee shall be payable for the construction of works through the agency of the SE, DW & S Circle which is depends on total cost of works excluding cost of land. When the work is executed by the DW & S Circle the fee payable shall be added each month to the expenditure passing through the Divisional Accounts.

Work Charged Establishment

17.10 Same as in paragraph 5.40

17.11 Tools and plant required for non government works-The works cost of tools and plant required in connection with the maintenance of non Government work by the DWSD as a deposit work should be debited against the estimate for that work. The DWSD should not levy charges for tools and plant @ 1 ½ per cent if no departmental tools and plants utilized on the work.

17.12 Departmental charges- It has been decided that departmental charges such as establishment, Tools & Plant and Pensionary charges should be levied at the prescribed rate on works of other government carried out by the DW & S Divisions.

17.13. The distribution of establishment charges for preparation of a scheme on behalf of a body than a local body is also leviable at prescribed rate by the Department.

Jal Jeevan Mission (JJM) – A Centrally Sponsored Scheme

17.14 Background

The Central Government assistance to States for rural water supply began in 1972 with the launch of Accelerated Rural Water Supply Programme. It was renamed as National Rural Drinking Water Programme (NRDWP) in 2009, which is a centrally sponsored scheme with fund sharing between the Centre and the States. Under NRDWP, one of the objectives was to “enable all households to have access to and use safe & adequate drinking water within premises to the extent possible”. It was proposed to achieve the goal by 2030, coinciding with the United Nation’s Sustainable Development Goals. But now, it is has been planned to achieve the goal by 2024 through Jal Jeevan Mission (JJM).

17.15 Government of India has restructured and subsumed the ongoing National Rural Drinking Water Programme(NRDWP) into Jal Jeevan Mission (JJM) to provide Functional Household Tap Connection (FHTC) to every rural household i.e., Har Ghar Nal Se Jal (HGNSJ) by 2024.

17.16 The following kinds of works/ schemes are proposed to be taken up under JJM:

- i.) In-village water supply (PWS) infrastructure for tap water connection to every household; ii.) Reliable drinking water source development/ augmentation of existing sources;
- iii.) Transfer of water (multi-village scheme; where quantity & quality issues are there in the local water sources);

- iv.) Technological intervention for treatment to make water potable (where water quality is an issue, but quantity is sufficient);
- v.) Retrofitting of completed and ongoing piped water supply schemes to provide FHTC and raise the service level;
- vi.) Grey water management;
- vii.) Capacity building of various stakeholders and support activities to facilitate the implementation.

17.17 Service level delivery under JJM:

The goal of JJM is to provide functional household tap connection to every household with service level at the rate of 55 litres per capita per day.

17.18 The institutional mechanism under JJM:

i)	National level	National Jal Jeevan Mission
ii)	State level	State Water and Sanitation Mission (SWSM)
iii)	District level	District Water and Sanitation Mission (DWSM)
iv)	Gram Panchayat level	Paani Samiti/ Village Water & Sanitation Committee (VWSC)/ User group

17.19 Financial Implication and Funding Pattern under JJM: Total estimated cost of JJM is Rs. 3.60 Lakh Crore. The fund sharing pattern between Centre and State is 90:10 for Himalayan (Uttarakhand, Himachal Pradesh) and North-Eastern States, 100:0 for UTs and 50:50 for rest of the States.

17.20 Fund allocation criteria under JJM:

The notional allocation of fund among state has been modified by including the number of left-out household connections as additional criteria with 20% weightage and 10% weightage is given to rural population affected by water quality, thus allowing more fund for quality affected states. The states can utilise the funds under JJM for taking up schemes in quality affected areas on priority.

Criteria	As per NRDWP	As per JJM
Rural Population (as per last Census)	40%	30%
Rural SC and ST population (as per last Census)	10%	10%
States under DDP, DPAP, HADP and special category Hill States in terms of rural areas	40%	30%
Population (as per IMIS) residing in habitations affected by chemical contaminants including heavy metals (as on 31 st March of preceding financial year)	10%	10%
Weightage for balance individual household connections to be provided	Nil	20%

17.21 JJM would ensure functional household tap connection to every rural household as there is a demand that exists and people aspire for household piped water supply. It will significantly improve quality of life, particularly of women and children and assist in ODF-sustainability as water is important to sustain Swachh Bharat Mission's gains. In the rural areas, for developing in-village water supply infrastructure, water resource management, source strengthening/augmentation, distribution network, treatment plants, etc., unskilled, semi-skilled and skilled human resource will be required. Further there will be procurement of various materials for water supply systems. This will generate employment and boost the economy.

17.22 In order to instill the ‘sense of ownership’ among the community/ user groups for better implementation and long-term operation & maintenance of the scheme as well as bringing in transparency, GP/ VWSC/ Paani Samiti will implement the in-village piped water supply infrastructure and related source development. Communities will contribute towards 10% of the capital cost in cash and/or kind and/or labour in all villages except for hilly and forested areas/ NE and Himalayan States and villages having more than 50% SC and/or ST population, where community contribution would be 5% of the capital cost.

To assist the village community for in-village water resource management and water supply related infrastructure, NGOs, Voluntary Organizations/ women SHGs under NRLM/ SRLM, etc. will be associated as partners to facilitate the communities in awareness creation, capacity building, planning & implementing the schemes. They would also mobilise the local communities, firm up their aspirations and handhold them for resource mapping as participatory approach and decentralized planning will hold the key for long term sustainability and operation and maintenance of the system.

17.23 JJM will focus on integrated demand and supply side management of water at the local level, including creation of local infrastructure for source sustainability like rainwater harvesting, groundwater recharge and management of household wastewater for reuse would be undertaken in convergence with other Government programmes/ schemes.

17.24 For targeted delivery and monitoring of specific outcomes, every functional tap connection is to be linked with the Aadhar number of the head of the household subject to statutory provisions. Every asset created under JJM will be geo-tagged. States will carry out inspections by empanelled third party agencies for all infrastructures created under the JJM. GoI will carry out functionality assessment of schemes, based on which fund will be made available to States/ UTs based on their performance.

17.25 There are people who would like to contribute and donate voluntarily for water supply in the rural areas. To facilitate this, ‘Rashtriya Jal Jeevan Kosh’ will mobilize and accept donations/ contributions received from various sources to fund JJM.

**Central Rural Sanitation Programme (TOTAL SANITATION CAMPAIGN)
(Authority: Guidelines of the Central Rural Sanitation Programme and Total Sanitation Campaign by the DW and Sanitation-2011)**

Background

17.26 Individual Health and hygiene is largely dependent on adequate availability of drinking water and proper sanitation. There is, therefore, a direct relationship between water, sanitation and health. Consumption of unsafe drinking water, improper disposal of human excreta, improper environmental sanitation and lack of personal and food hygiene have been major causes of many diseases in developing countries. India is no exception to this. Prevailing High Infant Mortality Rate is also largely attributed to poor sanitation. It was in this context that the Central Rural Sanitation Programme (CRSP) was launched in 1986 primarily with the objective of improving the quality of life of the rural people and also to provide privacy and dignity to women.

17.27 The concept of sanitation was earlier limited to disposal of human excrete by cess pools, open ditches, pit latrines, bucket system etc. Today it connotes a comprehensive concept, which includes liquid and solid waste disposal, food hygiene, and personal, domestic as well as

environmental hygiene. Proper sanitation is important not only from the general health point of view but it has a vital role to play in our individual and social life too. Sanitation is one of the basic determinants of quality of life and human development index. Good sanitary practices prevent contamination of water and soil and thereby prevent diseases. The concept of sanitation was, therefore, expanded to include personal hygiene, home sanitation, safe water, garbage disposal, excreta disposal and waste water disposal.

17.28 A comprehensive Baseline Survey on Knowledge, Attitudes and Practices in rural water supply and sanitation was conducted during 1996-97 under the aegis of the Indian Institute of Mass Communication, which showed that 55% of those with private latrines were self-motivated. Only 2% of the respondents claimed the existence of subsidy as the major motivating factor, while 54% claimed to have gone in for sanitary latrines due to convenience and privacy. The study also showed that 51% of the respondents were willing to spend up to Rs.1000/- to acquire sanitary toilets.

17.29 Keeping in view the above facts, the CRSP was improved. In the new format, CRSP moves towards a “demand driven” approach. The revised approach in the Programme titled “Total Sanitation Campaign (TSC)” emphasizes more on Information, Education and Communication (IEC), Human Resource Development, Capacity Development activities to increase awareness among the rural people and – generation of demand for sanitary facilities. This will also enhance people’s capacity to choose appropriate options through alternate delivery mechanisms as per their economic condition. The Programme is being implemented with focus on community-led and people centred initiatives. Children play an effective role in absorbing and popularising new ideas and concepts. This Programme, therefore, intends to tap their potential as the most persuasive advocates of good sanitation practices in their own house-holds and in schools. The aim is also to provide separate urinals/toilets for boys and girls in all the schools/ Anganwadis in rural areas in the country.

Objectives

17.30 The main objectives of the TSC are as under:

- Bring about an improvement in the general quality of life in the rural areas.
- Accelerate sanitation coverage in rural areas.
- Generate felt demand for sanitation facilities through awareness creation and health education.
- Cover schools/ Anganwadis in rural areas with sanitation facilities and promote hygiene education and sanitary habits among students.
- Encourage cost effective and appropriate technologies for ecologically safe and sustainable sanitation.
- Eliminate open defecation to minimize risk of contamination of drinking water sources and food.
- Convert dry latrines to pour flush latrines, and eliminate manual scavenging practice, wherever in existence in rural areas.

Strategy

17.31 The strategy is to make the Programme 'community led' and 'people centered'. A "demand driven approach" is to be adopted with increased emphasis on awareness creation and demand generation for sanitary facilities in houses, schools and for cleaner environment. Alternate delivery mechanisms would be adopted to meet the community needs. Subsidy for

individual household latrine units has been replaced by incentive to the poorest of the poor households. Rural School Sanitation is a major component and an entry point for wider acceptance of sanitation by the rural people. Technology improvisations to meet the customer preferences and location specific intensive IEC Campaign involving Panchayati Raj Institutions, Co-operatives, Women Groups, Self Help Groups, NGOs etc. are also important components of the Strategy. The strategy addresses all sections of rural population to bring about the relevant behavioural changes for improved sanitation and hygiene practices and meet their sanitary hardware requirements in an affordable and accessible manner by offering a wide range of technological choices.

Implementation

17.32 Implementation of TSC is proposed on a project mode. A project proposal emanates from a district, is scrutinized by the State Government and transmitted to the Government of India (Department of Drinking Water Supply, Ministry of Rural Development). TSC is implemented in phases with start-up activities. Funds are made available for preliminary IEC work. The physical implementation gets oriented towards satisfying the felt-needs, wherein individual households choose from a options for their household latrines. The built-in flexibility in the menu of options gives the poor and the disadvantaged families' opportunity for subsequent upgradation depending upon their requirements and financial position. In the "campaign approach", while a synergistic interaction between the Government agencies and other stakeholders, intensive IEC and advocacy, with participation of NGOs/Panchayati Raj Institutions/resource organizations, take place to bring about the desired behavioural changes for relevant sanitation practices, provision of alternate delivery system, proper technical specifications, designs and quality of installations are also provided to effectively fulfill the generated demand for sanitary hardware.

17.33 The TSC is being implemented with a district as unit. The States/UTs are expected to draw up a TSC Project for the selected districts to claim GOI assistance with commitment of their support. The number of TSC projects in a state is allocated based on the demand raised by the States as well as their performance in implementation of the existing projects. Selection of the districts is done by the respective State/UT Governments. The number of project districts will be progressively increased to cover the entire rural area of the country. The TSC Project cycle in the Project Districts is expected to take about 4 years or less for implementation.

Components

17.34 The Programme components and activities for TSC implementation are as follows:

(a) Start-Up Activities:

The start-up activities include conducting of preliminary survey to assess the status of sanitation and hygiene practices, people's attitude and demand for improved sanitation, etc. with the aim to prepare the District TSC project proposals for seeking Government of India assistance. The start-up activities will also include conducting a Baseline Survey (BLS), preparation of Project Implementation Plan (PIP), initial orientation and training of key programme managers at the district level. The cost of – Start-up activities will be met fully by the Government of India assistance and, should not exceed 5 percent of the total project.

(b) IEC Activities:

Information, Education and Communication (IEC) are important components of the Programme. These intend to create demand for sanitary facilities in the rural areas for households, schools, Anganwadis, Balwadies and Community Sanitary Complexes. The activities carried out under this component should be area specific and should also involve all sections of the rural population, in a manner, where willingness of the people to construct latrines is generated. The motivator can be given suitable incentive from the funds earmarked for IEC. The incentive will be performance based i.e. in terms of motivating the number of households and schools/ Anganwadis to construct latrines and soakage pits and also use the same subsequently. The IEC should also focus on health and hygiene practices and environmental sanitation aspects. Under IEC, wall painting on a community building or hoardings should display the details of activities undertaken in that Panchayat. Further, audio/ video clippings in AIR, Doordarshan and cable TVs may be screened for demand generation. IEC funding will be in the ratio of 80:20 between GOI and the State Governments and the total IEC cost should not be less than 15 per cent of the project. Each project district should prepare a detailed IEC action plan with defined strategies to reach all sections of the community. The aim of such a communication plan is to motivate rural people to adopt hygiene behavior as a way of life and thereby develop and maintain all facilities created under the programme.

Funds available under IEC may be used for imparting hygiene education to the people as well as children in schools.

(c) Rural Sanitary Marts and Production Centres:

The Rural Sanitary Mart is an outlet dealing with the materials required for the construction of not only sanitary latrines but also other sanitary facilities required for individuals, families and the environment in the rural areas. RSM should necessarily have those items, which are required as a part of the sanitation package. It is a commercial venture with a social objective. The main aim of having a RSM is to provide materials, services and guidance needed for constructing different types of latrines and other sanitary facilities, which are technologically and financially suitable to the area. Production Centres are the means to improve production of cost effective affordable sanitary materials. The Production Centres/Rural Sanitary Marts could be opened and operated by NGOs/ SHGs/ women Organizations/Panchayats. For this purpose, less than 5 percent (subject to a maximum of Rs. 35.00 lakh) of the total Government outlay has been earmarked. Funding for this component will be in the ratio of 80:20 between the GOI and the State Government. Further, under the TSC project, maximum amount of Rs.3.5 lakh per Rural Sanitary Mart/ Production Centre can be provided. The fund may be provided to the NGOs/ Panchayats/ other agencies for setting up of RSMs/PCs. The fund can be provided for construction of shed, training of masons and also as a revolving fund. After RSM/ PC attain a level of sustainability, the revolving fund should be refunded to the District Implementing Agency. The District Implementing agency should identify key training institutions/ Resource persons to train the Mart/ Production Centre Managers. They should also have a Memorandum of Understanding with the RSMs/PCs and, a system of joint monitoring evolved to ensure that the RSMs & PCs are successful as an enterprise and, function in accordance with the objectives of the Programme.

(d) Construction of Individual Household Latrines:

A duly completed household sanitary latrine shall comprise of a Basic Low Cost Unit (without the super structure). All existing dry latrines in rural areas should be converted to pour flush latrines. The programme is aimed to cover all the rural families. Incentive as provided under the scheme may be extended to Below Poverty Line families, if the same is considered necessary for

full involvement of the community. The construction of household toilets should be undertaken by the BPL household itself and on completion and use of the toilet by the BPL household, the cash incentive can be given to the BPL household in recognition of its achievement.

The incentive given by the Central Government will continue to be admissible with reference to the cost of the basic low cost unit and in no case will the overall quantum of Central incentive exceed the admissible amount.

It is assumed that A.P.L families, through motivation, will take up construction of the house hold latrines on their own. The IEC activities, will, however, cover all the families in the district, without exceptions.

Construction of dry latrines is not permitted in the rural areas. The existing dry latrines, if any, should be converted to pour flush latrines and the unit cost and sharing pattern shall be identical to that of construction of individual house hold latrines.

(e) Community Sanitary Complex:

Community Sanitary Complex is an important component of the TSC .These Complexes can be set up in a place in the village acceptable to women/men/ landless families and accessible to them. The maintenance of such complexes is very essential for which Gram Panchayat should own the ultimate responsibility or make alternative arrangements at the village level. Maximum unit cost prescribed for a community complex is upto Rs 2 lakhs. However, it will be approved by the National Scheme Sanctioning Committee based on the detailed design and estimates. Sharing pattern amongst Central Government, State Government and the community is in the ratio of 60:30:10. The community contribution, however, can be made by the Panchayat. There will not be any upper ceiling for expenditure on this item. However, total expenditure proposed on Community Sanitary Complex and Individual Household Toilets should be within the ceiling of 60 percent of the total Government outlay. Ordinarily such complexes should be constructed only when there is lack of space in the village for construction of household toilets and the community owns up the responsibility of their operation and maintenance. The ultimate aim is to ensure construction of maximum Individual House-hold Latrines (IHHL) and construction of community complexes will be restricted to only when IHHLs cannot be constructed, for whatever reason, and also teach the community of “Hygiene practices”. Such complexes can also be made at public places, markets, etc. where large scale congregation of people takes place.

(f) School Sanitation & Hygiene Education:

Children are more receptive to new ideas and schools/Anganwadis are appropriate institutions for changing the behaviour, mindset and habits of children from open defecation to the use of lavatory through motivation and education. The experience gained by children through use of toilets in school and sanitation education imparted by teachers would reach home and would also influence parents to adopt good sanitary habits. School Sanitation, therefore, forms an integral part of every TSC Project. Toilets in all types of Government Schools i.e. Primary, Upper Primary, Secondary and Higher Secondary and Anganwadis should be constructed. Emphasis should be given on toilets for Girls in Schools. The Central assistance per unit will be restricted to 70 percent for a unit cost of Rs.35,000/- Separate toilets for girls and boys should be provided which are treated as two separate units and each unit is entitled to Central assistance. The number of toilet units to be constructed should be adequate to meet the requirements of the school as per the strength of the students attending the school. Funding for School Sanitation in a TSC Project is provided by the Central Government, State Government and Parent Teachers in

the ratio of 60:30:10. State/UT Governments, Parent-Teachers Association and Panchayats are free to contribute from their own resources over and above the prescribed amount.

In order to create awareness in the schools, it is essential that hygiene education is imparted to the children on all aspects of hygiene. For this purpose, at least one teacher in each school must be trained in hygiene education who in turn should train the children through interesting activities and community projects that emphasize hygiene behaviour. The expenditure for this purpose can be met from the IEC fund earmarked for the project.

Anganwadi Toilets :

In order to change the behaviour of the children from very early stage in life, it is essential that Anganwadis are used as a platform of behaviour change of the children as well as the mothers attending the Anganwadis. For this purpose each anganwadi should be provided with a baby friendly toilet. One toilet of unit cost upto Rs 8,000 can be constructed for each Anganwadi or Balwadi in the rural areas where incentive to be given by Government of India will be restricted to Rs 5,600. Additional expenses can be met by the State Government or the Panchayats. Since there are a large number of Anganwadis operating from private houses, following strategy may be adopted; (a) In all the Anganwadis, which are in Government buildings, baby friendly toilets should be constructed from out of the TSC funds to the extent laid down. (b) Those Anganwadis, which are in private buildings, the owner must be asked to construct the toilet as per design, and, he/she may be allowed to charge enhanced rent for the building to recover the cost of construction. Alternatively, the toilet may be constructed under the TSC and, suitable deductions made from the monthly rental paid to the owner to recover the cost over a period of time. (c) For new buildings, which are going to be hired for Anganwadis, buildings having baby friendly toilet facility only should be hired.

(g) Administrative Charges:

The Administrative Charges include money spent on training, salary of temporary staff deployed during project period, support services, fuel charges, vehicle hire charges, stationery, monitoring & evaluation of TSC project. However, in any case no additional posts shall be created nor separate vehicle purchased for the implementation of the TSC project. But in order to implement the projects professionally, specialist consultants from the fields of Communication, Human Resource Development, School sanitation & Hygiene education and Monitoring may be hired for the project period. The fees of the consultants may be paid from the administrative charges. Purchase of one computer with accessories is permissible per district.

The Following items of expenses are specifically prohibited under “administrative expenses”

- a. Purchase of vehicles
- b. Purchase of land and buildings
- c. Construction of official buildings and rest houses (this excludes toilet units needed for TSC projects)
- d. Purchase of office equipments
- e. Expenses for any political party and religious organizations
- f. Expenses for gifts and donations
- g. Purchase of cell phones
- h. Transfer of funds to the State level institutions for meeting administrative expenses.

National Scheme Sanctioning Committee

17.35 National Scheme Sanctioning Committee (NSSC) was constituted to approve the project proposals for the select districts, as, received from the State/UT Governments duly approved by the State Scheme Sanctioning Committee (SSCC). There are seven members in the NSSC. The constitution of the NSSC are as follows:

- I. Secretary, Department of DW & Sanitation, - Chairperson
- II. Additional Secretary & Financial Advisor – Member
- III. Four Non-official experts in the field of rural sanitation – Members
- IV. Joint Secretary in-charge of Department of Elementary Education, Ministry of HRD
- V. Joint Secretary in-charge of NRHM
- VI. Joint Secretary in-charge of Women and Child Development
- VII. Joint Secretary in-charge of Sanitation, Department of DW and Sanitation- Member secretary

Special Provisions

17.36 For adequate coverage of the weaker sections and disadvantaged sections of the society, while selecting the districts, blocks, villages and demand for sanitary latrines, preference should be given to the Scheduled Castes and Scheduled Tribes. Out of the total incentive earmarked for the construction of household latrines, a minimum of 25% should be earmarked for the individual households from Scheduled Castes and Scheduled Tribes.

17.37 Further, a 3% reservation of incentive for individual toilets for BPL households shall be provided to the households with disabled persons. It may also be noted that while constructing toilets in schools, and other institutions, the construction should be made in such a way that the facilities can also be used by the disabled students and persons.

Implementing Agencies

17.38 Implementation of the Total Sanitation Campaign requires large scale social mobilization so its implementation at the District level should be done by the Zilla Panchayat. However, in case Zilla Panchayat is not in existence, District Water and Sanitation Mission should implement the project. However, both the TSC and Swajaldhara should be implemented by the same agency. The line departments will play the catalytic role in implementation.

17.39 At the state level, State Government should set up an appropriate institutional arrangement to monitor the projects and facilitate the districts in implementing TSC. However, in states where Water supply & sanitation are handled by two different departments, separate institutional set up may also be made subject to the condition that officials handling water supply should be actively associated with this institutional set up. Specialist consultants from the fields of Communication, Human Resource Development, Monitoring and School sanitation & hygiene education can be engaged at the state level. The expenses towards engaging these consultants will be borne by the GOI and the States through the funding provided to WSSOs under NRDWP or as per CCDU guidelines separately issued by the Department of Drinking Water and Sanitation.

Role Of Panchayati Raj Institutions

17.40 As per the Constitution 73rd Amendment Act, 1992, Sanitation is included in the 11th Schedule. Accordingly, Gram Panchayats have a pivotal role in the implementation of Total Sanitation Campaign. The TSC will be implemented by the Panchayati Raj Institutions at all levels. They will carry out the social mobilisation for the construction of toilets and also maintain the clean environment by way of safe disposal of wastes. Community Complexes constructed under the TSC will be maintained by the Panchayats/Voluntary Organisations/Charitable Trusts. Panchayats can also contribute from their own resources for School Sanitation over and above the prescribed amount. They will act as the custodian of the assets such as the Community Complexes, environmental components, drainage etc. constructed under the TSC. Panchayats can also open and operate the Production Centres/Rural Sanitary Marts.

Role Of Non Governmental Organisations (NGOs)

17.41 NGOs have an important role in the implementation of TSC in the rural areas. They have to be actively involved in IEC (software) activities as well as in hardware activities. Their services are required to be utilised not only for bringing about awareness among the rural people for the need of rural sanitation but also ensuring that they actually make use of the sanitary latrines. NGOs can also open and operate Production Centres and Rural Sanitary Marts. NGOs may also be engaged to conduct base line surveys and PRAs specifically to determine key behaviours and perceptions regarding sanitation, hygiene, water use, O&M, etc. Selection of NGOs should be done following a transparent criterion.

Project Funding

17.42 The Table below gives the percentage share of the allocation (i.e. the total approved TSC project cost) for different components of a TSC Project, the GOI/State share and the beneficiary contribution towards each components. In the case of Union Territories, the State share under the TSC will be borne by the Govt. of India.

Table
TSC Component-Wise earmarking and funding pattern

S.N.	Component	Amount earmarked as percent of the TSC project outlay	Contribution percent		
			GOI	State	Beneficiary/ Household/ Community
a.	Start-up Activities (Preliminary Surveys, Publicity etc.)	Less than 5% (subject to a ceiling of Rs. 20 lakh per district)	100	0	0
a.	IEC, Start-up Activities, Including Motivational Awareness and Educative Campaigns, Advocacy etc.	Up to 15%	80	20	0
b.	Alternate Delivery Mechanism (PCs/RSMs)	Up to 5% (Subject to a maximum of Rs. 35 Lakh per district and additional Rs.50 Lakhs as revolving fund for group lending activity)	80	20	0
	(i) Individual Latrines for BPL/				

c.	disabled house holds		63	28	09
	(ii) Community Sanitary Complexes	Actual amount required for full coverage	60	30	10
d	Individual house hold latrines for APL	Nil	0	0	100
e.	Institutional Toilets including School and Anganwadi Sanitation Including Anganwadis (Hardware and Support Services)	Actual amount required for full coverage	70	30	0
f.	Administrative charges, including training, staff, support services, Monitoring & Evaluation etc.	Less than 5%	80	20	0
g.	Solid/Liquid Waste Management	Up to 10 %	60	20	20

17.43 In case the amount sought for / utilized for under any component of the TSC is less than the earmarked percentage, the balance percent will be adjusted for construction of individual household latrines. In no case the percent earmarked for components relating to start-up activities and administrative charges should exceed 5 percent of the project outlay.

Release Of Funds

17.44 The funds under TSC will be released to the State Water and Sanitation Missions of the respective states. The SWSM will operate a Savings account in any Nationalized Bank except in the case where State Government/UT justifies and seeks prior approval of the Central Government to open account in any other bank in the name of State Water Sanitation Mission dedicated for all transactions relating to TSC including Central share, State share, beneficiary share or any other receipt. The details of the TSC bank account has to be communicated to DDWS along with the name of the bank, IFSC Code and A/c. No. etc.

On the basis of eligibility of districts decided in the PAC meeting and the total available funds in the budget, a tentative allocation to all the States will be worked out for release of funds to respective SWSMs. The total allocation so worked out will be released to the States preferably in two installments. First installment of 50 % of the allocation thus worked out shall be released in April-May. The States which have provided all the requisite documents for release of second installment during the previous years will only be release with the funds in the first installment on the basis of eligibility of the State for release during the year and the UCs etc. submitted during the previous year.

The utilization certificates along with the audited statements of accounts duly consolidating the audited statements at the state level received from the Districts to DDWS for funds released in the previous financial year as applicable would become due at the time of the release of second installment of the funds during the current year. The second installment of funds as approved by plan approval committee will be released on fulfillment of the following conditions:

The second installment of funds as approved by Plan approval committee will be released on fulfillment of the following conditions:

- Receipt of a specific proposal from the State/ UT with recommendation of the State Government with district wise physical and financial progress reports;
- Commitment of the state to release of proportionate State share into the SWSM account within 15 days of release of central share;

- Utilization of 60 % of the available resources for the eligible district, including the State share and interests accrued thereon;
- Audited statements of Accounts of TSC up to the year preceding the previous financial year;
- Receipt of utilization certificate in the prescribed Proforma signed by the Member Secretary of SWSM, for the previous financial year;
- Certificate in the prescribed proforma stating that the Districts to which funds are proposed to be released have complied with the conditions of release and Audit Reports, Utilization Certificates and Progress Reports have been received and scrutinized;
- Any other conditions that may be imposed from time to time.

Utilisation Of Interest Earned On Project Funds

17.45 The TSC funds (Central, State and Beneficiary/Panchayat) should be kept in a bank account. The interest accrued on TSC funds shall be treated as part of the TSC resources. The District Implementing Agency may utilize the interest accrued on TSC funds for the purpose of additional IEC activities, however not exceeding the financial limits kept under the programme, and for providing additional hardware infrastructure in the TSC district as per the Guidelines. The District Implementing Agency has to submit utilisation of interest accrued on TSC funds along with claim/s for subsequent installments and it should be reflected in the Utilisation Certificates.

Maintenance

17.46 It is essential to train the community, particularly all the members of the family in the proper upkeep and maintenance of the sanitation facilities created. The maintenance expenses of individual household sanitary latrines should be met by the households. The maintenance cost of community sanitary complexes may be met by the Panchayats/voluntary organisations/charitable trusts/Self Help Groups. Institutions/Organisations operating and maintaining the sanitary complexes may charge suitable user charges to meet the operation and maintenance cost fully. The concerned departments should provide adequate funds for maintenance of school/Anganwadi toilets.

Inspections

17.47 Monitoring through regular field inspections by officers from the State level and the district levels is essential for the effective implementation of the Programme. The inspection should be to check and ensure that construction work has been done in accordance with the norms, the community has been involved in construction, the latrines are not polluting the water sources and also to check whether there has been correct selection of beneficiaries and proper use of latrines after construction. Such inspection should ensure that the sanitary latrines are not used for any other purpose. Inspection should be done to check whether TSC information of a Gram Panchayat has been displayed transparently in Gram Panchayat (by wall painting or special hoarding). Project authorities should constitute a team of experts in the district who should review the implementation in different blocks frequently. Such review should be held at least once a quarter. Similarly the State Government should conduct review of projects in each

district once a quarter. In addition, Government of India will send its review missions to the states periodically to assess the quality of implementation.

Revision In Project

17.48 It is expected that after conducting the Baseline survey, the exact requirement for different category of hardware may undergo change which will necessitate revision in the project. Such revision in the project will be allowed after proper scrutiny; and the project recast suitably by the Department of Drinking Water Supply. The matter will be placed before the National Scheme Sanctioning Committee (NSSC) for ratification.

Reports

17.49 The Department of Drinking Water and Sanitation has developed an online monitoring system for TSC. All TSC project districts are to submit the physical and financial progress reports through this online software for which user-id and password have been generated and communicated by DDWS-NIC cell. Progress reports in hard copy are discouraged. An Annual Performance Report only is to be submitted (Appendix-I)

Monitoring of the TSC project should be carried out at all levels. Block PRI and Block level officials must review progress in each Gram Panchayat. The CEO of the District Panchayat/ Secretary of the DWSC must review the progress of the project with Block Officials on a monthly basis. Similarly, Secretary in-charge of rural sanitation in the state must review progress with the District Officials on a quarterly basis.

Evaluation

17.50 The States/UTs should conduct periodical Evaluation Studies on the implementation of the TSC. Evaluation studies may be got conducted by the reputed Institutions and Organisations. Copies of the reports of these evaluation studies conducted by the States/UTs should be furnished to the Government of India. Remedial action should be taken by the States/UTs on the basis of the observations made in these evaluation studies and also in the Concurrent Evaluation conducted by or on behalf of the Government of India. The cost of such studies can be charged to the HRD component of the TSC.

17.51 For a group of TSC Projects in State(s), implementation progress review may be organised by the Government of India . A multi agency team of officers/professionals may undertake the review.

Nirmal Gram Puraskar

Authority:Drinking and water sanitation Dept. website)

17.52 Government of India (GOI) has been promoting sanitation coverage in a campaign mode to ensure better health and quality of life for people in rural India. To add vigour to its implementation, GOI launched an award based Incentive Scheme for fully sanitized and open defecation free Gram Panchayats, Blocks, Districts and States called “Nirmal Gram Puraskar” (NGP) in October 2003 and gave away the first awards in 2005 as a component of its flagship scheme Total Sanitation Campaign (TSC). Nirmal Gram Puraskar till 2011 was given by

Ministry of Drinking Water and Sanitation(MoDWS), Government of India at all levels of PRIs that is Gram Panchayat, Block Panchayat and district Panchayat.

It has now been decided that with the transition to Nirmal Bharat Abhiyan (NBA), selection of Gram Panchayats to award Nirmal Gram Puraskar from the year 2012 shall be taken up by the States, while selection of the Blocks and District Panchayats shall continue to be with the Centre. These guidelines have accordingly been formulated.

(a) Eligibility:

- (i) Gram Panchayats, Blocks and Districts, which achieve 100% sanitation coverage in terms of (a) 100% sanitation coverage of individual households, (b) 100% school sanitation coverage (c) free from open defecation, dry latrines and manual scavenging, and (d) clean environment maintenance.
- (ii) Individuals and organisations, who have been the driving force for effecting full sanitation coverage in the respective geographical area.

Selection Procedure:

The general procedure for identifying 100% sanitised blocks and districts will be based on the following principles:

- (i) State Government will identify and select Gram Panchayats, which are fully covered and conform to the eligibility criteria indicated in above para. After selection they will send the report to the Government of India.
- (ii) For districts, blocks and Panchayats, the Government of India may engage independent evaluator(s) or Multi-disciplinary Team(s) to assess the status of full sanitation coverage of the Gram Panchayats, Blocks and Districts.
- (iii) There will be a Committee on Nirmal Gram Puraskar constituted by this Department to draw up criteria for annual selection of Gram Panchayats, Blocks, Districts, individuals and organisations for the Puraskar.

(b) How the incentive can be used:

The incentive for Panchayati Raj Institutions can be used for improving and maintaining sanitation facilities in their respective areas. The focus should be on solid and liquid waste disposal, drainage facilities and maintenance of sanitation standard in the PRI area.

Research

17.53 Research Institutes, organizations and NGOs with proven track record in the areas of Sanitation and National/State level institutions involved in the research related to the issue of Health, Hygiene, Water Supply and Sanitation should be involved to study the present technology of human excreta and waste disposal systems in the rural areas. The research outcome should provide an affordable low cost effective technology to suit the requirements of different geo-hydrological conditions for ecologically sustainable long term solution for disposal of wastes. Government of India will be organizing such studies. However, the states may also take up such studies for improving the content of the programme. The cost thereto can be charged to the HRD component of the project. In case of shortage of funds, additional support for such endeavours can be obtained from the Government of India.

Annual Audit

17.54 The State Implementing Agency and the District Implementing Agency should get the accounts audited annually by a Chartered Accountant and submit the report to the State Government and Government of India. Further, District Implementing Agency should furnish audited accounts while filing claims for the 2nd and subsequent installments.

Swajal Yojana

17.55 Under the National Rural Drinking Water Programme, the Ministry in February 2018 has initiated a project in the name of “Swajal” that is designed as a demand driven and community centred program to provide sustainable access to drinking water to people in rural areas.

17.56 Vision

Community-led drinking water projects to be called ‘Swajal’ aiming at providing sustainable and adequate drinking water in an integrated manner to the rural masses. It is envisaged that the State government in partnership with rural communities; shall plan, design, construct, operate and maintain their water supply and sanitation schemes; so that they get potable water and attain health and hygiene benefits; the State Government and its sector institutions shall act as supporter, facilitator and co-financier and as per need shall provide technical assistance, training and cater for bigger construction works and sectoral contingencies.

17.57 Scope of coverage

Initially “Swajal” scheme was launched in February 2018 as a pilot scheme in six states of Bihar, Madhya Pradesh, Maharashtra, Rajasthan, Uttar Pradesh and Uttarakhand.

The Scheme has been extended to all the 117 Aspirational Districts spread over 28 States. These Districts have only 25% of Piped Water Supply (PWS) habitations against the national average of 44%. Thus, there is a large scope for expansion of PWS through Swajal in these districts.

17.58 Rationale of the Swajal Project

The demonstrated success of reform in rural water supply and sanitation sector based on demand driven approaches has contributed a lot to the replication of such models in other states, leading to the formulation of a central government level program for mainstreaming Swajal principles countrywide. The lessons learnt from earlier models based on demand driven and community centred principles include, but not limited to:

- Partnership between village communities, NGOs and the government as the facilitator and co-financing has worked successfully.
- The possibility of misappropriating and misusing the funds becomes minimal if transparency at each stage is adhered and monitored by stakeholders.
- Empowerment of PRIs is a viable and sustainable option for scaling up the decentralized service delivery model.
- The change from a supply based model to demand based model requires a new mind set and investment at different levels for acceptance of the new model.

- Good facilitation and appropriate techniques have to be put in place in community management model.
- Some form of external support to communities is imperative to ensure long term sustainability;

17.59 Objective

To provide de-centralised, preferably solar energy based piped water supply in 117 aspirational districts through community designed, implemented, maintained and safely managed single village water supply scheme. The programme would also sustain the ODF status.

17.60 Swachh Bharat Mission

- SBM is intended at accelerating the efforts to achieve universal sanitation coverage.
- It aims at achieving Open Defecation Free (ODF) nation and a Swachh Bharat (Clean India) by 2nd Oct, 2019, the 150th anniversary of Mahatma Gandhi.
- SBM is being implemented by the Ministry of Urban Development in Urban areas and by the Ministry of Drinking Water and Sanitation in Rural areas.

17.61 Objectives

1. Elimination of open defecation
2. Eradication of Manual Scavenging
3. Modern and Scientific Municipal Solid Waste Management
4. To effect behavioral change regarding healthy sanitation practices
5. Generate awareness about sanitation and its linkage with public health
6. Capacity Augmentation for ULB's
7. Creating an enabling environment for private sector participation.

17.62 Components

1. Household toilets, including conversion of insanitary latrines into pour-flush latrines;
 2. Community toilets
 3. Public toilets
 4. Solid waste management
 5. Public Awareness and IEC (Information, Education and Communication).
- **Implementation** – Behaviour change is the primary focus and fundamental tool for achievement of ODF outcomes.
 - This is carried out through the Ministry's focused Information, Education and Communication (IEC) programme.
 - It also promotes gender sensitive information, behaviour change guidelines and various mass education activities.

- **Funding** – States will contribute a minimum of 25% funds towards all components to match 75% Central Share. This will be 10% in the case of North East and special category States.

17.63 Swachh Manch

1. It is a web-based platform which aims to bring together every stakeholder contributing to the Swachh Bharat Mission under a common platform.
2. It will allow stakeholders to create/invite/participate in volunteering opportunities around neighborhoods.
3. It will enable uploads of pictorial evidence of citizens and organizations participating in the initiatives as acknowledgement of their efforts and contributions to the cause of ‘Swachhata’.
4. It will also be integrated with the existing Swachhata App to act as a citizens’ grievance redressal platform.
5. It is going to be launched as part of Swachh Survekshan 2019.

17.64 SBM ODF Plus and ODF Plus Plus Protocol

1. Under the Swachh Bharat Mission (Urban), urban areas of 18 states, and a total of 3,223 cities have become Open Defecation Free (ODF), and 2,712 cities among them have been certified as ODF through an independent third party.
2. To make ODF achievements sustainable and address the issue of holistic sanitation, there is a need to address the entire sanitation value chain.
3. SBM ODF Plus (ODF+) & ODF Plus Plus (ODF++) are geared towards achieving this objective.
4. The SBM ODF Plus (ODF+) protocol focuses on sustaining community/ public toilet usage by ensuring their functionality, cleanliness and maintenance.
5. The SBM ODF Plus Plus (ODF++) will focus on achieving sanitation sustainability by addressing complete sanitation value chain, including safe containment, processing and disposal of fecal sludge and septage.



Chapter XVIII

Power and Energy

18.01 The responsibility of the Organisation and execution of electrical works in the state now mainly devolves upon the Jharkhand State Electricity Board with effect from 15.11.2000. The Chief Electrical Engineer, Power and Electricity Department are now entrusted with the duty of execution of electrical works of the government buildings only.

Powers of the Chief Electrical Engineer

18.02 The Chief Electrical Engineer, Power and Electricity enjoy the same powers as other Chief Engineers. Details have already been given in Chapter III of this Manual.

As Chief Electrical Engineer, he will advise the state government on all electrical questions and inspects all works as necessary. He is also responsible for all government electrical works and installations in the state except those for which special arrangements are made under the orders of the state government.

All officers should refer to him direct for matters connected with electrical works in government buildings for opinion and advice. In such cases, funds remain at the disposal of the Chief Engineer Building Construction Department (BCD) and all allotments are made by him. The Chief Electrical Engineer accords Administrative Approval for the work but the actual execution of the work depends on the availability of funds from the building department.

18.03 The Chief Engineer, Superintending Engineer and Executive Engineer (Electrical) enjoy the same power as officers of the corresponding rank of the BCD. Details have already been given in Chapter III of this Manual.

18.04 Execution of works – As soon as an estimate is sanctioned and funds are allotted, the Electrical Executive Engineers concerned will arrange for the execution of the work which will be carried out under the order and supervision of the Electrical Superintending Engineer.

Before commencement of any work the electrical Engineer or his subordinate should go through the building with the Executive Engineer, or his representative and indicate exactly where he wants the wiring fixed and holes made. The Executive Engineer can then point out if there are any structural objections. Any point in dispute will be decided by the Superintending Engineer.

18.05 Completion Plans and certificate-Completion plans and certificates will be prepared in the Electrical Engineers office and submitted to the Chief Electrical Engineer direct till such time the electrical works circle is formed.

18.06 The Electrical Executive Engineers of two works (i) Electric Works Division Ranchi and (ii) Electric Works Division Dhanbad will only be prepared; in offices and submitted to the Accountant General (A & E) direct like other P.W Executive Engineers Division.

They will be required to submit report and returns as required by the Executive Engineer so as they affect their works. The stock limit of Electrical Division is fixed by the Chief Electrical Engineer under rule 162 of Bihar Financial Rules. The recovery of rents of energy consumed when supply is made by Government directly or indirectly through the agency of any private or

public body and for electric installation will be made by the Executive Engineer concerned under the rules in force from data furnished by the Electrical Engineers

As soon as possible after the completion of work, the Electrical Engineer will intimate to the Executive Engineer concerned the capital cost of the installation and the date from which recovery of rent should commence.

18.07 Rights and duties; of the owner of the Building (State Government)-

- (a) To lay and maintain the supply levies which will be the property of the State Government who will bear the cost of maintenance.
- (b) To erect and maintain the internal installation the house and house service lines
- (c) Before any work the use of energy in the building is commenced the P.W.D. to give notice to the Engineering Service Works authorities and obtain their concurrence.

18.08 Inspection of lightening conductors on buildings belonging to the Government of Jharkhand

- (i) All plans and estimates for the installation of lightening conductors on building belonging to the Government of Jharkhand should be prepared by the Executive Engineer concerned in the first instance and forwarded to the Electrical Engineer for checks scrutiny and approval
- (ii) The installation work should also be carried out by the E.E. concerned but it should be electrically tested and passed by the Electrical Engineer

18.09 Procedure of maintaining certain accounts , registers in connection with repair works-With a view to curtail labour and effect reduction of work in the Electrical Works Division in particular, the State Government have made certain modification in the procedure of maintaining certain accounts, registers in connection with repair works of that Division. Repair works the Division will henceforth be accounted for in accordance with the procedure laid down in the B.P.W.A code

18.10 Administrative Approval and Technical Sanction

Further, Paragraph 291, Paragraph 292, Paragraph 293 and Paragraph 294 of the JPWD code 2012 provide for details of powers of Chief Electrical Engineer, Electrical Superintending Engineer and Electrical Executive Engineer for according Administrative Approval and Technical Sanction:



Chapter XIX

Audit of Monthly Accounts and Related Records

Audit Objectives and Scope

19.1 The audit of monthly accounts and the schedules relating to several suspense and other balanced heads of account consists not only the application of the ordinary procedures of audit of expenditure and receipts to various debit and credit transactions accounted for during the month, but also scrutiny to ensure that:

- I. the accounts have been received in complete and proper form;
- II. unadjusted balances under the suspense and other balanced heads have been correctly carried forward separately from month to month;
- III. these balances continue to represent bonafide assets or liabilities of Government capable of being realised or settled, as the case may be; and
- IV. satisfactory action towards such realisation or settlement is being taken by the Divisional Officers.

In conducting this audit, the provisions of the Account Code, Volume-III, and the Financial Rules of Government relating specially to these accounts should be borne in mind.

19.2 It is an important function of Audit to see, as far as possible during local audit that the balance relating to each individual item, work, or job is kept distinctly and correctly and that the balances of several items relating to each head of account make up the aggregate balance recorded under that head.

Monthly Account

19.3 Scrutiny and check of the Monthly Accounts involve mainly the following:

- I. Verification of their proper format and completeness.
- II. Specific examination of the “Memo of Miscellaneous Cash Receipts Paid into Treasuries” and the Divisional Officer’s certificate of cash balance recorded on the reverse of the monthly accounts to ensure that there are no deviations from prescribed rules.
- III. Verification of the receipt of the original reports and certificates in support of the Monthly Account for March prescribed in Article 234(a) of the Account Code, Volume-III, and of the balances certified therein to ensure that these are equal, in the aggregate, to the closing cash balance as reflected in the monthly account.
- IV. Investigation of the causes and implications of any unusual or serious instances of rush of expenditure towards the end of March disclosed in the statement of cheques issued during that month and received along with the accounts of any Division for the month of March. (Article 234(b) of the Account Code, Volume-III, is of relevance in this context).

Schedule of Revenue Realised

19.4 The audit of this Schedule should be conducted mainly with reference to the general directions contained in Section-II, Chapter-3, subject always to the provisions contained in the financial rules of the Government concerned and its service rules in regard to rents of public buildings (including installations) recoverable from the persons occupying them.

19.5 It is primarily the Divisional Officer's responsibility to see that all revenues or other debts due to Government, which are to be brought to account in the Public Works Section of the accounts in terms of Article 20 of the Account Code, Volume-III, are correctly and promptly assessed, realised and credited to Government account. It is nevertheless also the duty of the Audit Office to see that revenues and other receipts of which it has cognisance, either through any entries in Government accounts or otherwise, such as orders of special recoveries received from the competent authority, are brought to account by the Divisional Officer.

19.6 In the course of audit of schedules of revenue realised, it should be seen that:

- I. cash realisations of revenue agree with the details of receipts indicated on the reverse of the monthly account;
- II. amounts not actually realised have not been credited to revenue except as provided in Note 2 below para 9.1.4 of the Central Public Works Accounts Code;
- III. amounts shown under "Recoveries of expenditure" are actually creditable to the relevant heads and are traceable in the Schedule of Percentage Recoveries; and
- IV. credits to revenue of sale proceeds or transfer value of unserviceable stores or other property are supported by the Survey Report and Sale Account; the disposal of the property has been authorised by the competent authority; the full value (including supervision or other charges that are to be levied under the rules) has been accounted for; and loss, if any, in disposal has been regularised by the sanction of the competent authority.

19.7 If, under the rules of Government, separate schedules of rents of buildings and lands are submitted by the Divisional Office, detailed procedure for their audit will be prescribed by the Accountant General (Audit) locally in consultation with the Government and incorporated in the local Manual. If it is noticed from the schedule that application of any rule, limiting the recovery of rent to a prescribed percentage of the emoluments of the occupant, has the effect of lowering the recoverable rent appreciably below the standard rent, the matter should be examined from the propriety angle, with reference to clauses IV(a) and V of Rules 45A and 45B of the Fundamental Rules or the corresponding Service Rules of Government.

Schedule of Refunds of Revenue

19.8 Refunds of revenue are usually classified in detail the same manner as revenue receipts but the amount of refund is required to be taken in reduction of revenue receipts under the major head concerned. It should be seen in Audit that:

- I. all refunds have been authorised by competent authority;
- II. schedules in respect of refunds made by the Divisional Officer in compliance with orders of a court of law remitting a fine previously credited to Government are accompanied by the original orders of the court as envisaged in Note 3 below Article 230 of the Account Code, Volume-III; and
- III. the amount in respect of each refund was available from the original receipt to which it pertained and a suitable note specifying the amount refunded has been recorded against the entry of receipts in the relevant receipts schedule.

Schedule of Works Expenditure

19.9 During audit of the Schedule of Works Expenditure it should be seen that:

- I. reference to the communication intimating the amount of sanctioned estimate/allotment is given in the schedule in cases where expenditure appears for the first time;
- II. the progressive expenditure does not exceed the amount of the sanctioned estimate or the allotment sanctioned for individual works or item of expenditure or groups of works or items of expenditure and action is being taken for regularisation of excesses, if any, over the estimate/allotment;
- III. action for fixation or revision of license fee has been taken on works connected with residential buildings being shown as having been completed; and
- IV. the prescribed certificate has been recorded by the Divisional Accountant, as required under Note 1 below para 22.4 of the Central Public Works Account Code, in cases where schedule dockets are not required to be submitted (vide Note 1 below Article 211 of the Account Code, Volume III).

Schedule of Deposit Works

19.10 Cash receipts under deposit shown in the Schedule of Deposit Works should be verified with the “Memo of Miscellaneous Cash Receipts Paid into Treasuries” shown in the Monthly Account (Form 80). It should also be seen that:

- I. the progressive expenditure does not exceed either the amount of the estimate or that of the cumulative deposit as recorded in the works register or in the schedule of deposit works and, if the progressive expenditure exceeds the cumulative deposit for a work, such excess (i.e. expenditure incurred in excess during the month as well as the upto date excess) is shown correctly in the schedule as debit to the head “Miscellaneous Works Advances” and it tallies with the entries in the Schedule of Miscellaneous Works Advances;
- II. in cases where Part II of the schedule is received monthly, all works which were included in the previous month’s schedule but do not appear in Part I of the current month’s schedule have been detailed correctly and in other cases, whenever it is received, it shows correct particulars of all unsettled deposit works of the Works Register other than those which appear in Part I for the month; and
- III. the Divisional Officer has taken action under the Financial Rules of Government to refund the unexpended balance of deposit or to effect recovery of the amounts spent in excess of the sums deposited, as the case may be, in the case of works shown as having been completed.

Schedule of Takavi Works

19.11 When a realisation is credited in this schedule by debit to the detailed head “Cultivators” subordinate to the relevant functional major head, it should be seen that acceptance of the debit by the authority concerned accompanies the schedule docket. It should also be seen that all takavi works which were included in the previous month’s schedule but do not appear in Part I of the current month’s schedule have been detailed correctly in Part II of the schedule.

Schedule of Debits/Credits to Miscellaneous Heads of Accounts

19.12 It should be seen in audit that only such disbursements and receipts which cannot be accounted for in any other schedule prescribed under Articles 213 to 224 of the Account Code, Volume III, have been noted in this schedule. It should further be ensured that no transactions have been accounted for under the final or debt head except under the authorisation of the Accountant General (A&E) as prescribed in Article 225 of the Account Code, Volume III.

Schedule of Debits/Credits to Remittances

19.13 If any responding item is stated to have been brought to account provisionally, the objection raised by the Divisional Officer should be examined with a view to verify that it is not indicative of any deviation from the rules either on his own part or on that of the other party to the transaction.

19.14 While scrutinising entries under the head “Public Works Remittances”, it should be seen that the totals in the schedule in respect of “I. Remittances into Treasuries” and “II. Public Works Cheques” are supported by the necessary details in the Schedule of Monthly Settlement with Treasuries (Form 51) and that the figures agree with the corresponding figures in line 2 of the Form.

Schedule of Settlement with Treasuries

19.15 While auditing the Schedule of Settlement with Treasuries, it should be seen that:

- I. the difference in line 5 is supported by the necessary details in respect of each treasury;
- II. there is ordinarily no difference at the close of the year except on account of cheques issued up to 31st March but not cashed by then; and
- III. effective action has been taken by the Divisional Officer to clear the differences.

Schedule of Cash Settlement Suspense Account

19.16 Under the System of settlement of inter-divisional transactions in cash, all transactions relating to services rendered (including works executed) by one division on behalf of another division or supplies made by one division to another are settled by the divisions amongst themselves without the intervention of the Accountant General (A&E) irrespective of whether the divisions fall within the same account circle or in different account circles. The claims are to be settled within ten days as prescribed in paragraph 2 of Appendix 7 to the Central Public Works Accounts Code. It should be seen that claims not so settled have been taken up with the respective divisional officers concerned and have been adequately pursued.

19.17 Credit entries in the Schedule should be compared with the details given in the Memo of Cash Receipts on the reverse of the Monthly Account (Form 80).

19.18 There should normally be no balance under this head at the close of the year. In order to ensure this, the list of outstanding items should be reviewed monthly and the Divisional Officer addressed if the provisions of Article 185 of Account Code, Volume III, appear to have been ignored.

Schedule of Debits to Stock

19.19 The Schedule of Debits to Stock (Form PWA 28) should be checked generally in the manner and to the same extent as prescribed in respect of the Schedules of Works Expenditure. In cases where the rules provide that a detailed estimate can be dispensed with, the expenditure as authorised by the competent authority may be accepted as the amount of a sanctioned detailed estimate. When the manufacturing operation is shown as having been completed, it should be seen that the Divisional Officer has taken action in accordance with Article 163 of the Account Code, Volume III, to adjust the difference between the progressive figures of “Operation” and “Out turn”. In case this has not been done, his attention should be invited to this requirement and the matter pursued until the difference is settled.

Stock Account

19.20 In the audit of Stock Account, the “Detailed Account of Issues”, which constitutes the second part of the Stock Account, should be examined first. Entries relating to “Issues to Works, etc.” contained in this part should be agreed with the relevant entries in all the Schedule Dockets of the month, and the remaining issues should be traced from the several accounts (relevant schedule dockets, consolidated contingent bill, etc.) as indicated in the form.

Note: The quantity accounts of all articles borne on stock, maintained under the rules of Government, have to be scrutinised during local inspection and reconciled with the value accounts.

Schedule of Miscellaneous Works Advances

19.21 The Schedule of Miscellaneous Works Advances (Form PWA 32) will detail individually only the items affected during the month. The schedules relating to the month of September and March are required to be accompanied by a list of items outstanding for more than six months. Their completeness will be checked in local audit at the time of examining the Divisional Suspense Register relating to Miscellaneous Works Advances. In the audit of “Miscellaneous Works Advances”, a distinction should be made between items that represent regular transactions correctly pertaining to this head and those that are indicative of either a disregard of any financial rule, or losses, retrenchments and errors awaiting adjustment. It should be seen that action is being taken by the Divisional Officer for the clearance of both categories of items. Those of the latter category should be registered in the Objection Book.

Schedule of Purchases

19.22 In the course of audit of the Schedule of Purchases, it should be seen that the debits/credits of the current month as reflected in the list of original transfer entry orders are correct by correlating these with the original transfer entry orders attached to various schedule dockets. Schedules for the months of September and March should be accompanied by a list of items outstanding for more than six months and the adequacy of the action taken by the Divisional Officer for their adjustment should be examined. It has also to be verified that all unclaimed balances outstanding for more than three accounting years have been credited to Government.

Schedule of Deposits

19.23 The Schedule of Deposits contains details of only those items affected during the month. The following would require the special attention of Audit:

- I. Adjustment of debits against and to the extent of the corresponding credits so that there is no minus balance.
- II. If the Schedule reveals that any of the deposit items has been converted into any form of interest-bearing security, it should be seen that the certificate prescribed for the purpose has been recorded correctly at the designated place in the Schedule.
- III. In checking the Schedule for the month of March, it should be verified that lapsed deposits have been duly credited to Government in accordance with the provisions contained in Article 170 of the Account Code, Volume-III.

Note: Similar checks should be exercised in respect of unaffected items not included in the Schedule at the time of scrutiny of the deposit register during local inspection.

- IV. Various debits and credits should be checked to ensure their agreement with the corresponding entries in the schedules concerned, vouchers and memo of miscellaneous cash receipts paid into treasuries in Form 80.
- V. It should be verified that necessary details in support of deposits for work to be done are available in the Schedule of Deposit Works, instructions for the audit of which are contained in paragraph 22.12 supra.
- VI. All opening balances against individual items should be checked entirely with their closing balances as reflected in the statement of the relevant month(s) in which these items were shown as having appeared.

Special Tools and Plant Received Sheets and Indents

19.24 The accounts of receipts and issues of special tools and plant contained in the Tools and Plant Received Sheet (Form 13) and Tools and Plant Indent (Form 14) forming part of the Monthly Accounts should be checked to see that all tools and plant purchased or transferred from other divisions or sub-divisions have been brought to account in Form 13 and that all issues shown in Form 14 are supported by receipts of the parties concerned. The payment details given in Form 13 should be checked with the connected vouchers or transfer entries. In the case of issues, it should be seen that Form 14 is supported by survey reports and sale accounts wherever necessary.

Annual Certificates of Balances

19.25 To the extent annual certificates of balances are based on initial records maintained in the Division, their correctness should be broadly verified during local audit. Any points suggestive of deviations from the financial rules should be taken up with the Divisional Officer or higher authorities depending on the facts of the case. Other aspects requiring the attention of Audit are dealt with below:

- I. The audit of the Schedule of Debits to Stock and the Stock Account for the month of March should not be considered as having been completed until Certificate No. 1 relating to manufacture, land, kilns, etc., storage and other sub-heads of stock has

- been verified, and the closing balances reconciled with the Stock Account. Cases where the sanctioned limits of stock reserves and balances appear to be unusually high or in excess of the normal requirements of the divisions concerned should be brought to the notice of the Accountant General (Audit) for such action as he may consider necessary.
- II. Certificate No.2 relating to Workshop Suspense and Certificate No.3 relating to Other Suspense Accounts (viz., Purchases and Miscellaneous Works Advances) and Deposits are necessary for completing the year's audit of transactions relating to those heads. These certificates should be reconciled with the relevant schedules and their correctness verified in Central/Local Audit.
 - III. Similarly, the audit of Works Accounts for the month of March should not be considered as having been completed unless Certificate No.4 (Form PWA 46) relating to Works Accounts has been examined in local audit to see that (1) the accounts are complete in all respects; (2) the closing balance in respect of "Contractors" under each of the three heads into which these accounts are divided (viz., "Advance payments", "Secured Advances" and "Other Transactions") agrees with the total of the balances in the Contractor's Ledger (Form PWA 43) which is scrutinised during local audit; and (3) the certificate does not indicate any deviations from the rules requiring action on the part of the Audit Office. Large fluctuations in the balances may form the subject of special enquiry.

Schedule Dockets

19.26 All transfer entry debits/credits in the Schedule Dockets should be checked in audit with the relevant transfer entries to ensure correctness of the charge/credit. It should be verified that necessary particulars of all cash refunds are available and that they do not indicate any financial irregularity; these cash refunds should also be tallied with the "Memo of Miscellaneous Cash Receipts paid into Treasuries" in Form 80.

19.27 It should also be seen during audit of Schedule Dockets that (i) the sale accounts and survey reports are attached, wherever necessary; and (ii) and that disposal of the stores and the transfers have been authorised by the competent authority in the case of credits representing sale proceeds of stores or the value of other transfers, the full value of the assets (including supervision charges or other charges leviable under rules) has been accounted for, loss, if any, has been regularised by the competent authority.

Schedule Docket for Percentage Recoveries

19.28 The instructions in the foregoing paragraphs do not apply to the Schedule Docket for Percentage Recoveries (Form PWA 25). The Schedule Docket should be checked simultaneously with the schedule relating to the expenditure on the works which are assessable to percentage recoveries of charges on account of Establishment, Tools and Plant and Accounts and Audit. It should be checked seen that (i) the charges shown in Form PWA 25 under each of these heads have been calculated correctly in accordance with the rules; (ii) the total amount of these charges has been debited correctly to the account of each work in the expenditure schedule concerned; and (iii) credits on account of recoveries under each of the three heads have been brought to account correctly in accordance with the directions contained in Articles 69 and 72 of the Account Code, Volume-III.

Vouchers

19.29 The general principles and rules of audit governing audit of expenditure are also applicable to the vouchers received with the Monthly Accounts of Divisional Officers. The important points relating to the audit of vouchers are as follows:

- I. If it is noticed, as a result of audit, that an excess or short payment has been made on a voucher received in support of a claim for a work executed by another division, the discrepancy should be notified to both the originating divisions and the division finally adjusting the charge.
- II. As far as possible, payments to contractors agreements with whom have been sanctioned by authorities higher than the Divisional Officer should be scrutinised to verify that there are no unauthorised deviations from agreed upon rates and other relevant conditions, as communicated by the sanctioning authority.

Note: In respect of payments to contractors against contracts sanctioned by the Divisional or Sub-divisional Officers, the rates allowed should be checked with the schedule of rates wherever the schedule of rates has been prescribed and where there is a clear indication that the rates are based on the schedule and expressed as either equal to those prescribed therein or as a percentage above or below the schedule of rates.

- III. Payments made to other contractors on their first or final bills or on running account bills should be generally examined to ensure that the value of work done or supplies made is not in excess of the financial limits up to which a Divisional Officer is empowered to accept tenders or contracts.
- IV. Availability of the necessary sanctions in respect of charges requiring a special sanction should be verified. If the charges relate to works connected with a project costing Rupees one crore or more and on the execution of which two or more Public Works or Irrigation Divisions are engaged, it should be verified that the charges have been noted against the sanction entered in the Works Register.
- V. It should be seen that new supplies of tools and plant for which payments have been made have been brought on to the relevant numerical or quantitative accounts. This check should be exercised during local inspection of the Division, except in the case of special Tools and Plant, the numerical account relating to which should accompany the Monthly Account of the Division (see Article 41 of Account Code, Volume-III) and be checked in Central Audit with reference to the voucher or account pertaining to the charge.

(Chapter 4.3 of MSO Audit 2002)



Chapter-- XX

Information Technology Audit.

Introductory :

20.1. As computer technology has advanced, government organisations have become increasingly dependent on computerised information system to carry out their operation and to process, maintain, and report essential information. As a consequence, the reliability of computerised data and of the system that process, maintain and report these data are a major concern the system that process, maintain and report these data are a major concern to audit. I.T. Auditors evaluate the reliability of computer generated rate supporting financial statement and analyse specific programs and their outcomes. In addition, I.T. Auditors examine the adequacy of control in information systems and related operations to ensure system effectiveness.

(Authority : Paragraph 3.22.1 of C&AG MSO 2002)

20.2 Its audit is the process of collecting and evaluating evidence to determine whether a computer system has been designed to maintain data integrity, safe guard assets, allows organisational goods to be achieved effectively, and uses resources efficiently. Date integrity relates to the accuracy and completeness of information as well as touts validity in accordance with the norms. An effective information system beads the organisation to achieve it objectives and on efficient information system uses minimum resources in achieving the required objective. I.T. Auditor must know the characteristics of users of information system and the decision making environment in the auditor organisation while evaluating the effectiveness of any system.

(Authority : Paragraph 3.22.2 of C&AG MSO 2002)

20.3. Use of computer facilities has brought about radically different ways of processing, recording and controlling information and has combined many provinces separated functions. The potential for material systems error has ethereally been greatly increased causing great costs to the organisation, e.g., the highly repetitive nature of many computer applications means that small errors may lead to large errors. An error in the calculation of income tax to be paid by employees in a manual system will not occur in each case but once an error is introduced in a computerised system, it will affect each case. A bank may suffer huge lapses on account of an error of rounding off to next repore instead of nearest rupee. This makes it imperative for the auditor to test the invisible processes, and to identify the vulnerabilities in a computer information system as the costs involved, volumes of errors and irregularities, can be high.

(Authority : Paragraph 3.22.3 of C&AG MSO 2002)

Control in a computer System.

20.4. Computer system is efficient and achieve results accurately and at a great speed if they work the way they are designed to. They have controls provided to ensure this but the controls have to be effective. The controls are of great value in any computerised system and it is an important task for and auditor to see that not only adequate control exist, but that they also work effectively to ensure results and achieve objective. Also controls should be commensurate with the risk assessed so as to reduce the impact of identified risks to acceptable levels.

Controls in a computer information system reflect the policies, procedures, practices and organisational structures designed to provide reasonable assurance that objective will be acceded. The control in a computer system ensure effective and efficiency of operations, reliability of financial reporting an compliance with the rules and regulations.

(Authority : Paragraph 3.22.4 of C&AG MSO 2002)

20.5 Information system controls are broadly classified into two categories:

- (i) General controls
- (ii) Application controls

General control includes controls over data center operations, System soft -ware acquisition and minuteness, access security and application system development and maintenance. They create the environment in which the applicant systems and application controls operate; examples include IT places, standards and guide lines pertaining to IT security and information protection, application software development and change controls, segregation do duties, service continuity planning, IT project management, etc.

Application controls pertain to specific computer applications. They include controls that help to ensure that proper authorisation, completeness, accuracy, and validity of transactions, maintenance, and other types of data in put. Examples include system edit checks of the format of entered data to help prevent possible invalid inputting transactions that are not part of their normal duties, and the creation of detailed reports and transactions control totals that can be balanced by various units to the source data to ensure all transactions have been posted completely and accurately.

(Authority : Paragraph 3.22.5 and Paragraph 3.22.6 of C&AG MSO 2002)

Significance of Controls

20.6. Presence of control in a computerised system is significant form audit point of view as these systems may allow duplication of input or processing, conceal or make invisible some of the processes, and in some of the auditee organisations where the computer systems are operated by outside contractors employing their own standards and controls, making these systems vulnerable to remade and authorise access.

20.7 Apart form this, the significance of control is in following possibilities :

- (i) Data loss due to file damage data corruption (manipulation) fire, burglary, over failure (or fluctuations) viruses etc;
- (ii) Error in soft ware can cause manifold damage as on transaction in a computer system may effect data every where;
- (iii) Computer abuse like fraud, vengeance, negligent use etc. is a great potential danger; and
- (iv) Absence of audit trails make it difficult for an auditor to ensure efficient and effective functioning of a computerised system.

(Authority : Paragraph 3.22.7 of C&AG MSO 2002)

Objectives of computer control

20..8 The objectives of controls do not change with the introduction of computers. It is the control techniques that change with many of the manual controls being computerised and new technical computer controls added to achieve the same objectives. Typical control objectives within a government data processing function are to ensure:

- (i) Provision of effective organisational control over functions related to data processing by clearly defining organisational objectives;

- (ii) Effective management control over development of data processing resources in accordance organisational objective;
- (iii) practices relating to data processing activates in accordance with statutory requirements and down administrative procedures;
- (iv) formulation of an adherence to policies, standards and procedures for all functions related to data processing; and
- (v) Efficiency and effectiveness of the data processing systems towards achievement of its desired objectives.

(Authority : Paragraph 3.22.8 of C&AG MSO 2002)

Preliminary evaluation.

20.9 The first step in audit should be preliminary evaluation of the computer systems covering;

- (i) How the computer function is organised.
- (ii) Use of computer hardware and software.
- (iii) Applications processed by computer and their relative significance of the organization; and
- (iv) methods and procedures laid down for implementation of new applications or revision to existing applications.

In course of preliminary evaluation, the auditor should ascertain the level of control awareness in the audited organisation and existence of control standards. The preliminary evaluation should inter alia identify potential key controls and any serious key control weaknesses. For each control objective the auditor should state whether or not the objective has been achieved, if not, he should assess the significance and risks involved with due to control deficiencies.

(Authority : Paragraph 3.22.11 of C&AG MSO 2002)

Audit methodology.

20.10 After completing the preliminary evaluation of the computer systems, has auditor has to decide about the appropriate audit approach, system based or direct substantive testing. In doing so, the aspects to be borne in mind are :

- (i) Results of the preliminary evaluation.
- (ii) Extent to which reliance can be placed on any work carried out by internal audit and
- (iii) Nature of the constraints like lack of audit trail and the practicability of testing.
- (iv) Effective compliance testing of key computer controls. and
- (v) Each control to be tested will require large samples.

(Authority : Paragraph 3.22.12 of C&AG MSO 2002)

A- Direct substantive Testing

20.11 If Direct Substantive testing approach is chosen, a sample of transactions should be selected and tested. Result of the preliminary evaluation will be of help particularly as it would have:

- (i) Provided an over all assessment of the control environment and identified any serious weaknesses which would be raised with the audited.
- (ii) Extent to which reliance can be placed on any work carried out by internal audit and how to substantiate them efficiently and

(iii) provide sufficient information to determine any initial requirement for any CATs.

(Authority : Paragraph 3.22.13 of C&AG MSO 2002)

B. System Based Audit.

20.12 For system based Audit approach, as parts of regularity, economy efficiency and effectiveness of the system have to be looked into besides evaluating data integrity, the data security as explained below:

- (i) system effectiveness is measured by determining whether the system performs the intended functions and whether users get the needed information, in the right form when required;
- (ii) A system is economical and efficient if it uses the minimum number of information resources to achieve the output required by the users. The use of system resources- hardware, software, personnel and money should be optimized;
- (iii) System activities would be regular if they comply with applicable laws, rules, policies, guide lines.
- (iv) Achieving data integrity implies that the internal controls must be adequate to ensure that errors are not introduced when entering, communicating, processing, storing or reporting data ;
- (v) Data system resources, like other assets, must be sufficiently protected against theft, waste, fraud, unauthorized use and natural disasters.

The key controls for ensuring the above will have to be identified, recorded, evaluated and compliance tested. The result of preliminary evaluation would be of help particularly as they would indicate system deficiencies, major weaknesses and the areas requiring in-depth study. Identification of key controls would also depend on experience of the auditor gained in course of audit of similar installations.

Compliance testing of controls in computer systems and programmes is difficult and complicated as their operation is automatic, invisible and not fully evidenced. Detailed manual testing of these controls is rarely cost effective, but a possible alternative approach is to use CAATs. For example, either test data or audit software may be used to test a control which is designed to ensure that payments exceeding certain value should not be made.

Audit software can be used to interrogate the whole payments file to identify any payments which exceeded the specified value. If no such cases are revealed, the auditor has some assurance in that no such payment was made. This is negative assurance since it is possible that no invalid data was in fact presented to the system. However if the interrogation is applied to the whole year's transactions, it achieves the main audit objective in that to the whole year's transactions, it achieves the main audit objective in that no excessive payments will have been made in the period.

Even when test packs or interrogation are used, the auditor should examine the procedures for dealing with exception or error reports, to ensure that invalid transactions are corrected and reinput for processing .

(Authority : Paragraph 3.22.14 and Paragraph 3.22.15 of C&AG MSO 2002)

Audit Techniques

20.13. The audit techniques refer to the use of computer, including soft ware, as a tool to independently test computer data of audit interest. Some well established techniques are:

- (i) Collecting and processing a set of test data that effects all the variants of data and errors which can raise in an application system at different times;
- (ii) Using integrated test facilities, built into the system by the auditee to help the auditor in his requirements, as one of the users of the system;
- (iii) Simulating the auditor's application programmes using audit software to verify the results of processing.
- (iv) Reviewing program listings periodically to see that there are no an authorise alterations to the programs;
- (v) Using either commercial soft ware or in house developed programs to interrogate and retrieve data applying selection criteria and to perform calculations and
- (vi) Extracting samples of data from the auditee database / files using sampling techniques, for post analysis and review. The nature of data not type of analysis required determine what techniques is to be employed. The auditor should give the sample size and design.

(Authority : Paragraph 3.22.16 of C&AG MSO 2002)

Computer Audit Techniques are Employed for:

- 20.14.** (i) Verification of ledge balances and control totals independently ,
- (ii) Recalculation of critical computerized calculations to check mathematical correctness;
 - (iii) Range checks to verify the working of computer based controls and testing for exception conditions;
 - (iv) Testing the validity of data which have gone in to the master file ;
 - (v) Detection of data in use / Frauds; and
 - (vi) Substantive testing with large columns of data which is difficult, if not impossible, in a manual audit process.

(Authority : Paragraph 3.22.17 of C&AG MSO 2002)

The particular computer audit technique depends on :

- 20.15.** (i) The type of application system under review ;
- (ii) The extent of testing required;
 - (iii) The availability of resources in terms of computer facilities, and the level of EDP skills among the audit staff: and
 - (iv) Volume of data and availability of printer information.

Where data volume is small and adequate printed information is available to carry out a meaningful clerical audit, there is no need to employ computer techniques, which are costly and time consuming. To elaborate further, the auditor should break up his project of application system audit into three stages. In the first stage, he will carry out the examination of audit trails, immediate printouts as required, system logs and operational controls. As a result of audit in the

first stage, if the auditor feels that the adequacy of controls require further verifications, in the second stage he can carry out compliance testing by using the test deck method and integrated test facilities with resident audit prompts. If the compliance testing exposes some control weaknesses, substantive testing may be resized to in the third and final stage using retrieval software and simulation techniques with audit software.

Today, many DBMSs have built in query and report writer facilities unstructured queries on the data files are also possible in some advanced systems. These utilities could be profitably employed for audit purposes. The auditor will be able to obtain the relevant information from the auditee's computer center.

The distinct advantages of retrieval packages over other methods are 100 per cent review of data and adequacy of processing and effective use of the auditor's time in analysing results of interrogation. Use of retrieval software will, however, always remain a problem area primarily because of multitude of hardware and software systems in use in various departments necessitating expertise in several programming languages.

(Authority : Paragraph 3.22.18, Paragraph 3.22.19 and Paragraph 3.22.20 of C&AG MSO 2002)

Main Points to be checked in different audit Areas.

20.16. Audit of Acquisition:-

Generally the acquisition of computer facilities involve the following stages:

- (i) Definition of a computer policy and started (evolution of organisation at requirements and the ways and means of satisfying them);
- (ii) Establishing the need;
- (iii) A through examination and evaluation of the alternative courses of action available;
- (iv) Specifying precisely the requirements (delineating existing and future applications, hardware, software, modes of operations, conditions of supply, etc.);
- (v) Evaluating the alternative sources of supply and selecting the most appropriate source (s), and
- (vi) Physically acquiring the facilities and the systems.

Often these stages tend to overlap or merge imperceptibly, into one another.

(Authority : Paragraph 3.22.21 of C&AG MSO 2002)

20.17. Acquisition of computer facilities may include:

- (i) Acquisition of hardware involving
 - (a) Introduction of a completely new installation,
 - (b) Enhancement of central processor,
 - (c) Enhancement of peripherals,
 - (d) Addition / replacement of a specific equipment and
 - (e) Introduction of several small computers.
- (ii) Acquisition of software involving
 - (a) General software associated with changes in hardware
 - (b) Specific purpose software and
 - (c) Off the shelf application software.

The auditor has to review the adequacy of administrative procedures and controls used by the auditee organisation when considering and deciding upon the acquisition of computer facilities.

For this purpose, he has to see that:

- (i) A sound and infiltrative structure exists to produce a proper analysis of the requirements of computer facilities.
- (ii) The acquisition procedures are effective in producing a viable computing policy and strategy and
- (iii) The process of evaluation and selection ensure that the requirements of the organisation are met in the most effective and efficient way- sufficient and adequate disposal.

The auditor should direct his attention to the following areas:

- (i) EDP policy and strategic plan;
- (ii) Administrative structure;
- (iii) Feasibility study / project report containing proposals, costs and benefits; equipment selection.
- (iv) Justification for hardware and software;
- (v) Installation of equipment and adequacy of testing and
- (vi) Post implementation review and costs.

Feasibility study report should cover points like clear statement of objectives, existing arrangements,, alternative solutions, proposes solution, financial implications and schedule of implementation. In case of equipment selection, points to be borne in mind are.

- (i) Specifications of requirements for acquisition, enhancement for replacement of computing facilities are stated concisely and precisely (a they form the basis for potential supplies);
- (ii) Both technical and commercial a pacts of the proposal are evaluated according to standard contracting procedures and
- (iii) Procurement action is taken after ensuring that the suppliers offers meet the requirements of the specifications by taking into account inter alias (i) Technology options available at the time of procurement, (ii) Use full life of the asset, (iii) Incidental costs which could eventually be of sufficient magnitude, besides hard ware and soft ware costs and (iv) future development plans of the potential suppliers in terms of expendability, upgradeability, etc.

(Authority : Paragraph 3.22.22, Paragraph 3.22.23, Paragraph 3.22.24 and Paragraph 3.22.25 of C&AG MSO 2002)

Audit of development.

20.18. Since the underlying purpose of acquisition and development is the same, the audit concerns relating to acquisition, viz., planning, requirements definition, analysis of, alternatives and justification for the selected approach, are equally important in the review of system development. Broadly stated, the audit objective of system development controls is to ascertain that procedure, are adequate to ensure that the development results in well-documented computer

systems incorporating adequate controls and meeting properly denied user requirements in an efficient manner.

There is also a need to examine the system testing and data transfer procedure as:

- (i) Inadequate system testing before line operation may result in the operation of a system which may not correctly process and record transactions and
- (ii) Inadequate data transfer may result in the relevant records being inaccurately and incompletely transferred from the old to the new system.

Where systems development is entrusted to contractors, the contract and its management become important audit concerns. It should be ensured that the vendor provides complete documentation along with source code. Further, the terms and conditions like the rights over the source code provisions for modification/ updating in future should be examined. The penal provisions may also be examined in case of non-delivery of services/ non adherence to time schedule. It may also be seen if any objectives could not be achieved due to delay in delivery of the software.

20.19. System development audit can be categorised into three general classes:

- (i) Monitoring audits, in which the auditor evaluates the project throughout the process to determine whether development is proceeding effectively, e.g. whether expenditure rates are as predicted, high quality documentation is being written, software conforms to established technical standards, tests are being conducted as scheduled or evaluated as planned.
- (ii) Design review audits, in which the objective is to determine whether the preliminary and detailed designs accurately reflect the functional data to system specifications, and incorporate adequate internal controls and
- (iii) Post implementation audits, performed three to six months after the system becomes operational, serve to evaluate whether the system becomes operational, serve to evaluate whether the system meets requirements, is cost effective and generally provides benefits predicted in project planning documents.

(Authority : Paragraph 3.22.26, Paragraph 3.22.27, Paragraph 3.22.28 and Paragraph 3.22.29 of C&AG MSO 2002)

Association of audit in systems development.

20.20 The ultimate responsibility for incorporating internal controls and an adequate trail into computer based systems must rest with the auditee. The auditor therefore does not need to provide as a matter of policy, any consultancy advice on developing system. Nonetheless, audit should be aware of all developments which are likely to have significant impact on his audit. At an early stage in the design process of a new system, the auditor should consider providing the auditee with specific comment on:

- (i) Internal controls in the light of weaknesses identified in the existing system,
- (ii) Audit needs such as data retention or retrieval facilities and audit trail requirements; and
- (iii) Any requirement which might enable him to carry out audit, or improve its efficiency and effectiveness.

(Authority : Paragraph 3.22.30 of C&AG MSO 2002)

Main points to be checked by audit in system Development.

20.21. While the auditor should be cautious enough not to be drawn into unproductive involvement in system development, the points that the should examine are the following:

- (i) Whether a published standard methodology is being used for designing and developing system?
- (ii) Whether there is a common understanding by all parties users, systems analyst, management and auditors of the basic structure of both manual and computer processing activities, as well as of the concepts and needs for control and of the applicable control techniques ?
- (iii) Who authorise IT applications development the user or steering committee or management?
- (iv) Whether the system development work was preceded by a feasibility study to determine the most appropriate solutions to standard problems?
- (v) Whether there is adequate cross referencing between the following stages:
 - (vi) Whether project management techniques, are applied in system development work that is to say, are there project decision milestones, time and cost estimates so that progress could be monitored against estimates?
 - (vii) Whether programming standards using modular structured methodology are being adhered to in coding?
 - (viii) Whether existing in house or external available application packages were considered be for deciding upon new in house application development?

(Authority : Paragraph 3.22.31 of C&AG MSO 2002)

Audit of operation and maintenance - General Controls.

20.22. The auditor has to review the internal controls which are essential for proper operation and maintenance. Some of the operation and maintenance controls fall in the category of general controls relating to the whole set of computer facilities.

The overall audit objective in reviewing the general controls is to ensure that the controls and procedures are adequate to provide secure, effective and efficient day to day operation of the computer facilities. The controls and procedures which together form the general controls are discussed in the succeeding in the succeeding paragraphs.

(Authority : Paragraph 3.22.32 of C&AG MSO 2002)

Organisational Controls.

20.23. Such controls ensure that (i) There is judicious separation of duties to reduce the risk of employee fraud or sabotage by limiting the scope of authority of any individual (ii) There are comprehensive written standards and (iii) Access to and use of computer terminals is properly authorised.

These high level controls are important as they influence the effectiveness of any lower level controls within accounting application. Unless management maintains appropriate I.T. policies and standards, it is unlikely that other controls will be sufficiently strong to support a controls audit approach.

As assessment of the high level I.T. Policies, strategies and procedures will provide the auditor with a reasonably reliable indication as to the existence and effectiveness of any lower level detailed controls.

(Authority : Paragraph 3.22.33 of C&AG MSO 2002)

Segregation of Duties.

20.24. The auditor should check whether adequate and effective segregation of duties has been in place amongst the staff operating the computer system as it substantially reduces the risk of error and fraud. Poor segregation could lead to any one person, with control over a computer function, making an error or committing a fraud without detection.

Evidence of separation of duties can be gained by obtaining copies of job descriptions, organisation charts and observing the activities of I.T. Staff. Where computer systems use security profiles to enforce separation of duties, the auditor should review on screen displays or printouts of employees, security profiles in relation to their functional responsibilities. Inadequate segregation of duties increases the risk of errors being made and remaining undetected it also may lead to fraud and the adoption of inappropriate working practices.

In any major I.T. system the following I.T. duties should be adequately segregated:

- System design and programming.
- System support.
- Routine I.T. operations and administration.
- System Security.
- Database administration.

(Authority : Paragraph 3.22.34 and Paragraph 3.22.35 of C&AG MSO 2002)

Physical Access Control

Physical access controls include the environment controls which operate across the whole I.T. environment and affect all underlying computer applications. These controls are designed to protect the computer hardware and software from damage, theft and unauthorised access. Access controls operate on various levels, for example, from restricting access to the building site, to installing key locks on individual PCs.

The I.T. Auditor should get a quick assessment of physical access controls. Restricting physical access to the I.T. systems reduces the risk of unauthorised persons uttering the financial information.

(Authority : Paragraph 3.22.36 of C&AG MSO 2002)

Authorisation Control

20.25. Authorisation control helps identify the identity and authority of the person desiring to attempt a procedure or an operation. This control is exercised through use of passwords, signatures, smart cards, cryptographic systems etc. such controls ensure that only an authorised person has access to the system and its use, to enter and / or alter transactions to take information etc.

(Authority : Paragraph 3.22.37 of C&AG MSO 2002)

Logical Access Control

20.26. Logical Access controls are provided to protect the financial applications and underlying data files from unauthorised access, amendment or deletion. Logical access controls can exist at both an installation and application level. Controls within the general IT environment restrict access to the operating system, system resources and applications whilst the application level controls restrict user activities within individual applications.

Logical access controls can also be used to restrict the use of powerful system utilities, such as file editors. Logical access controls are often used with physical access controls to reduce the risk of the programs and data files being amended without authority. The importance of logical access controls is increased where physical access controls are less effective, for example, when computer systems make use of communication networks (LANs and WANs). The existence of adequate logical access security is particularly important where a client makes use of wide area networks and global facilities such as the internet.

The most common form of logical access control is log in identifiers (ids) followed by password authentication. For passwords to be effective there must be appropriate password policies and procedures, which are known to all staff and adhered to. Menu restrictions can be effective in controlling access to applications and system utilities.

System may be able to control access by identifying each individual user through their unique login ids and then having a pre-defined profile of authorised menus for each the I.T. Auditor should consider how easy it would be for users to break out of the menu system and gain unauthorised access to the operating system or other applications. Some Computer System may be able to control user access to applications and data files by using file permissions. These ensure that only those users with the appropriate access rights can read write delete or execute files.

(Authority : Paragraph 3.22.38, Paragraph 3.22.39 and Paragraph 3.22.40 of C&AG MSO 2002)

Operation and file controls.

20.27. Operation and file controls are meant to ensure are guarding the computer and computer file from unauthorised access, loss or theft controls relating to reception conversion and processing of data and distribution of the final output promote the completeness and reliability of these operations and safe guard against the unauthorised processing of data or programmes. File controls and procedures adequately safeguard file and software against loss, misuse, theft, damage unauthorised disclosure and accidental or deliberate corruption.

As the computer provides a means of holding, assessing and amending information, it is imperative that its use is controlled. There should be a definite schedule of work that is authorised to run on it and restrictions should be placed on the number and type of staff allowed access to it. Also, computer file are records of an organization which have to be well safe guarded.

(Authority : Paragraph 3.22.41 of C&AG MSO 2002)

Change Management Control

20.28. Change management controls are used to ensure that amendments to a computer system are properly authorised, tested, accepted and documented. Poor change controls could result in

accidental or malicious changes to the software and data. Poorly designed changes could alter financial information and remove audit trails. Audit should by its and users be fore live use. Financial systems rarely remain static and are frequently changed, amended or up dated. These regular changes maybe necessary to improve efficiency, functionality or remove programming faults (bugs).

I.T. Audit should emphasis that an auditee organisation which update their computer systems should have appropriate changes management and configuration management controls. Configuration management procedure relate to the control of I.T. Assets and the subsequent up date of records, whilst change management relate to the authorisation, impact assessment, asset up date , testing and implementation of changes. Risks can be reduced by appropriate change management controls. These controls should ensure that all system and program amendments are satisfactorily justifies, authorised, documented and tested and that an adequate audit trails of the changes is maintained. All change procedures should be documented.

These controls should ensure that program and file amendments are authorised, logged and monitored. The ability to introduce new programs should be limited to authorised change control staff who are independent of computer programmes and staff who input transactions or maintain standing data.

(Authority : Paragraph 3.22.42, Paragraph 3.22.43 and Paragraph 3.22.44 of C&AG MSO 2002)

Net Work communication Security Controls.

20.29 Net Work communication security controls are important where LANs/WANs or well enabled systems are in use. Some important aspects to be covered by this control are as follows.

- (i) All sensitive information in the network should be protected by using appropriate techniques.
- (ii) The critical network deices such as routers, switches and modems should be protected form physical damage;
- (iii) The network configuration and inventories should be documented and maintained;
- (iv) Proper authorisation of the network administrator should be obtained for making any changes to the network configuration.
- (v) The changes made in the network configuration should be documented. The threat and risk assessment of the network after changes in the network configuration should be reviewed.
- (vi) The network operation should be monitored for any security irregularity. A formal procedure should be in place for identifying and resolving security problems.
- (vii) Physical access to communications and network sites should be controlled and restricted.
- (viii) Communication and network systems should be controlled and restricted to authorised individuates.
- (ix) Network diagnostics tolls eg spectrum analyzer protocol analyzer should be used on need basis.
- (x) Firewalls: Intelligent devices generally known as 'firewall ' should be used to isolate an organization's data network form any external network. fire all devices should also be used to limit network connectivity form unauthorised use. Net works that operate at

varying security levels should be isolated from each other by appropriate firewalls. The internal network of the organisation should be physically and logically isolated from the internal and any other external connection by a fire wall. All firewalls should be subjected to thorough test for vulnerability prior to being put to use and at least half yearly thereafter. All web servers for access by internet users should be isolated from other data and host servers.

(xi) Connectivity: Organisation should establish procedures for allowing connectivity of their computer network or computer system to any outside computer system or networks. The permission to connect other networks and computer system should be approved by the network administrator and documented. All unused connections and network segments should be disconnected from active networks. The computer system/personal computer or outside terminal accessing an organisation's host system must adhere to the general system security and access control guidelines. The suitability of new hardware / software particularly the protocol compatibility should be assessed before connecting the same to the Organisation's network. As far as possible no Internet access should be allowed to database server/ file server or server hosting sensitive data. The level of protection for communication and network resources should be commensurate with the criticality and sensitivity of the data transmitted.

(xii) Network Administrator: Each organisation should designate a properly trained "network Administrator" that is responsible for operation, monitoring security and functioning of the Network. Appropriate follow up of any unusual activity or pattern of access on the computer network should be investigated promptly by the network Administrator. The system must include a mechanism for alerting the Network Administrator of possible breaches in security, eg unauthorised access; virus infection and hacking, secure network management systems should be implemented to monitor functioning of the computer Network. Broadcast of network traffic should be minimized. Only authorised and legal software should be used on the network.

(Authority : Paragraph 3.22.45 of C&AG MSO 2002)

Business Continuity Planning

20.30. The auditor should ensure that there are adequate plans to resume processing in the event of failure of computer operations. The degree of continuity planning will depend on the size of the I.T. department and the dependence on computer processing. A significant and prolonged loss of I.T. capability in a mission critical system may increase the risk of the financial statements being unavailable or materially misstated. Disaster recovery planning or I.T. facilities should be treated as one element of an Organisation's overall business continuity plan.

The extent of disaster recovery planning and the detailed measures required will vary considerably. Organisations with large I.T. departments, with mainframe computers and complex communication networks may require comprehensive, up to date recovery plans which incorporate standby facilities at alternative sites.

Disaster recovery plans should be documented periodically tested and updated as necessary. Untested plans may be satisfactory on paper but fail when put into practice.

Testing will reveal deficiencies and allow amendments to be made. The importance of adequate documentation is increased where significant reliance is placed on a few key members of I.T. department. The loss of key staff, perhaps due to the same reason the computers were disrupted,

may adversely affect an Organisation's ability to resume operations within a reasonable time frame.

Backup copies of systems soft ware, financial applications and underlying data files should be taken regularly. Backups should be cycled through a number of generations by, for example, using daily, weekly, monthly and quarterly tapes. Backups should be stored, together with a copy of the disaster recovery plan and system documentation, in an off site fire safe.; where micro computers are used, in addition to mini or mainframe computers, the auditor should ensure that there are also procedures for the backing up of financial data sated on local hard disks.

(Authority : Paragraph 3.22.46, Paragraph 3.22.47, Paragraph 3.22.48 and Paragraph 3.22.49 of C&AG MSO 2002)

Important points to be checked in general controls.

20.31. The following points should be covered while reviewing these controls:

- (i) Obtain a list of hard ware including computer, ancillary and terminal equipment in use indicating modest, performance details and check the existence of this equipment;
- (ii) Obtain an organisational chart which is up to date and see how the computer fits into the overall organisation.
- (iii) Obtain an up to date staff organization chart of the computer department showing the relative responsibilities and authorities and note any changes on review;
- (iv) Obtain job specification for senor computer staff and supervisor of the ancillary section and note any changes;
- (v) Obtain the details of standards and norms fixed for each of the functions like data control, data preparation, and system operation and verify their implementation.
 - (a) Computer utilisation per shift in terms of CPU (central - processing unit) and peripheral use;
 - (b) Key depressions per shift per data entry operator and error allowance;
 - (c) Document standards and controls batching balancing and sequencing.
 - (d) Run to run controls maintained by system operators;
 - (e) Whether manuals are maintained and kept up to date specifying the control procedures and whether they are enforced in practice through a test check.
 - (vi) Obtain and verify existence of the following terminal controls to protect data in system integrity.
 - (a) Physical access controls to terminal rooms;
 - (b) Software controls through pass ward protection and users directories ;
 - (c) Logging of terminal activities by all users.
 - (vii) Obtain details of security measures, both physical and system, for check and review of the following:
 - (a) Adequacy of protection of hardware and software against risk of fire ;
 - (b) Maintenance of hardware and system software;
 - (c) Air conditioning and protection against possible radiations, vibrations;

- (d) Possible industrial action, malicious action by programmers, operators, input-output staff.
- (e) Security a wieners and training provided to all employees;
- (f) Emergency shut down procedures in case of power failure ;
- (g) Safe custody of software and data files and type library;
- (h) Adequacy of back up files.
- (i) Operator access to program files and data;
- (j) Procedures for reconstructing files in the event of loss or risk error / rape errors.
- (k) Computer equipment back up through the use of competitive equipment at other dispersed sites;
- (l) Computer room should be off limits to all except systems operators, hardware engineers and
- (m) Insurance of the installation to cover possible risk.

(Authority : Paragraph 3.22.50 of C&AG MSO 2002)

Audit of operation and maintenance-Application controls

20.32. Application controls are particular to an application and may have a direct impact on the processing of individual transactions. These controls are used to provide assurance that all transactions are valid, authorised and recorded. Since application controls are closely related to individual transaction it is easier to see why testing the controls will provide the auditor with audit assurance as to the accuracy of a particular account balance. For example, testing the controls in a pay roll application would provide assurance as to the pay roll figure in client's accounts.

Before getting on the evaluation of application controls, it will be necessary for an auditor to secure a reasonable under tending of the system. For this purpose, a brief description of the application should be prepared;

- (i) Indicating the major transactions
- (ii) Describing the transaction flow and main output;
- (iii) Indicating the major files maintained and
- (iv) Providing approximate figures for transaction volumes.

Application control requirement maybe divided into:

- (i) Documentation standards.
- (ii) Input control
- (iii) Processing Control
- (iv) Output Control
- (v) Master / Standing Date file control.
- (vi) Audit requirements.

(Authority : Paragraph 3.22.51, Paragraph 3.22.52 and Paragraph 3.22.53 of C&AG MSO 2002)

Documentation Standards

20.33. Documentation Standards ensure that adequate and up to date system documentation is maintained care full up dating of documentation is also important. There should be standards in audited organisation to ensure that:

- (i) System documentation is sufficiently comprehensive.
- (ii) Documentation is up dated to reflect system amendments and
- (iii) A back up copy of the documentation is held.

With out good documentation, it will be difficult to assure that controls will operate on continuous basis and there will also be greater likelihood of error. good application documentation reduces the risk of users making mistakes or excluding their authorities. A review of comprehensive, up to date documentation should aid the auditor in gaining an understanding of how each application operates, and may help identify particular audit risks.

(Authority : Paragraph 3.22.54 of C&AG MSO 2002)

Documentation Should include :

- A system over view ;
- User requirements Specification;
- Program descriptions and listings
- Input / Output descriptions;
- File contents descriptions;
- User manuals; and
- Desk instructions

(Authority : Paragraph 3.22.55 of C&AG MSO 2002)

Input Controls

20.34. The objective of Input control is to ensure that the procedures and controls reasonably guarantee that (i) The data received for processing are genuine, complete, not previously processed, accurate and properly authorized and (ii) Data are entered accurately and without duplication. Input control is extremely important as the most important source of error or fraud in Computerised system is in correct or fraudulent input. Controls over input are vital to the integrity of the system.

The controls that the auditor should evaluate are:

- (i) All prime input, including changes to standing data is appropriately authorised.
- (ii) For on line systems, the ability to enter data form a terminal is adequately restricted and controlled.
- (iii) There is a method to present and detect duplicate processing of a source document,
- (iv) All authorised input has been submitted or in an online system transmitted and

(v) There are procedures for ensuring correction and resubmission of rejected data.

The Controls outline above maybe invalidated if it is possible to by pass them by entering or attiring data form out side the application. There should be automatic application integrity checks which would detect and report on any external changes to data, for example, unauthorised changes made by personnel in computer operations, on the underlying transactions database. The results of the installation review should be reviewed to ensure that the use of system amendment facilities, such as editors, is properly controlled.

(Authority : Paragraph 3.22.55, Paragraph 3.22.56 and Paragraph 3.22.57 of C&AG MSO 2002)

Data Transmission Controls.

20.35. These controls are built in to I.T. Applications to ensure that data transmitted over local or wide area net works is valid, accurate and complete. Organisations using networks should ensure that there are adequate controls to reduce, to an acceptable level, the risk of data loss, unauthorised transactions being added and data corruption.

Some computer systems are connected to either local or wide area net works (LANs or WANs). Which allow than to receive and send data form remote locations. The more common data transmission media include telephone wires, coaxial cables, inferred beams, optical fibers and radio waves.

Application which transmits information across networks may be subject to the following risk:

- Data maybe intercepted and attired either during transmission or during storage at intermediate sites;
- Unauthorised data may be introduced into the transaction stream using the communication connections; and
- Data maybe corrected during transmission.

The integrity of transmitted data maybe compromised through communication faults. The auditor should ensure that there are adequate controls in place, either within the network system, or the financial applications, to detect corrupted data. The networks communication protocol i.e. the predetermined rules that determine the format and meaning of transmitted data may incorporate automatic error detection and correction facilities. It is fairly cays to intercept transmitted data on most local and wide area not works. Inadequate network protection increases the risk of unauthorised data amendment, deletion an and duplication. There are number of controls that maybe used to address these problems:

Digital signatures may be used to verify that the transaction contents are intact and that the transaction originated from an authorised user;

Data encryption techniques may be used to prevent the inter caption and alteration of transactions.

(Authority : Paragraph 3.22.58 and Paragraph 3.22.59 of C&AG MSO 2002)

Processing Controls.

20.36. Processing controls ensure complete and accurate processing of input and generated data. This objective is achieved by providing controls for:

- (i) Adequately validating input and generated data,
- (ii) Processing correct files.
- (iii) Detecting and rejecting errors during processing and referring them back to the originators for re-processing,
- (iv) Proper transfer of data from one processing stage to another and
- (v) Checking controls totals during or after processing.

The objective for processing controls is to ensure that:

- Transactions processing is accurate;
- Transactions processing is complete;
- Transactions are unique (i.e. no duplicates);
- All transactions are valid; and
- The computer processes are auditable.

Processing control within a computer application should ensure that only valid data and program files are used, that processing is complete and accurate and that processed data has been written to the correct files.

Assurance that processing has been accurate and complete may be gained from performing a reconciliation of totals derived for input transaction to change in data files maintained by the process. The auditor should ensure that there are controls to detect the incomplete or inaccurate processing of input data.

Application process may perform further validation of transactions by checking data for duplicate and consistency with other information held by other parts of the system. The process should check the integrity of data which maintains, for example by using check sums derived from the data. The aim of such controls is to direct external amendments to data due to system failure or use of system amendment facilities such as editors.

Computerised financial system should maintain a log of the transactions processed. The transactions log which may be referred to as the audit trail file, should contain sufficient information to identify the source during processing should be brought to the attention of users. Rejected should incorporate controls to monitor and report on unprocessed or unaltered transactions. There should be procedures which allow to identify and review all unlearned transactions beyond a certain age.

(Authority : Paragraph 3.22.60, Paragraph 3.22.61, Paragraph 3.22.62, Paragraph 3.22.63 and Paragraph 3.22.64 of C&AG MSO 2002)

Output Controls

20.37. These controls are incorporated to ensure that computer output is complete, accurate and currently distributed. It may be noted that weakness in processing may sometimes be compensated by strong controls over output. A well controlled system for input and processing is likely to be completely undermined if output is uncontrolled. Reconciliation carried out at the end of the output stage can provide very considerable assurance over the completeness and accuracy of earlier stages can provide very considerable assurance over the completeness and accuracy of earlier stage in the complete cycle.

Output controls ensure that all output is:

- (i) Produced and distributed on time:
- (ii) Fully concealed with pre-input control parameters,

(iii) Physically controlled at all items, depending on the confidentiality of the document and

(iv) Errors and exceptions are properly investigated and acted upon.

The completeness and integrity of output reports depends on restricting the ability to amend outputs and incorporating completeness checks such as page numbers and check sums.

Computer output should be regular and scheduled. Users are more likely to detect missing output if they expect to receive it on a regular basis.

This can still be achieved where the subject of computer reports is erratic, such as exception reporting, by the production of nil reports.

Output files should be protected to reduce the risk of unauthorised amendment. Possible motivations for amending computer output include covering up unauthorised processing or manipulating undesirable financial results. Un-protected output files within a bill paying system could be exploited by altering cheques or payable order amounts and payee details. A combination of physical and logical controls may be used to protect the integrity of computer output.

Output from one I.T. system may form the input to another system, before finally being reflected in the financial statements. Where this is the case the auditor should look for controls to ensure that outputs are accurately transferred from one processing stage to the next. A further example would be where the output from a trial balance is used as the input to a work processing or spreadsheet package, which then reformats the data to produce the financial statements.

(Authority : Paragraph 3.22.65, Paragraph 3.22.66, Paragraph 3.22.67, Paragraph 3.22.68 and Paragraph 3.22.69 of C&AG MSO 2002)

Master/ Standing Data File Controls

20.38. Master/Standing data file controls are meant for integrity and accuracy of master files and standing data. Accuracy of data on master and standing files is of vital importance, to the auditor. Information stored in master and standing data files is usually critical to the processing and reporting of financial data. Information on master files can affect many related financial transactions and so must be adequately protected. These have to ensure that:

(i) Amendments to standing data are properly authorised and controlled.

(ii) Integrity of master and standing files is verified by checking control totals and periodic reconciliation with independently held records.

(iii) Special amended facilities are properly recorded in and their use controlled by management authorisation and subsequent review and

(iv) Physical and logical access to application data files are restricted and controlled.

(Authority : Paragraph 3.22.70 of C&AG MSO 2002)

Audit Requirements

20.39 Audit requirements have to be provided to ensure that the system can be audited in an effective and efficient manner. Audit trail has to be maintained to enable tracing of an item from input through to its final destination and break up a result into its constituent parts.

Before considering the audit requirements for a system being developed, the auditor should have knowledge of the currently existing system and should keep in mind:

- (i) Weakness in the current system affecting the audit approach,
- (ii) Features in the existing system, which are relied on to provide an effective audit, that should be retained in the new system and
- (iii) Additional facilities, not currently provided which would assist the audit of the new system.

(Authority : Paragraph 3.22.71 and Paragraph 3.22.72 of C&AG MSO 2002)

Important points to be checked in application controls.

20.40 Audit of an application system which is operational involves verification of input / output controls, processing controls and audit trail. Evidence maybe obtained on the following points in the course of audit to come to a reasonable conclusion regarding existence of controls and their adequacy:

- (i) Whether the data processed are genuine, complete, accurate and not provisional?
- (ii) Whether expected output is produced and distributed on time?
- (iii) Whether application programs process the data s intended and a accurately?
- (iv) Whether a complete audit trail is available for tracing back a transaction form the final result to the initial inputs?
- (v) Whether the data and changes to it are authorised by appropriate authority both in the user and computer departments?
- (vi) Whether schedules for receipt of input data are maintained and what is the extent of compliance?
- (vii) Whether there is a preliminary check on input data to ensure completeness?
- (viii) Whether the application system provides for the following programmed controls:
 - (a) Check for missing / duplicate transactions: Examples are (i) check for continuity of goods invoice numbers issued by a station for missing numbers (ii) More than one subscription for the same month for one PF account number.
 - (b) Controls on rejected items and keeping them under computer suspense: Examples are (i) the monthly treasury transactions are rejected if they do not have valid heads of account as given in the budget master. the rejected items are kept under suspense and control totals along with valid transactions tallied with the cash account and list of payments (ii) Rejection of issue notes in a stores accounting system due to want of balances.
 - (c) Input validation for data purification (Alpha-numeric check to conform to data types): Examples are (i) personal identity number should be numeric (ii) Station name field is alphanutic (Depends on system requirements).

(d) limit/range checks: Examples are (i) the transaction type in a financial accounting system (expressed in terms of rupees), should not have values less than 1 or greater than 6 (ii) The minimum basic pay can not exceed Rs 9000/- per month (iii) the code for treasury alone for nay state should have values not exceeding two digits.

(e) Over flow checks: Examples are (i) if the field length for with a drawl / advances in a PF system is 5 digits and there is a valid digit transaction with 6 digits, the high order digit gets truncated, i.e. the debit will be recorded by one digit less (ii) In arithmetic operations like weight multiplied by rate to give freight, if adequate fields length is not provided for fright the transaction will be in correctly recorded as it will be confined to the field length

(f) Some field should not be blanks or zeros (mandatory fields) examples are (i) in a accounting system, the have type code connote be left blank since the entire transaction will be in valid without this (ii) a treasury transaction should indicate in the relevant fields whether it is voted/charged, plan/ non plan, and not be left blank.

(g) Check digits: Examples are (i) in a pay roll system, the account no. which is a control field to identify an employee, has a built in check digit. The program works out the check digit on the basis of the account number input and verifies the correctness of check digit given. If the check digits do not tally, them the account number is wrongly entered (ii) the station code in the freight accounting system in the railways has check digit to detect data entry errors this code.

(h) Compatibility checks: Example is if the transaction type is for official receipts in a financial accounting system, the amount cannot normally be a negative value.\

(i) Exception condition check: Example is the amount column in a treasury transaction for a month has a value greater than the budget for a quarter.

(j) Total for a batch/lot: for example the batch total for a major head under a treasury is worked to on the computer and tallied with the total given in the schedule of payments/receipts for that batch.

(k) Record totals and summaries for reconciliation: Example is in a freight accounting system, when goods basic cape is created it gives the total number of records, which should tally with the total number of invoices input.

(ix) Whether output reports are test checked before, being distributed to the user department and the output is produced in accordance with a prescribed schedule.

(Authority : Paragraph 3.22.73 of C&AG MSO 2002)

Audit Trail

20.41 Objective of audit trail is to obtain sufficient evidence matter regarding the reliability and integrity of the application system. To achieve this, the audit trail should contain information to allow management, the auditor and the user.

- (i) To recreate processing action;
- (ii) To verify summary totals and
- (iii) To trace the sources of intentional and unintentional errors.

The audit trail should include the following information:

- System information including start up time, stop time, restarts, recovery etc.

- Transaction information including input items which change the database, control totals and rejected items.
- Communication information including terminal log-on/off, password use, security violation, network changes and transmission statistics.

In a computer system, the audit trail may not always be apparent as in a manual system since data are often retained in magnetic media and output is limited to a small number of total items processed, with reports produced only on exception basis. The general procedure is to first investigate control totals and run to run totals with the whole system and then to check and substantiate the audit trail by limited checking through records and files or by taking intermediate print outs of audit interest. If the design of the computer system does not provide for adequate audit trail this should be brought out in audit review, highlighting control weaknesses or lack of controls in the system. Apart from errors that might crop into the system, there is a possibility of fraud which might occur due to undetected control weaknesses.

(Authority : Paragraph 3.22.74, Paragraph 3.22.75 and Paragraph 3.22.76 of C&AG MSO 2002)

[Authority: I.T. Audit monograph series 1 and Para of C&AG 's MSO (Audit)]

Chapter XXI

Style Guide for Audit Report

General advice on good writing

21.01 Clear writing depends on clear thinking. To draft well a writer must know just what meaning he wishes to convey.

21.02 You can usually say what you want in short everyday works. This is specially important if you are writing about a complex subject. Readers will need all their attention to grasp what they are being told. They do not want to spend time grappling with obscure language as well.

21.03 Orwell observed ‘A scrupulous writer in every sentence that he writes will ask himself at least four questions. What am I trying to say? What words will express it? What image or ideas would make it clearer? Is this image fresh enough to have an effect? And he will probably ask himself two more: Could I put it more shortly? Have I said anything that is avoidably ugly?’ So think what you want to say, then say it as simply as possible. Keep in mind the following elementary rules:

- Avoid clichés and slang;
- Never use a long word when a short word will do;
- If it is possible to cut out a word, always cut it out;
- Never use a foreign phrase, scientific word, jargon word if you can think of straight forward English equivalent. Use the language of every day speech, not that of accountants, computer experts, bureaucrats and lawyers;
- Avoid a desire to impress. Yours job is to help the reader understand you readily and precisely and not to show them how clever you are and
- Do your best to be lucid. Simple sentences and short paragraphs help to breakdown slabs of texts into manageable chunks. Avoid complicated constructions and gimmicks.

How long is long

21.04 For writers, long sentences are difficult to construct well. The longer they get the more risk there is of ideas becoming confused. For readers long sentences are hard work.

21.05 So how long is long? Readers seem to be comfortable with an average sentence length of 15-20 words in most circumstances. Most writers are capable of writing such sentences without much effort. Occasionally, a long sentence is necessary, but be ware of using such long sentences regularly. Sometimes, a very short sentence can be useful to punch home an idea. It catches the readers’ attention and stops him skimming over important facts.

21.06 Use short paragraphs – none should be longer than a third of a typed page. Use indents freely to list main points and get your message across more clearly, make more use of side headings and give paragraphs minor sub headings

Drafting reports

Objectives of reports

21.07 Reports are the principal means by which the IA & AD meets its primary objective of providing Parliament and State Legislatures with independent information and assurance. They are written for the Parliamentary reader or the PAC, and beyond that for the wider public. They are not written to be read as a dialogue between the IA & AD and the audited body and are not therefore reports in any expert to expert category.

So the reports need to get their essential messages across clearly and simply to an audience who probably do not need or wish to know the details and complexities surrounding the subjects examined.

21.08 For every report, meeting these objectives means putting a premium on

- having a strong , clear report structure;
- avoiding a temptation to include as much as possible of the information and analysis gathered during the investigation to support IA& AD findings and conclusions;
- concentrating less on narrative descriptions of how things are done and more on which they are done, how well they are controlled and the results achieved and
- used hard evidence and telling examples to reinforce the messages in the report.

21.09 All drafts must pay close regard to the reporting objectives summarized above. It is not acceptable for drafts to be submitted on the basis that as much as possible should be included and that streamlining, selection and re-arrangement will be catered for by subsequent redrafting up the line.

The IA & AD style of report writing

21.10 Writing audit reports is not so different from writing any other kind of informative writing .To give our readers a comfortable ride, use verbs actively, write short sentences and keep to the essentials. The more complex the subject the simpler the style should be. Our aim should be reports which set out the facts in a series of short crisp paragraphs.

Drafting this way is not always easy. Every one will have to be ruthless in revising their own material and rejecting what is not up to scratch. Always look critically at your finished work to see if you can answer ‘yes’ to the following questions.

Structure

Does it have a strong, clear framework which presents the material logically and to best effect?

Is it clear?

Does it get its main message across on first reading?

Will the language be clearly understood by the reader

Is it free and jargon?

Simple and brief

Does it concentrate on the main issues, avoiding aspects which are peripheral?

Does it give only the essential facts?

Does it include only essential words and phrases?

Accurate

Is the information correct?

Are the findings supported by evidence?

Is the writing free from errors in grammar, spelling and punctuation?

Complete

Does it give all the necessary information?

Does it answer all the important questions?

Balanced and fair

Does it present both sides of the argument?

Does it reflect good performance and good VFM by the audited body as well as criticisms?

Are the audited body's views properly reflected?

Is the language used moderate and non-provocative?

Constructive?

Does it consider the feasibility of recommendations made?

Does it look forward to improvements rather than back at faults and weaknesses?

Length of reports, paragraphs, reviews and appendix

20.11 As a rule of thumb, maximum length of the report (excluding overview and appendix) should be 120 typed pages. The limit can be relaxed where the number of reviews is four or more in bigger states. Overview should not normally exceed about eight to ten typescript pages. The existing limit of (30) pages appendix/annexure has been relaxed to (65) pages. Transaction audit paragraphs should not normally exceed two pages. Except All-India reviews, other reviews should be confined to 20 typed pages. The 20 pages limit for performance audits could be relaxed by five pages depending upon the availability of material.

Structure of reviews

21.12 There is no ideal drafting model which is suitable for all reviews. A rigid format should become cumbersome and unimaginative. The main consideration is how the facts, figures and conclusions on a particular subject can most effectively be communicated and what form of presentation best meets that purpose.

21.13 There are two main structures adopted:

- a 'straight through' review incorporating recommendations in the main text;
- a review preceded by 'highlights' and ending with conclusion' containing recommendations

21.14 Long reviews of about 15 pages should normally be preceded by 'highlights' containing the main findings. The 'highlights' should be concise (not more than three pages), but should sufficiently bring out the main issues to provide the reader with a clear view of the purpose and results of the review.

21.15 The 'highlights' is not intended to be free standing, minin-report and should contain the minimum of description and narrative. It is not always necessary for matters dealt with in the 'highlights' to follow the same sequence or be under the same headings as in the main text of the

review; sometimes, for example, it may be desirable to arrange the ‘highlights’ according to the materiality of audit findings. However structure, the ‘highlights’ should cross-refer to the relevant paragraphs in the report.

21.16 The review should be free-standing – i.e. capable of being read without the need to refer to other source material or other published information. It is a condensed description of main issues, findings and conclusions; and supporting facts. The essential approach should be:

- bring out the really important matters;
- play down the less important;
- omit the unimportant and
- generally be selective and concentrate on IA&AD analysis rather than on descriptions and narratives.

Appendix

21.17 If the main text of audit report involves detailed analysis of complicated issues, or statistics, these should normally be set out in an appendix. But don’t use appendices simply to display how much information you have collected. They are not a vehicle for including descriptions of detailed systems or procedures operated within the audited body. Material should always be relevant and support the case being made. Appendices need to be drafted and edited just as carefully as the main text. As a rule of thumb, if information on less than five items is to be provided, the details may be incorporated in the main text itself, rather than as an appendix.

Diagrams, tables etc.

21.18 Full use should be made of facts, figures and relevant examples to give lift to the report & to point the reader to significant issues and conclusions. Diagrams, charts, graphs & tables should be used to help get across important messages; and these should be where appropriate included in the text, not only in appendices. These can save a lot of explanation and provided they are simple and well laid out-can often convey more in a short space than stretches of narrative.

Glossary

21.19 Abbreviations in reports should be kept to a minimum. Where five or more abbreviations (or specialized terms) are necessary in the report then all abbreviations and terms used should be listed in a glossary at the end of the report.

IA & AD conventions which must be used

Abbreviations

21.20 Keep the use of abbreviations to a minimum, particularly where they are likely to be unfamiliar to the reader. Observe the following rules:

- all abbreviations are potentially an affront to the reader since they are used for your benefits and not his;
- do not use abbreviations for bodies which are referred to only a handful of times in a report-the reader will have forgotten what they mean and will have to look back to check up;

- if you must use an abbreviation write the words in full on their first appearance followed by the initials in brackets;
- ring the changes by referring to ‘the Ministry’, ‘the Department’, the Commission, etc.;
- normally avoid using abbreviations in the ‘overview’ and ‘highlights’, particularly if the words in full are explained only in the text;
- abbreviations that can be pronounced do not need the definite article (e.g., UNESCO). All other abbreviations do (e.g., the CAG, the GOI)

Active not passive

21.21. *Wherever possible write actively, Overuse of passive verbs is one of the most common causes of unclear written. So say ‘Audit examined this account’ and not ‘an examination of this account has been carried out by Audit’. To convert passive into active change either the verb: ‘expenditure was reduced by Rs 10 lakh’ to there was reduction in expenditure of Rs.10 lakh’ or the subject: ‘payment was authorized by the Executive Engineer’ to ‘Executive Engineer authorized the payment’.*

Apostrophes

21.22 Use the normal possessive ending’s after singular words or names that end in s: boss’s, Jones’s. Use it after plurals that do not end in s: media’s. Use the endings’ on plurals that end in \s: companies’ - including plural names that take a singular verb (e.g., Reuters’).

Capitals

21.23 A balance needs to be struck between using too many and too few capital letters. Here there can be no general rule, but two pieces of advice may be given:

- The particular and the general: Use a capital for the particular and a small letter for the general. For e.g., ‘it is a road leading out of Barakhamba Road’
- Consistency: Whatever practice you adopt, be consistent throughout any document you are writing.

Chapter number

21.24 Use roman numbers (I, II, III.....) for Chapter numbers

Dates

21.25 Do not put commas in dates. Use any of the following formats:

- 26 May
- Monday 26 May
- 26 May 2003
- 26-30 May 2003
- 26May-5 June 2003
- 2002-03
- 26/5/2003

Figures

21.26 Never start a sentence with a figure; write the number in words instead. Use figures for numerals greater than nine and for all numerals that include a decimal point or a fraction. Use words for whole numbers from one to nine. Fractions should be hyphenated (two-thirds). Spell out lakh and crore. Do not use abbreviations for lakh and crore except in tables.

Do not mix decimals and fractions; thus use either 3 ½ lakh or 3.5 lakh but not both.

Use commas appropriately while writing figures (12, 34, 56,789.99)

Number greater than 100 lakh should be expressed in crore and numbers less than 100 lakh in lakh.

In case of comparison same units to be used, e.g. lakh or crore.

Use 2,000-3,000, 2 lakh-3 lakh (not 2-3 lakh). But, 'costs rose from Rs.2 lakh to Rs.3 lakh' (not Rs.2 lakh – Rs.3 lakh).

- Figures in table and narration should be in same unit;
- Use of figures or words should be uniform for comparison e.g. 2 and 12 or two and twelve.

Font

21.27 Use font size of 12 in the text of report. Even in tables and charts do not use font size of less than 8.

Page numbers

21.28 Use roman numbers (I, ii, iii...) for the part of the report containing contents, preface and overview of the report. Use Arabic numbers for the main text and appendices in the report. Never use alpha-numerals (12A, 12B) for page numbering.

Paragraph numbers

21.29 Never use alpha-numeric coding (3.2A.1) for paragraph numbers. Also avoid a mix of Roman-Arabic numbers (3.4. (iv)).

Use Arabic numerals for paragraph numbers. The first digit of the paragraph number should indicate the Chapter number. For e.g., the first digit of a paragraph in Chapter III should be 3. The paragraphs and sub-paragraphs should be numbered as 3.1, 3.1.1 etc.

Do not use more than 4 levels in paragraph numbering (e.g. 3.1.2.1, 3.1.2.2. and so on).

Percentages

21.30 Write per cent rather than % and percentage rather than %age. A range of values should be expressed as 10-12 per cent, not 10%-12 or 10 per cent – 12 per cent.

Do not use a percentage, a proportion, or a fraction when you mean some, as in: substantive testing proved worthwhile in a percentage of cases.

Preface

21.31 Introduction to the report should be titled ‘Preface’ and not ‘Prefactory remarks’.

Singular/plural

21.32 There is no rule about whether a verb that agrees with a single collective noun should be singular or plural. However, use ‘a number are’ and ‘the number is’.

- In using collective nouns, the plural is more suitable when the emphasis is on the individual members and the singular verb when it is on the body as a whole. For e.g., the committee were unable to agree and a committee was appointed.
- Do not use a singular verb where two singular nouns are linked by ‘and’ unless the linked words are so closely associated that they might also be hyphenated.
- For words linked by ‘with’ use singular verb if the subject is singular. The Minister together with the Secretary is coming.
- When each is the subject for a sentence, the verb is singular and so is any pronoun. For eg. Each has a room to himself.
- Certain nouns are often misused. Remember agenda is singular and data is plural. Thus it is wrong to write ‘data that is four to twelve years old is of limited use’.
- The IA&AD and Government Departments should always be treated as plural nouns.

A to Z of common errors and weaknesses

A or An

21.33 Use *an* in place of *a* when it precedes a vowel *sound*, not just a vowel. That means it’s ‘*an* honor’ (the *h* is silent), but ‘a UFO’ (because it’s pronounced *yoo eff oh*). Some people think it’s wrong to use ‘an’ in front of an abbreviation (like ‘MRI’) because ‘an’ can only go before vowels. The *sound* is what really matters. It’s ‘*an MRI*’ (you pronounce it ‘em ar eye’).

Adverbs

21.34 Put them where you would in normal speech, which is usually after the verb.

Among versus Between

21.35 The simple rule will rarely fail you: use *between* for two things, *among* for more than two.

Alternative

21.36 Strictly this means one of two, nor one of three, four, five or more. Options should be used when more than two are meant.

Ampersands

21.37 Should be used in three ways:

- When they are part of a company or body (IA&AD)
- When two names are linked to form one unit (Trade & Industry)
- In R&D

Anticipate

21.38 Does not mean expect but to use in advance. Probably best avoided since it is often misused.

Basically

21.39 Almost always useless. Qualifiers such as *basically*, *essentially* and *totally* rarely add anything to a sentence; they are the written equivalent of 'Um'.

Circumstance

21.40 Stand around a thing; therefore correctly it is in the circumstances not under them.

Colon

21.41 To be used:

- To mark more sharply than a semicolon the antithesis between two ideas;

This year the department is short of funds: next year it will have money to burn.

- To precede an explanation or to introduce a list of series:

The Government Account consists of 3 parts: the Consolidated Fund, the Contingency Fund and the Public Account

Comma

21.42 Use commas sparingly and as an aid to understanding. Too many in one sentence can be confusing,

Generally used:

- To mark off less important statements within a sentence:
- To break long sentences into easily understood parts:
- To separate items in a list.

Compare

21.43 X is compared with Y when drawing attention to the difference (compared with last year's poor results, 1986-87 was a good year): X is compared to Y when stressing their similarity (as is 'shall I compare thee to a summer's day').

Compound

21.44 This word is often misused. It does not mean to make worse, to multiply or to complicate. It means to mix together, to settle by mutual agreement or to condone for a consideration.

Probably best avoided.

Comprise

21.45 The meaning is ‘composed of’. DTI comprises Trade and Industry: Trade and Industry make up (not comprise) DTI.

Continual versus Continuous

21.46 *Continual* means ‘happening over and over again’; *continuous* means ‘happening constantly without stopping’. If you’re *continually* on the Internet, it means you keep going on; if you’re *continuously* on the Internet, it means you haven’t gone off at all.

Convince

21.47 Is not a synonym for persuade. The C&AG was persuaded to award a 10 per cent increase: he was convinced of the wisdom of doing so only after the wastage rate had risen to 100 per cent.

Currently

21.48 What’s wrong with *now*? Or even leaving it out altogether and letting a present-tense verb do the trick? *It is currently not available* is the same as *It is not available* or *it is not yet available*.

Decimate

21.49 Strictly his means to reduce something by a tenth, not to destroy a large proportion. Probably best avoided.

Different

21.50 Different from not to or than.

Disinterested

21.51 Means impartial and not uninterested. ‘Uninterested’ means unconcerned or indifferent

Due to

21.52 Its three main meanings;

- Owed to, as in: Rs 1.00 lakh of fees is due to the IAAD
- Arranged or timed to, as in: the VFM report is due to be completed in May.
- Because of: when used to follow a noun, as in: the cancellation, due to the election, not it was cancelled due to the election

Effectively

21.53 means with effect: if you mean in effect, say so. ‘The matter was effectively dealt with in committee’ means it was well done in committee. ‘The matter was, in effect, dealt with in committee, means it was more or less attended to in committee.

E.g. versus i.e.

21.54 The abbreviation e.g. is for the Latin *exempli gratia*, ‘for example’, i.e. Latin *id est*, means ‘that is’. They’re not interchangeable. Both abbreviations should be followed by a comma.

Estimated

21.55 Avoid ‘an estimated Rs. 10 lakh’; use instead ‘about Rs. 10 lakh’ or ‘it was estimated as Rs. 10 lakh’.

Factor

21.56 A hackneyed word; the expressions of which it forms part can usually be replaced by something more direct and idiomatic. For e.g., instead of saying “His superior training was the great factor in his winning the match’ use ‘He won the match by being better trained’.

Farther versus Further

21.57 Though very few people bother with the difference these days, there is a traditional distinction: *farther* applies to physical distance, *further* to metaphorical distance. You travel *farther*, but pursue a topic *further*.

Finally

21.58 Do not use finally when you mean lastly or at last. Thus, it is illogical to write Public Expenditure finally fell below Rs.100 crore because it may rise about it again in the future.

Flaunt

21.59 Means display: Flout means show contempt for.

Foreign words and phrases

21.60 Avoid them unless there is no everyday English alternative.

Full stops

21.61 A full stop marks the natural conclusion of the small package of information that has been offered in a sentence.

Do not use full stops at the end of headings or in abbreviations. Full stops should be used to mark the end of a sentence and mark a stronger break between ideas than a comma, semicolon or colon.

Get

21.62 Be sparing with this verb. Thus: BALCO did not get privatized: it was privatized.

Hopefully

21.63 This adverb means ‘full of hope’. Thus you may begin writing a draft report hopefully, but never write: Hopefully, the VFM investigation will be finished in 1989. It is better to say: If all goes to plan (or with great good luck) ...

However

21.64 In the meaning *nevertheless*, not to come first in its sentence or clause.

Incorrect	Correct
The roads were almost impassable. However, we at last succeeded in reaching camp.	The roads were almost impassable. At last, however, we succeeded in reaching camp.

When *however* comes first, it means in *whatever* way or *to whatever extent*. For e.g.

However you advise him, he will probably do as he thinks best.

However discouraging the prospect, he never lost heart.

Hyphens

21.65 Use them in the following words:

- Fractions
- Most words beginning with anti and non: anti-government (but note anticlimax, antitrust non-combatant, non-payment (but note nonaligned, nonstop)
- A sum of money followed by the word worth: Rs 10 lakh-worth of stocks
- To avoid ambiguities: a little-used vehicle (low mileage) and a little used-vehicle (an old Mini)
- Separating identical letters: Book-keeper, re-entry, pre-eminent
- Nouns formed from prepositional verbs: build-up, call-up, get-together, shake-up

A list is attached of commonly used words which do not require a hyphen.

Information overload

21.66 As discussed earlier, do not provide all the details you have just because you have it. Information overload can distract readers' attention from the main issue. For e.g., while making a comment on the non-utilisation of a building constructed at a cost of Rs.55 lakh for more than 3 years, do not discuss salary of Rs.1.25 lakh paid to a watch and ward for the security of the building.

Inverted commas

21.67 If an extract ends with an exclamation or question-mark, put the punctuation before the closing inverted commas: The Director said to him, 'Haven't you finished that draft yet?'

If the question or exclamation mark is part of a lengthy sentence within which the quotation stands, put it outside the inverted commas: Why did the Director say, 'Haven't you finished that draft yet'?

Is or -ize?

21.68 Always use -ise for it will never be wrong, whereas -ize sometimes will be: criticize, solemnise etc.

It's versus Its

21.69 There's no shortcut; all you can do is memorize the rule. *It's* with an apostrophe means *it is* (or, a little less often and a little less formally, *it has*); *its* without an apostrophe means *belonging* to it.

Jargon

21.70 The CAG's Reports are not addressed to IA&AD staff or to the audited bodies, but to the Parliament and the public jargon must therefore be avoided, especially legal and technical terms and those conventional phrases invented by government departments that are unintelligible to outsiders. You may have to think harder if you do not use jargon, but you can still be precise. You should ask yourself-will the reader understand this term properly? Could I replace it with everyday language? Should I still use the term but explain it?

Read through your completed draft, and try to remove all jargon to make the result intelligible to everybody.

Less and fewer

21.71 Less qualifies degree, quantity or extent and takes a singular noun. Fewer relate to number and take a plural noun. Thus: less spending; less distance; fewer miles, fewer opportunities.

Literally

21.72 Use the word *literally* with care, and only where what you are saying is *literally* true. ‘We were *literally* folded with work’ is wrong because the *flood* is a metaphorical one, not an actual deluge. Don’t use *literally* where *really*, *very*, or *extremely* will do.

Majority

21.73 Do not use the major part or the majority when most should be adequate: reserve them for occasions when the difference between a majority and a minority is significant. Thus: the majority of CIPFA students are likely to vote for the proposal.

--ment

21.74 Avoid adding –ment to verbs indiscriminately. Do not use words like schedulement, reallocationment etc.

Metaphoros

21.75 Metaphors can be useful, enabling ideas to be conveyed succinctly without tedious explanation. But used indiscriminately they become stale and lack precision. Orwell put it as follows: ‘A newly invented metaphor assists thought by evoking a visual image, while, on the other hand a metaphor which is technically ‘dead’ has in effect reverted to being an ordinary word and can generally be used without loss of vividness. But in between these two cases there is a huge dump of worn-out metaphors which are merely used because they save people the trouble of inventing phrases for themselves.

Multiple/negatives

21.76 Avoid using multiple negatives in a sentence. For e.g. ‘common’ could be used instead of ‘not uncommon’.

Nature

21.77 Often simply redundant, used like character. For e.g., ‘Acts of hostile nature’ could be replaced with ‘Hostile acts’.

None

21.78 None takes a singular verb. So does neither X nor Y, unless Y is plural. For example, neither the minister nor the officers have done it – where the verb agrees with the element closest to it.

Nor

21.79 Although there are other possibilities, you can’t go wrong if you use nor only after the word neither: instead of ‘Keats did not write novels nor essays’, use either ‘Keats did not write

novels or essays' or 'Keats wrote neither novels nor essays'. (You can, however, say 'Keats did not write novels, nor did he write essays')

Only

21.80 Put only as close as possible to the word it qualifies if it could reasonably be thought ambiguous elsewhere. Thus: these sections produce accounts only in September. To say that they only produce accounts in September could suggest to a careful reader that in September they do nothing else or that in other months they do something other than 'produce' them.

Optimum

21.81 Optimum is not an alternative for best. It should be used only of the product of conflicting forces. An auditor's optimum work rate is not the fastest he competent authority do, but the rate which reconciles in the most satisfactory way the conflicting needs for speed, accuracy and a satisfactory result.

Paragraphs

21.82 Long paragraphs can confuse the reader. One thought – one paragraph.

Parameter

21.83 Parameter is a mathematical term with a precise meaning. It is normally better to use boundary, limit, framework or condition.

Particular

21.84 This particular word, in many particular circumstances, serves no particular purpose. Give particular attention to the particular prospect of cutting it out.

Per

21.85 Avoid the habit of using *per* instead of *according to*, as in *per manufacturer's guidelines*.

Plus

21.86 The use of the word *plus* where *and* or *with* would be better is a bad habit picked up from advertising copy. Try to limit *plus* to mathematics, and use *and* or *with* where they're appropriate.

Presently

21.87 Does not mean at present but soon. Example: Presently the department will act on their decision. Probably best avoided.

Punctuation

21.88 The specific punctuation marks are dealt with in the relevant section of this guide. However, remember that:

- The only purpose of punctuation is to make clear to the reader what you want to say:
- Keep punctuation marks to a minimum.

Semicolon

21.89 No hard and fast rules here, except to encourage consistency throughout a report. Remember that a semicolon is simply a stronger version of the comma.

Shall versus Will

21.90 Will is usually the simple future indicative: ‘This will happen’. ‘You will be surprised’. Shall is related to the subjunctive, and means ‘Let it be so’, which you might see in legal or business writing: ‘The employee shall produce all required documentation’, ‘A committee shall be appointed’ and so forth. (They’re not just predicting that the employee’s going to do it or the committee is going to form; they’re declaring that they must, or at least should, happen). But this rule works only for the second person (you) and the third person (he, she, it, they). The first person – I and we – reverses the rule, so ‘I shall do it’ means I’m going to get around to it, while ‘I will do it’ shows a mustering of resolve (let it be so).

Sentences

21.91 These must be short and have unity of thought.

Short words

21.92 Should always be used in preference to long word unless there is a good reason not to. Use the language of everyday speech. Not that of auditors. Accountants, Lawyers, Bureaucrats and computer experts.

So

21.93 Avoid using ‘so’ as an intensifier, as in ‘It’s so hot’, unless there’s a *that* clause (though the word ‘that’ needn’t appear in less formal writing): For e.g., ‘It’s so hot that the asphalt is melting’. Usage of ‘so’ instead of ‘very’ is a no-no.

Spelling

21.94 Always use English spelling and not American. A list of commonly mis-spelt words is attached.

That versus Which

21.95 The relative pronoun *that* is restrictive, which means it tells you a necessary piece of information about its antecedent: for example, 'The word processor *that* is used most often is WordPerfect'. Here the *that* phrase answers an important question: which of the many word processors are we talking about? And the answer is the one that is used most often.

Which is non-restrictive: it does not limit the word it refers to. An example is 'Penn's ID center, *which* is called CUPID, has been successful so far'. Here *that* is unnecessary: the *which* does not tell us which of Penn's many ID centers we're considering; it simply provides an extra piece of information about the plan we're already, discussing. 'Penn's ID Center' tell us all we really need to know to identify it.

It boils down to this: if you can tell which thing is being discussed without the *which* or *that* clause, use *which*; if you can't use *that*.

Unnecessary words

21.96 Use adjectives and adverbs to make your meaning more precise but beware of using them for emphasis alone. Very is often used so freely that it ceases to have any meaning:

It must be used discriminatively to be effective. Necessarily and inevitably are overworked: they often add nothing to the meaning of the works they qualify.

The knife may also be wielded on many other words and phrases: For e.g. Track record (record), cutbacks (cuts), large-scale (big).

Verbs

21.97 Comments made in the side-margins and tables should be complete English sentences. Avoid a temptation to save space by omitting verbs like is, are, was, were, etc. in the sentences contained in tables and side-margins.

While

21.98 Avoid the indiscriminate use of this word for and, but, and although. Many writers use it frequently as a substitute for and or but, either from a mere desire to vary the connective, or from uncertainty which of the two connectives is the more appropriate. In this use a semicolon best replaces it. For e.g. instead of 'The office and salesrooms are on the ground floor, while the rest of the building is devoted to manufacturing use. The Office and salesrooms are on the ground floor, the rest of the building is devoted to manufacturing.'

Who versus whom

21.99 While it's possible to memorize a rule for distinguishing who from whom, it's easier to trust your ear. A simple test to see which is proper is to replace who/whom with he/him. If he sounds right, use who, if him is right, use whom, for example since he did it and not him did it, use who did it, since we give something to him and to he, use to whom. It gets tricky only when the preposition is separated from the who; who/whom did you give it to? Rearrange the words in your head 'To whom did you give it?'

Would versus should

21.100 A conditional statement in the first person requires should, not would. For e.g. I should not have succeeded without his help

The equivalent of shall in indirect quotation after a verb in the past tense is should, not would. For e.g. He predicted that before long we should have a great surprise.

Vernacular words/Latin works

21.101 Vernacular words like khul' small open irrigation channel 'chak' development-command area development, 'khadanja road 'nautor' land-Government land allotted to villagers for cultivation, are used, such words should be shown in Italics and explained as a footnote, if required. *Similarly Latin phrases and words used in English like viz. bonafide, ibid, suo-motu, malafide, defacto, prima-facie, proforma, ex-gratia, ex-post-facto in toto, inter-sanction estimate should be shown in italics*

Common mistakes

21.102 Write officer concerned/department concerned' instead of concerned officer'/concerned department.

The words balance and rest are both nouns. It incorrect to say "the balance payment was to be withheld" or the "the rest 80 per cent was to be withheld" The correct forms are either " the balance was to be withheld " or the rest was to be withheld or the remaining payment was to be withheld etc.

Except for accepted and short expression like and/or use of the slash (/) between the words should be made in a very restricted way e.g. instead of saying 'short /non-payment, we should say short payment or non-payment.' Similarly instead of writing any should say short payment or non payment. Similarly instead of writing any increase/ decrease over/ below the schedule of quantities of a contract, we should write any increase over or decrease below the schedule quantities of a contract. Instead of writing "The benefits or subsidy/incentive/ MSP provided by Government "We should write "The benefits of subsidy, incentive and MSP provided by the Government.



Chapter-XXII

Forest Audit

Background

A separate manual for audit of Forest department has been existing till so far. The Forest Audit Manual was prepared on INTOSAI/ASSOCIAI pattern for guidance of the officers and staff entrusted with the audit of Forest Receipts and Refunds. In the existing manual, the relevant provisions of the law and the procedure for assessment and collection of Forest Receipts have been set out.

Incorporating the instructions contained in previous separate Forest audit manual now this Chapter has been added in the AMG-I manual which inter-alia contains the changes in the Acts/Rules/Circulars etc. The material contained in this Chapter would require constant modifications in the light of further experience gained in the course of audit and instructions issued by the Central/State Government.

All members of the Audit Management Group-I, are expected to be conversant with the detailed procedure laid down herein. Any error or omission which may be detected in this Chapter and any useful suggestion for its improvement may be brought to the notice of the Accountant General. The Assistant Audit Officer, AMG-I headquarter Section, will be responsible for keeping this Chapter of Manual up-to-date by issuing correction slips at regular intervals.

22.1.1 The general principles and processes of local audit are laid down in the Comptroller and Auditor General's Manual of Standing Orders (Audit). The instructions embodied in the Chapter supplement the general rules and orders contained in the authorised codes and manuals etc. and should not be regarded as superseding or replacing them.

The duties and powers of the Comptroller and Auditor General of India (CAG) in relation to the audit of expenditure are laid down in Section 13 and 18 and of receipt in Section 16 of the CAG's (Duties, Powers and Condition of Service) Act, 1972.

But while conducting audit on 'Forest Receipt' it is necessary to form an idea about the nature, significance and legal implication of 'Forest Receipt' of the Government. Under entry number 19 and 20 of List-II of Seventh Schedule of the Constitution read with Article 246, the State Legislature has exclusive powers to legislate on the following matters:

Entry 19 – Forests

Entry 20 – Protection of Wild Animals and Birds.

Recognising the importance and necessity of protection and improvement of forests, the Constitution stipulates in Article 48-A that the State shall endeavour to protect and improve the environment and to safeguard the forest and wild life of the Country. Realising the importance of forests for the well being of the nation, the Parliament through 42nd Amendment (1976) brought Forests and Wildlife on concurrent list of the VIIth Schedule to enable the Central Government to play more effective role in the management of forests. In 1980 Government of India put severe restrictions on dereservation of forests or use of forest land for non-forest purposes without prior approval of the Central Government. The Indian Forest Act, 1927, the Wild Life (Protection) Act, 1972 and the Forest Conservation Act, 1980 are the three major legislation in force today. The Central Board of Forestry is the highest level policy making body in India which lays down guidelines of Forest Policy in the country. Amongst the basic objectives laid down in this policy are maintenance of environment at stability through preservation and

restoration of ecological balance adversely disturbed by serious depletion of the forests in the country, conserving the natural heritage of the county by preserving the remaining nature forces, checking soil erosions, increasing the forest/tree cover, checking extension of sand in the desert areas and coastal areas through massive afforestation and social forestry programmes meeting the requirement of fuel wood etc. of the rural and tribal people and increasing productivity of the forests.

A National Waste Land Development Board has been constituted to look after some of the above mentioned goals. The Government of Jharkhand has also got its counterpart with the similar objectives.

The Forest Conservation Act, 1980 was amended in 1992 according to which it would be unlawful to lease out any forest area to any private organisation even for afforestation. The concerned officer would be held responsible if any forest area was allowed to be used for non-forest purposes without prior approval of the Central Government.

The National Forest Policy was framed in 1980 with the objective to identify the communities who will be the beneficiaries for forest produces. Much stress has been laid on the needs of the tribal and other backward/poor classes living in the forest area. The Government of Jharkhand is yet to formulate a State Forest Policy of its own.

The following are some major rules and orders issued by the Government of Bihar which has been adopted by the Government of Jharkhand and the Principal Chief Conservator of Forests (PCCF), which may be utilised by audit while conducting scrutiny on 'Forest Receipts':

- Forest (Conservation) Rules, 1981;
- Wild life Protection Rules, 1973;
- Bihar Rules for the Establishment of Saw Pits and Establishment and Regulation of Depots;
- Bihar Saw-mill (Regulation) Act, 1990;
- Bihar Restoration and Improvement of Degraded Forest Land Taxation Ordinance, 1992;
- Bihar Public Land Encroachment Act, 1956;
- The Environment Protection Rules, 1986;
- The Bihar Forest Manual;
- Notifications and orders issued under the above Acts and Rules.

22.1.2 Salient features of the Indian Forest Act, 1927

The layout of India Forest Act, 1927 which extends also to the State of Jharkhand can be summarised as follows. This Act was last amended in 1990 (Act 9 of 1990):-

- (a) Section 3 to 25 and 27 provide for the detailed procedure and the power of the State Government to constitute and declare a reserve forest, powers to stop ways and water course and to prohibit certain acts in a reserve forest while Section 26 provides for penal provision for such acts.
- (b) Section 28 make provision for formation of village forests by the State Government.
- (c) Section 29 to 32 and 34 provide for the detailed procedure to constitute a protected forest and State Government's power relating thereto. Section 33 as amended provides for penal provision for acts in contravention of notification under the said sections in protected forests.

- (d) Section 35 to 38 deal with the matter relating to the control over forests and forest land not being the property of the Government i.e. protection of forests for special purposes, power to assume management of forests in certain cases and protection of forests at the request of owners.
- (e) Section 39 to 40 provide for the power of the Central Government to levy duty on timber and other forest produce.
- (f) Section 41 to 44 empowers the State Government to make rules to regulate the transit of Forest produce by land or water. Section 41A has been inserted and Section 42 has been amended.
- (g) Section 45 to 50 make provision for the collection of drift and standard timber. Section 51 provides for penal provision.
- (h) Section 52 to 69 provide for penalties and procedural matters. Sections 52, 66 and 68 has been amended. In these Sections provisions have been made for seizure of property liable to confiscation, power to release seized property, disposal of seized forest produce, matter relating to detected and undetected forest offences, penalty for counterfeiting or defacing marks on trees and timber and altering boundary marks, compounding of offences.
- (i) In terms of Section 73, all forest officers shall be deemed to be public servant within the meaning of Indian Penal Code.
- (j) Section 82 makes provision for recovery of money due to Government. All such dues may be recovered under the law for the time being in force as if it were an arrear of land revenue.

22.1.3 Scope of audit of expenditure and receipts

Section 13 of the CAG (DPC) Act, 1971 prescribes the duties of the CAG regarding the audit of expenditure from the Consolidated Fund and Contingency Fund of India and of each State and Union Territory. In connection with the performance of duties under the said Act, CAG derives his power from Section 18 which reads as under :

- (1) The Comptroller and Auditor General of India shall in connection with the performance of his duties under this Act have authority;
 - (a) to inspect any office of accounts under the control of the Union or of a State including treasuries and such offices responsible for the keeping of initial subsidiary accounts as submitted to him;
 - (b) to require any account books, paper and other documents which deals with or form the basis of or otherwise relevant to the transactions to which his duties in respect of audit extend shall be sent to such place as he may appoint for his inspection;
 - (c) to put such question or make such observation as he may consider necessary, to the person incharge of the office and to call for such information as he may require for the preparation of any accounts or report which it is his duty to prepare.
- (2) The person-in-charge of any office or department accounts of which have to be inspected and audited by the CAG shall afford all facilities for such inspection and comply with request for information in as complete form as possible with all reasonable expenditure

Under Section 16 of the CAG (DPC) Act, 1971 he has to audit all receipts which are payable into the Consolidated Fund of India and each of State and of each Union Territory having a Legislative Assembly and to satisfy himself that the rules and procedures are designed to secure

an effective check on the assessment, collection and proper allocation of revenue and are being duly observed and to make for this purpose such examination of the accounts as he thinks fit and report thereon.

The general principles governing the audit of receipts as laid down in Section V of the Comptroller and Auditor General's Manual of Standing Orders (Audit) are to be followed *mutadis mutandis* in connection with the Audit of Forest Receipts.

Forest Management

22.2.1 Introductory

An overall idea of objectives of the forest department, the basic concepts of forest management practices and system of exploitation of forest growth is essential for satisfactory discharge of audit functions in respect of forest receipts. Forest management, basically deals with forest property, mainly trees yielding timber and fuel towards its better conservation, protection and improvement and regulated utilisation. Thus the basic objective of forest management is to regulate the activities so that the Government as owner gets the maximum revenue in perpetuity.

22.2.2 Organisational set-up

The Secretary to the Government of Jharkhand, Forest, Environment and Climate Change Department is the administrative head of Forest, Environment and Climate Change Department in Jharkhand.

In the field set-up, the Principal Chief Conservator of Forests (PCCF) is the head of Forest, Environment and Climate Change Department and principal technical advisor to the State Government.

There are three PCCF in Jharkhand viz.,

- (i) Principal Chief Conservator of Forests, Jharkhand, Ranchi
- (ii) Principal Chief Conservator of Forests, Wildlife and Chief Wildlife Warden, Jharkhand, Ranchi
- (iii) Principal Chief Conservator of Forests-cum-Executive Director, Waste Land Development Board, Jharkhand, Ranchi.

PCCF is assisted by the seven²⁰ Additional Principal Chief Conservator of Forests under whom there are six²¹ Regional Chief Conservator of Forests for the purpose of efficient management and control, and twenty-five²² Circles supervised by Conservator of Forest have been placed

²⁰ 1. APCCF (Human Resources Development), 2. APCCF (Working Plan), 3. APCCF (Research & Training), 4. APCCF (Forest Development Agency), 5. APCCF (Special Projects), 6. APCCF (Development) and 7. APCCF (Compensatory Afforestation Management and Planning Authority)

²¹ 1. RCCF Ranchi, 2. RCCF Palamu, 3. RCCF Singhbhoom, 4. RCCF Hazaribagh, 5. RCCF Santhal Paragana and 6. RCCF Bokaro

²² 1. CF(Project Consultation Unit –Jharkhand Participatory Forest Management Project), 2. CF(Project Consultation Unit –Jharkhand Participatory Forest Management Project), 3. CF(Social Forestry-Planning Monitoring & Evaluation Ranchi), 4. CF(Planning and Research & Training), 5. CF(State sivisticulturist) Ranchi, 6. CF(Planning), 7. CF(Working Plan) Bokaro, 8. CF(Working Plan) Chibasa, 9. CF(Working Plan) Ranchi, 10. CF(Working Plan) Palamu, 11. CF(Working Plan) Hazaribagh, 12. CF(Working Plan) Dumka, 13. CF Gumla, 14. CF Ranchi, 15. CF Garhwa, 16. CF Medininagar, 17. CF Jamshedpur, 18. CF Chaibasa, 19. CF Chatra, 20. CF Hazaribagh, 21. CF Deoghar, 22. CF Jamtara, 23. CF Dumka, 24. CF Bokaro, 25. CF Giridih

under their charge. Six circles are under direct control of PCCF. In each circle there are several Forest Divisions under the charge of Divisional Forest Officers/Field Directors.

A unit has been established for the grants received under the World Food Programme and placed under the charge of a Chief Conservator of Forests and Chief Co-ordinator, World Food Programme with headquarters at Ranchi. There are four World Food Programme Divisions under the charge of DFOs.

A Forest Division is held by the officers of Indian Forest Service or Jharkhand Forest Services. They are designated as Divisional Forest Officer (DFO). The DFOs are primarily responsible for the effective check and control of the accounts of the entire Division both in respect of receipts and expenditure and render complete accounts to the Accountant General (A&E) duly supported by schedules and vouchers. He is assisted by Assistant Conservator of Forest (ACF) specially in technical matters. A Forest Division is sub-divided into Ranges which are normally held by Range Officers (RO). A forest range is further sub-divided into beats, the charge of which are held by Foresters or Beat Officers. Beats are sub-divided into sub-beats under the charge of sub-beat officer or forest guards.

Organizational set-up of Forest, Environment and Climate Change Department is given in **Appendix-K**.

22.2.3 Working Plan

The first prerequisite of the forest management is to ensure continuity of policy over the years to obtain maximum possible yield on sustained basis and increase in revenue to the State Exchequer. This objective can be fulfilled only through scientific forest management. For this purpose a working plan is prepared for each division generally for 20 years setting forth the objects of management and prescriptions. Every forest should be managed according to a working plan. If preparation of working plan is not possible or time taking working scheme is prepared for the same purpose.

The working plan/scheme prescribes the rotation of clear felling in coupice coups, the minimum exploitable girth and sequence of working in selection coupes so that a fresh coup is ready for felling at the prescribed period of rotation. It also prescribes thinning and cleaning operations at specified intervals in the management map of the plan, the area of annual cut is indicated as annual coups. The number of regular coups to be put to sale is determined by the prescriptions of the plan. No deviation from the prescriptions of the plan is allowed except prior approval of the Government.

22.2.3.1 Irregular fellings are done in cyclone, flood affected areas and also in irrigation projects and rehabilitation projects under orders of the Government. These are called irregular coups as they are outside the prescriptions of the working plan. They are disposed of after demarcation and marking of trees as regular coups.

22.2.3.2 The procedure with regard to the preparation and revision of working plan is done as per provisions of code of working plan procedure in Bihar and Orissa. It is prepared by the Working Plan Officer under the control of Conservator of Forests, Working Plan Circle, who is responsible for the important prescriptions, corrections and alterations in the draft plan. The working plan is sanctioned by the Government of India.

The working plan can be revised after an interval of 10 years. Any alteration affecting the fundamental silvicultural management, the rotation or the calculation of yield must receive sanction of the Government.

Wildlife Management

22.2.4 The Principal Chief Conservator of Forests, Biodiversity Conservation and Chief Wildlife Warden, Jharkhand, Ranchi looks after the wildlife wing of the State for scientific management and development of sanctuaries, national parks and other areas important from Wildlife point of view in addition to such other functions as are envisaged under the provisions of the Wildlife (Protection) Act, 1972 (Act 53 of 1972). He is assisted by the Chief Conservator of Forests, Wildlife and Biodiversity Conservation, Jharkhand, Ranchi. At present there are two wildlife divisions viz., Wildlife division, Ranchi and Wildlife Division, Hazaribagh under the administrative control of DFOs and five divisions under the control of Conservator of Forests who exercise general control and superintendence on all forests and wildlife. They are accountable to the PCCF, Biodiversity Conservation and Chief Wildlife Warden, Jharkhand so far as wildlife management is concerned. Forestry operations in the sanctuaries and national parks are regulated by CF/DFOs as per instruction of Chief Wildlife Warden. Periodical survey and census of different species of Wildlife should be taken up to ascertain the ecological status of particular species of wildlife.

22.2.5 Jaivik Udyan at Chakla, Ranchi

Biological part is a bicaesthetic complex situated within 15 kilometres north of Ranchi town, the capital of Jharkhand amidst the relaxing and soothing natural beauty. It is managed by the Wildlife wing of the State Forest, Environment and Climate Change Department, Government of Jharkhand by PCCF and Chief Wildlife Warden. With the increase of activities the park is now under the administrative control of Conservator of Forest and Director of the park.

Since it is a State Government organisation all receipt comes as revenue to the State Exchequer. The expenditure is made from the funds provided by the Government under State Forest, Environment and Climate Change Department budget.

22.2.6 Training

Forest plays an important role in the national economy and has thus acquired new dimensions in the socio-economic development of the country. There is Indira Gandhi National Forest Academy at Dehradun to train officers of Indian Forest Service. There are three Forest Service Colleges (Dehradun, Coimbatore and Purnihat) to train officers of the State Forest Services. There are three Forest Ranger Colleges at Kurseong, Chandrapur and Balaghat run by Central Government to train Rangers.

In Jharkhand there are two training schools, one each at Mahiling, Ranchi and Hazaribagh to meet the need of trained foresters and forest guards.

The trainees are required to undergo studies in various subjects concerned with forestry disciplines such as silviculture, forest mansuration, forest botany, forest engineering, forest utilisation, forest management, soil conservation, land management, survey and drawing, wildlife management etc. Physical training, sports and games form an important part of the training to keep the trainees physically fit for strenuous life which is an integral part of their profession.

22.2.7 Research

CF-cum-State Silviculturist, Ranchi has been created for research works connected with natural forests. It looks after the work of lac development, development of MFP and collection and

compilation of Forest statistics. There are some observation plots also under this division where study of growth, yield, process of natural regeneration, introduction of exotics effect of organic fertiliser species suitability etc. is carried on. There is one CF Research Circle, at Ranchi to carry out all research activities concerned with man made forests. They are under control of CCF, Working Plan and Research Circle, Ranchi who assists the Additional PCCF, Personnel & Human Resources Development, Jharkhand.

A quinquennial programme of research and experiments are drawn up and got approved by PCCF, Jharkhand, Ranchi. In the month of January, each year a programme of work for the ensuing year based on the selected items of the approved quinquennial programme is to be prepared, accordingly plots are to be selected and demarcated for conducting research and experiments in Government Forest.

An annual research report for the whole of State is to be compiled by these divisions and submitted to CF Research Circle, Ranchi. This report is to be submitted to PCCF by the end of December each year for approval and publication by the end of January.

22.2.8 Forest Resource Survey

Survey of forest resources aims at investigating the physical and economic availability of raw material within selected industrial catchments to quantify various forest resources, data, related socio-economic information, potential supply and demand of raw materials for a particular area and make technical interpretation of these data with a sound basis for making programme decision. At the close of the survey reports are to be prepared indicating the high-lights of survey and findings of the survey on :

- (a) Forest resources;
- (b) Annual cut and wood balance;
- (c) Markets and demands;
- (d) Cost analysis and
- (e) Summary of recommendations.

The survey is to be concluded in consultation with the pre-investment survey of forest resources of Government of India and Forest Research Institute, Dehradun. Annual survey of Forest Resources is to be submitted by CF, Forest Resources Survey, Ranchi to the CCF Working plan and Research Circle, Ranchi to be incorporated in the Annual Report.

22.3. Sources of receipts

Major forest receipt are derived from the sale proceeds (through auction, negotiation, permit of allotment) of the major and minor forest produce grown within the forest area of the respective divisions and seized forest produce along with Sales Tax for sale of timber and other forest produces. Collection of royalty on removal of mines and surface materials in forest areas, licence fee from saw mills, fee, fines etc. imposed under the Indian Forest Act and other Acts and the rules made thereunder. Besides, the following are other sources of revenue :

- (i) Lease of minor Forest Produce for setting up of forest based industries in the State on payment of royalty;
- (ii) Sale of Minor Forest produce collected departmentally;
- (iii) Collections From Parks;
- (iv) Sale of drift and waif wood;

- (v) Rent of residential buildings, Forest Rest Houses and Godowns;
- (vi) Compounding fee in forest offence cases;
- (vii) Sale of seized and confiscated vehicles;
- (viii) Fee received from issue of transit permit; and
- (ix) Compensation realised in encroachment cases, etc.

Some of these sources are discussed here.

22.3.1 Sale/disposal of forest produce

The usual method of disposing forest produce is by sale, by auction under an agreement on the terms and conditions that they make their own arrangements for conversion and removal of the produce. The most common form of contract is that in which a lump sum is paid by the purchaser. Sometimes the lease system is adopted in which the purchaser pays a minimum sum down for the lease for the extraction of certain produce and pays further sums at fixed rates for such produce extracted. Occasionally sales are also affected by inviting tenders in which the intending purchasers give the highest amount as price of the produce. The exercise is guided by “The Bihar Forest Contract Rules”.

Special rules have been framed for Bamboo, fruit and flower bearing trees, *kendu* leaves and *sabai* grass.

Forest produce shall ordinarily be sold through open auction by giving open notices. Sealed tenders would be called for where holding of public auction is not considered worth or where there is apprehension of forming a ring by the bidders. The sale conditions will be approved by the Conservator of Forests. The upset price shall be approved by CF for all sale lots. The upset price is fixed with reference to the girth and market value of the tree/timber of each diameter class and each species. The probable cost of transportation is also taken into consideration. The upset price of last three years is also taken into consideration while fixing the upset price.

22.3.1.1 Marking list

The marking list forms the basis for fixation of upset price/royalty by DFO and also for the contractor to offer bid. This list contains details such as serial No., name of the species, sound or unsound, girth at breast light. The trees due for felling are marked with departmental hammer mark so that only marked trees should be cut.

22.3.1.2 Sale by auction/tender

The proposed sale of timber and terms and conditions are advertised in Official Gazette and Newspapers. The upset price is approved by the competent authority. The bidders deposit prescribed earnest money before auction. The amount of unsuccessful bidders is refunded and in case of successful bidders it is adjusted towards security deposits. The highest bid is accepted. The bid sheet is signed by the bidder immediately after the bid is accepted. The successful bidder shall pay the prescribed amount of security deposit in the form as determined by the DFO. Then the bidder signs the agreement with the competent authority. The contractor shall be allowed to

work in the contract area after payment of full consideration or required instalment as per agreement.

If the highest bid amount is less than the approved upset price the DFO may withdraw the lot and offer the same again for sale after a short interval. If in course of re-auction the bid price is less than the upset price, the price fixed may be rechecked and revised, if necessary, and the revised price should be approved by the PCCF under intimation to the Government.

If the contractor makes default in the payment of consideration money or any instalment thereof, the contract may be terminated by the authority competent to execute it. The notice of termination should be sent to the contractor to discontinue the work.

As soon as the felling is done by the contractor, logs are prepared which are entered in the contractor's conversion register indicating the details of the number and size of trees felled, size of logs against each tree. The Range officer will inspect and verify the conversion register to ensure exploitation as per agreement. He will then mark the timber with a passing hammer. A list of timber passed by the Range Officer is sent to the DFO for checks with reference to the marking list and the amount of instalments paid by the contractor.

The forest produce is removed from the contract area on transit permit which is obtained on payment from the Range Office. It contains clear description of the produce it covers. It is in bound books in triplicate having numbered serially. One copy of the permit is given to the person incharge of the produce which is being removed. The second copy is submitted to the Range Officer and the third copy is kept in the permit book as a counterfoil. The used permit books and unused permits shall be returned to the concerned Range Officer on completion/ termination of the contract.

22.3.1.3 Forfeiture/Adjustment of security Deposit

There is a stipulation in the conditions of sale as well as Bihar Forest Rules that the security deposit of the contractor will be forfeited in the following situations :-

- (i) failure to produce sales tax clearance or non-assessment certificate;
- (ii) default in payment of instalments of consideration money or compensation;
- (iii) after termination of the contract for breach of the conditions of the contract;
- (iv) non-submission of coup declaration certificate.

The security deposit shall be refunded to the contractor after the completion of the contract or surrender of coup/lot by the contractor in advance and payment of all Government dues. In case the security deposit is not sufficient to cover the dues, the balance amount may be recovered as arrear of land revenue by certificate procedure for which the DFO is primarily responsible.

22.3.2 Minor Forest Produce

Minor Forest produce is a seasonal produce which is collected during the currency of the season as otherwise the crop will be lost. It includes sal seeds, karanj seeds, neem seeds, tamarind, honey, wax, sabai grass, gum, kusum, chiranji dana, Babul, lac etc.

The policy of Government on disposal of Minor Forest Produce are as follows:

- (i) Lease to Co-operative Societies;
- (ii) Lease to Forest based industries;
- (iii) Lease to Government undertakings; and
- (iv) Sale by auction.

22.3.3 Disposal of Seized Timber

As per provisions of Section 45 of the Indian Forest Act, 1927 certain kinds of timber found adrift, beached, stranded or sunk are deemed to be the property of Government until title thereto proved. These are collected by any Forest officer or other person entitled to collect the same. Territorial divisions are responsible for safe custody of seized timber. These timbers are kept in the premises of beat, Range, Division or left with a responsible person of the locality where the timber is seized.

The details of seized timber is accounted for in stock register of seizure and Disposal of forest produce and other property. A monthly report is submitted by Range Office to Divisional office who sends a consolidated report to PCCF through proper channel.

As per Section 48, the unclaimed timber is to be disposed of by the department. Elaborate instructions have been issued by Government for prompt disposal of forest produce seized in undetected forest offence cases to avoid loss of revenue due to deterioration in quality and value. As per instructions issued by PCCF Bihar (now Jharkhand) seized unclaimed forest produce is required to be transferred to State Trading Division for disposal. In cases where prosecution had been filed, the seized forest produce are to be transferred to State Trading Divisions after obtaining permission from the respective courts. DFOs are instructed to carry out quarterly review of cases pending in the Courts for more than six months. The proceeds may be deposited as per direction of the Court.

22.3.4 Forest Offence

A register of Forest Offence is maintained in the division office in a prescribed form on the basis of reports submitted by Range Officers. The offences are classified into different categories :-

- (i) Undetected offence cases;
- (ii) Cognizable offence cases; and
- (iii) Prosecution offence cases.

The audit is to check the cases and watch over realisation of revenue relating to disposal of seized forest produces. In respect of cognizable offence cases, compounding of offences is required with realisation of compensation money.

Under section 26, 30 and 32 of the Indian Forest Act, 1927 some acts are prohibited in forest area and are made punishable. Forest produce, tools, arms, boats, carts or cattles, vehicles and other articles used in any such offence may be seized by any Forest Officer or Police officer. The matter should be reported to the Magistrate having jurisdiction to try the offence.

The following records/registers should be maintained for recording offence cases:-

- i) Offence Report Register;
- ii) Register of Offence cases;
- iii) Register of compounding;
- iv) Register of prosecution .

The offence cases are entered in the offence report book after they are detected. The sub-beat officer shall submit first report in prescribed form within 24 hours to his Beat Officer. Any forest offence case reported to the Beat officer or detected by him shall be enquired by him and complete offence report will be submitted by him to his Range officer within a fortnight from the

date of detection. Any forest offence case reported to Range officer or detected by him personally shall be enquired by him expeditiously and complete offence report should be submitted to the DFO within thirty days of the receipt of the report.

A Forest Offence Register is maintained at Divisional Office in which detail description of forest offence viz., date and place of occurrence, name of offenders (if detected) and address, nature of offence, Section or Rule involved, damage done, royalty and compensation, action taken by DFO, cases sent to judiciary etc. are recorded.

The DFO should try to compound these cases if the offenders are willing to do so after collecting the compounding fee. Cases which could not be compound for any reason and in respect of undetected offence cases where the offender is not known, the enquiring officer shall send the offence report to the concerned magistrate for procecuion through Register of procecuion. All forest offence cases must be filed within two months of the commission of the offences.

Rewards can be sanctioned by competent authorities to a non-gazetted Government employee or a private person.

22.3.5 Saw Mills – Licence and renewal

As per provisions made under the Bihar Saw Mills Act, 1990, no saw mill can be operated without obtaining registration from the Forest, Environment and Climate Change Department which is to be renewed every year before 31st day of December.

Running of saw mill without registration and non-renewal of licence is a punishable offence. The licensee is required to maintain prescribed registers and submit periodical returns to the Divisional Forest Office. Unauthorised poles and timbers which is not covered by transit permit or pass or other documentary evidences should not be stored in the saw mill. All the registers and stock of all timber will be open to inspection by a forest officer. The licence is not transferable.

22.3.6 De-reservation of forest/use of forest land for non-forest purpose

State Government or other authorities with prior approval of the Central Government shall make orders –

- 1} that any reserve forest shall cease to be reserved;
- 2} that any forest land or part thereof may be used for any non-forest purposes.

Forest areas are deforested for developmental activities such as for construction of irrigation projects, rehabilitation of displaced persons, construction of roads and canals, mining, transmission lines etc. under orders of Government. The Forest, Environment and Climate Change Department issues an order to the requisitioning department permitting to utilise the forest land after fulfilment of prescribed formalities as per Forest Conservation Act, 1980. The standing forest growth is counted and cut by the utilising department. These are disposed of by auction sale/or otherwise. The value of forest produce (as per enumeration list) is estimated based on the schedule of rates of the Forest department. A demand is issued to the requiring department through CF for royalty so assessed.

The requisitioning department has to pay the cost of compensatory afforesstation at prevailing rates sanctioned by the Government from time to time.

In addition to this, equivalent land for afforestation is also required to be made available to Forest department.

22.3.6.1 Realisation of Net present Value (NPV)

In pursuance of order of the Hon'ble Supreme Court of India dated 30.10.2002 and 1.8.2003 NPV of forest land is to be collected in addition to the cost of compensatory afforestation from the user agency while diverting forest land for non-forest purposes. As per guidelines issued by the Government of India NPV is to be charged and realised before stage-II 'clearance in cases of diversion of forest land. The rate of NPV ranges between Rs 5.80 lakh to Rs 9.20 lakh per hectare depending upon the quality of forest, density of forest and type of species in the area being diverted.

(Ref:- Government of India, Ministry of Environment & Forest, New Delhi letter No. F. No.5-1/98-FC (Pt.II) dated 17/18.9.2003).

The NPV so realised shall be deposited into a fund called Compensatory Afforestation Management and Planning Agency (CAMPA) as and when created by Government of *India.

All money received from the user agency towards compensatory afforestation, additional compensatory afforestation, penal compensatory afforestation, catchment area treatment plan fund etc. shall be deposited in a Compensatory Afforestation Fund. This fund will not be a part of general revenue of the Union, or of the State or part of the Consolidated Fund of India.

22.4 Audit Procedure

22.4.1 Composition of the Field Audit parties:

The audit party consists of two Assistant Audit officers and one Sr. Auditor/Auditor. The audit conducted by them is supervised by a Sr. Audit Officer. The party personnel are retained in the subject for a period of three months.

(Ref:- CAG letter no.802/Rec.A-IV/110-75 dated 16.11.1976).

22.4.2 Nature and object of local audit

The object of the inspection of the initial account records is to see that they are properly maintained in the prescribed forms and the provisions of Acts and Rules and the financial orders of the Government are being correctly followed and proper care is exercised by the Departmental Officers over the accuracy of the initial records. A test audit of one month's transactions in case of annual items and two month's transaction in case of items more than one year may be conducted in detail to verify the accuracy and completeness of accounts according to the prescribed rules.

22.4.3 Scope of Forest Receipt Audit

Audit scrutiny of forest receipts would extend, inter alia, to verifying that :

- (1) adequate system and procedure exist
 - for realistic and reliable assessment and estimation of receipts:
 - issue of lease, sale, etc. through auction, tenders or negotiation and their timely renewal on expiry, as the case may be ;
 - for computation and realisation of various fees, rents, royalty etc.;
 - to ensure that terms and conditions of lease, licence and permits are adhered to;
- (2) adequate monitoring and control mechanism exists to prevent loss or leakage of revenue and for timely detection of illegal activities pertaining to extraction and exploitation of forest produces;

- (3) relevant records were being properly maintained to facilitate raising of demand and their recovery;
- (4) leases and forestry licences for forestry operations were issued and renewed in time in accordance with the procedure prescribed in this regard and there were no avoidable delays resulting in loss of revenue;
- (5) follow up actions in cases of default or illegal extraction were adequate and sustained to ensure its pursuation to logical conclusion;
- (6) adequate machinery exists for detection of cases of evasion, illegal extraction and transportation;
- (7) cases pending in courts of law or appellate authorities were being pursued adequately and appeals, wherever necessary, were being filed within the stipulated time and demands were being raised promptly and realised;
- (8) the adequacy of the machinery for the collection and realisation of current dues as well as arrears;
- (9) Action taken by the management/authorities for collection of revenue was adequate.

22.4.4 Records and Registers subjected to receipt audit

- (1) Stock Register of seized forest produce both in Range and Divisional Office;
- (2) Offence Report;
- (3) Offence case Register;
- (4) Register of compounding;
- (5) Procecutation Register;
- (6) Transit Pass Register and Stock account;
- (7) Register of perishable forest produce;
- (8) Register of receipt and issue of timber and other produce in depot;
- (9) Register of sales of timber and other produces;
- (10) Register of revenue from timber etc. removed by purchasers;
- (11) Auction and instalment Register;
- (12) Register of outstanding revenue;
- (13) Sale notice, sale register and sale files;
- (14) Lease Register and files;
- (15) Agreement Register, Agreements and files;
- (16) Certificate Register and files;
- (17) Register of felling coups and other operations;
- (18) File relating to collection of *Kendu* leaves and its disposal;

The aforesaid list is not exhaustive. Other relevant records may also be examined on spot.

22.4.5 Duties and functions of audit parties

The following duties were prescribed for the members in audit parties engaged on State Receipt Audit of Non-Tax Receipts:-

- (i) Review of items marked with auster risk and discussion of outstanding local audit report paras;
- (ii) Co-relating non-tax receipts with expenditure on providing the services in which the receipts are obtained;
- (iii) Periodicity and system of review of rates, rent, lease, receipts, fees, charges etc.;

- (iv) Fixation of rates (including interest and penal rates) well in time and its proper enforcement;
- (v) Review of system of internal check or monitoring;
- (vi) Delay in decision making and disposal of cases and dispensable materials and delay in flow of receipts or wastage or potential receipts.

22.4.5.1 Assistant Audit Officer

- (i) Audit of contracts, rules, regulations, notification etc. forming basis of charges or receipts etc.;
- (ii) Check the computation of demand for receipts/charges and billing system, adjustment of set off, deductions, exemptions etc;
- (iii) Tracing the receipts due (including rent, interest, penalty, claims etc) and comment on delays in recovery or non-recovery;
- (iv) Checking of register of stranding charges, its updating and recovery of demand as per such register.

22.4.5.2 Auditor

- (i) Check 10 *per cent* of receipt due as per records, files and register against payments or treasury records;
- (ii) Checking of treasury remittances/Bank acknowledgements;
- (iii) Check of other records and registers;
- (iv) Check of cash book and register of receipt books.

22.4.6 Audit check points

22.4.6.1 Loss due to non-observance of terms of contract:

In course of audit on Auction bid sheet and other relevant records, it is to be checked as to whether the differential amount consequent on failure of the original bidder to pay in full has been realised from the amount of resale through subsequent auction together with the amount of forfeited security deposit. It may also be seen whether the terms and conditions for payment of bid amount and lifting of auctioned forest produce were fulfilled and penalty, if any, were realised from the bidder.

22.4.6.2 irregular retention of forfeited security deposit

In course of scrutiny of Register of security deposits it should be seen whether security deposit realised on disposal of forest produce had been forfeited and credited to Government exchequer in the event of default in making full payment of bid money.

22.4.6.3 Non/short realisation of licence fee/renewal fee

In case of Saw Mills it is to be checked whether application fee, licence fee and renewal fee were being realised at prescribed rates within the stipulated time.

22.4.6.4 Loss due to deterioration in quality of timber due to delay in disposal

The useful life of cut timber is five years. Efforts need be made to dispose of the timber before deterioration in quality. In case of seized timber all cases were to be review quarterly and the cases should be pursued in the court to get permission to sale the forest produce. It may be seen whether the timber or forest produce were sold below the reserve price due to deterioration in quality.

22.4.6.5 Non/short recovery of Sales tax

In course of scrutiny of Register of Sale of timber/forest produce, it is to be seen whether sales tax had been realised at proper rates from the purchaser and credited to proper head of account and no concessional rate were allowed in case of sale covered by declaration forms.

22.4.6.6 Non-inclusion of surcharge in certificate demand

It should be seen whether surcharge along with arrears of revenue has been included in certificate demand.

22.4.6.7 Unauthorised encroachment of forest land

In course of scrutiny of the encroachment file, Audit is required to check whether the forest land has been encroached by unauthorised person and Government is suffering loss of revenue in the shape of forestry income and the circumstances under which DFOs have not taken steps for eviction of such encrochers.

22.4.6.8 Loss of revenue due to under valuation of confiscated forest produce

In course of scrutiny of Register of seized forest produce and other properties and its disposal, it is to be checked whether in case of a forest offence, the offence was compounded on realising by way of compensation not less than the sum equivalent to royalty.

22.4.6.9 Theft cases and fixation of responsibility

In theft cases, audit is required to see whether adequate departmental steps have been taken against such theft and appropriate action taken for recovery of the theft forest produce.

22.4.6.10 Non-assessment and non-realisation of cess

Audit should see whether all cesses have been assessed and realised on boulders extracted and dispatched from quarries in forest area.

22.4.6.11 Levy of Sales tax on sale of timber and other produce

Audit should examine whether sales tax were correctly assessed, levied and collected on allotment sale of timber and other produce.

22.4.7 Results of Audit

Different types of objections generally raised in audit of forest receipts are as follows:-

- Loss of revenue in a sale contract;
- Loss of revenue due to non-observance of terms and condition;
- Unauthorised encroachment of forest land;
- Loss of revenue due to delay in settlement of forest area;
- Non-realisation of application fee for extraction of minor minerals from forest area;
- Non/short realisation of sales tax from sale of forest produce;
- Loss of revenue due to non-lifting of forest produce;
- Loss of revenue due to in ordinate delay in disposal of forest produce;
- Irregular fixation of reserve price for auction sale;
- Lack of provision for levy of interest/surcharge on delayed payment;
- Non-realisation of fee from Saw mills;
- Non-maintenance/irregular maintenance of stock account of timber and other forest produce.

22.4.8 Audit of Expenditures

Audit of expenditure of the Forest Accounts is almost similar of the audit of accounts of other civil offices with the only difference that the forms in which cash book, stock book and other records are maintained in the Forest, Environment and Climate Change Department slightly differ from those maintained in other departments. The general principles of audit are contained in the CAG's manual of Standing orders (Audit) Chapter 2 and 5.

22.4.8.1 Important records to be examined in expenditure audit

Sl. No.	Name of records	Form No.
1.	Cash Book	FA 1
2.	Register of Cheque drawn and cheque book	FA 2
3.	Register of Works	FA 3
4.	Disburser's ledger	FA 4
5.	Classified abstract of revenue and expenditure	FA 5
6.	Schedule of remittances into Treasury	FA 6
7.	Schedule of transactions with other Governments, Railways, P&T and Defence.	FA 7
8.	Abstract of disburser's ledger	FA 8
9.	Muster Rolls	
10.	Measurement Books	
11.	Stock registers	
12.	Earnest money account	
13.	Register of security deposit	
14.	Plantation Register	
15.	Nursery Register	
16.	Service book	
17.	Ledger and pass book of GPF A/cs	
18.	Log book of vehicles	
19.	Trunk call register	
20.	Service Postage stamp Account	
21.	Land and building account	
22.	Cash book in T. C. Form -6	
23.	Range Cash accounts	
24.	Allotment Register and files	
25.	Budget control book	
26.	Annual Reports and Returns.	

Brief description of some of the most important records and the points specifically to be seen is given below:-

22.4.8.2 Cash book :

An intelligent scrutiny of the cash book will reveal the important items on which expenditure was incurred during the period under audit. The general principles of audit as applicable to other civil offices should be applied. The entries in the cash book relating to selected months should be checked in details. All payments should be vouched with reference to sanction, orders, payees acknowledgement etc.

In the Range Cash book expenditure on plantation relate to muster roll on account of daily labourer for survey, demarcation, site clearance, pit digging, trenches, nursery work, plantation, weeding and hoeing, carriage of seeds/plants, fencing of plantation, etc. Other item of expenditure generally found in Range Cash Account relate to construction and repair of road, culverts, bridges, buildings etc. and other minor work like making of protective fire lines and silvicultural operations. The cash book should be closed and balanced monthly. Divisional Officers and others who render accounts to the Accountant General should close their cash book on the last working day of each month but subordinate offices should do so on the 16th or such earlier date as may be necessary in order to ensure that their accounts reach the officers in whose accounts they are to be included by the last day of the month.

22.4.8.3 Register of cheques drawn

A monthly register of cheques drawn on all treasurers should be kept in form FA --2. It should contain name of the person whom the cheques were issued, amount, cheque number and date of issue.

22.4.8.4 Register of Works

A detailed record of expenditure relating to each sanctioned work would be kept in a register in Form FA-3.

22.4.8.5 Disburser's Ledger/Contractor's ledger

Divisional Forest Officer should maintain a ledger in Form FA-4 for all accounts with disbursers/contractors. On the debtors side should be entered all payments made to them and on the creditors side the amounts of all bills passed to their credit and all sums repaid by them. Each items entered in the cash book undet Forest Advances should be posted at once in the ledger and when any work is accepted as having been done and accounts supported by necessary vouchers is accepted from a disburser, the amount covered by work done or expenditure incurred should be set off against the amount due as shown in the ledger. The ledger account should thus be a running account with each disburser from which the amount due by him or from him can always be ascertained. It should be closed monthly after arriving at the balance.

22.4.8.6 Classified abstract of Revenue and expenditure

A classified abstract of revenue and expenditure should be prepared in Form FA-5, the expenditure debited to the head '4046-Capital Outlay on forest being shown separately from that

debited to 2406-Forests. All items of revenue and expenditure recorded in the cash book for the month should be classified and arranged in this return in accordance with the prescribed classification.

22.4.8.7 Schedule of Remittances to Treasuries

A schedule of all amounts remitted to treasury should be prepared in Form FA-6. It should show each item remitted separately.

22.4.8.8 Schedules of transactions with other Government/Rilway/P&T/Defence

A schedule should be prepared in Form FA-7 separately for receipts and payments originating in the division on behalf of Governments (Article 243). A separate schedule should be prepared in respect of transactions originating in the division on behalf of Railways in which the transactions should be grouped by Senior Accounts Officer of Railway/P&T/ Defence.

22.4.8.9 Forest Plantations

The major portion of expenditure by the Forest, Environment and Climate Change Department relates to raising of plantation under various schemes. The detailed instructions for plantation are contained in “Vanropan Padhati” issued by the PCCF, Jharkhand each year. A Plantation Register in prescribed format is to be maintained in each division. It contains detail activity of each scheme of plantation. A heavy expenditure is incurred on plantation each year; particular attention should be paid to these items in expenditure audit.

The main items of expenditure on plantation are :-

1. Survey and demarcation of site;
2. Earth work, pit digging and preparation of trenches/mounds,
3. Nursery raising;
4. Purchase of seeds, fertilisers, polythene bags and other essential materials,
5. Carriage of materials and plants,
6. Sowing/planting,
7. Weeding and hoeing,
8. Replacement of casualties,
9. Fencing-purchase of materials,
10. Expenditure on diesel pump sets installed in nurseries.

The following records/registers are to be maintained by the authorities which should be seen in course of audit –

- (i) Sanctions of schemes and allocation of fund for execution of these schemes by competent authorities,
- (ii) Plantation Register,
- (iii) Nursery Register,
- (iv) Log books of diesel pumps/ Generator sets, if any,
- (v) Stock register
- (vi) Schedule of rates
- (vii) Measurement books.

It should be seen that there was no unauthorised change in plantation sites and there was no plantation failure. The survival should not be below 80 *per cent*.

(Ref.: Forest, Environment and Climate Change Department letter No.2306 dated 11.6.1984).

It should also be seen that the planted sites were transferred to the concerned territorial divisions well in time and were being maintained by them.

22.4.8.10 Muster Rolls

All laboures engaged for execution of a work should be paid through proper Muster Rolls. It should contain all details prescribed in the form in part-I, II & III.

22.4.8.11 Measurement book

A Measurement book should be kept in the prescribed form for each work done and supplies received in accordance with the method prescribed by the Government.

22.4.8.12 Store Account

A detail account of all stores both general and specific should be kept in such form and in such way as prescribed by the Government.

22.4.8.13 Monthly Accounts

The monthly cash account should show in respect of the following items merely the totals for the months and all other items of receipt or charge should be shown in details:-

Debit Side :

1. Cheques drawn,
2. Recoveries of advance from disburser.
3. Recoveries received and credited in the cash book,
4. Recoveries made by deductions from pay bill on account of service and other funds provided the bills are accompanied by schedules showing the full particulars of each recovery.
5. Refund of forest revenue taken by deduction from revenue.
6. Receipts and recoveries creditable to Central Government.

Credit Side :

1. Remittances to treasuries,
2. Advance made to disbursers.
3. Expenditure detailed in the cash book to 2406 Forest and 4406-C.O. on forests.

Every forest officer is required to prepare a monthly register of cheques drawn on the last day of each month and other accounts mentioned below on or before 5th of the following month and submit them to the Accountant General (A&E):-

2. Monthly Cash Account;
3. Classified abstract of revenue and expenditure
4. Schedule of remittances to treasuries.
5. Abstract of disburser's ledger
6. Schedule of transactions with other Governments and Railways.

These accounts should be accompanied by all vouchers. A certificate is also needed in the monthly cash accounts by head of the office.

22.4.9 Duties and Functions of audit parties in relation to expenditure

22.4.9.1 Audit Officer

The duties and responsibilities presently assigned are important and sufficiently exhaustive. The inspecting officer has to perform coordinating functions to achieve overall efficiency in performance. He should obtain files containing important rules/orders issued by the Government/Department for instruction and control. He should examine special point marked for local investigation. He shall review the old Inspection Reports in the light of action taken by the department in this regard.

22.4.9.2 Assistant Audit Officer

1. Examination of cash book,
2. Audit of stores account
3. Examination of vouchers
4. Verification of drawls and deposits into treasuries with treasury records
5. Establishment pay bills and travelling and undisbursed pay and allowances
6. Audit of accounts of receipts
7. Audit of works expenditure
8. Examination of service books
9. Register of advances
10. Property accounts

22.4.9.3 Auditor

1. Dead stock register
2. Stamp accounts
3. Register of deposits
4. Log books of vehicle and gen sets.
5. Register of stationery
6. PF a/cs
7. Totalling and vouching of cash book and cash accounts
8. Verification of drawls and remittances with treasury records
9. Verification of Service books
10. Any other item of work assigned to them.

22.5. Raising and pursuance of Objection

Introductory

Audit of forest receipts is conducted in the offices of PCCF, Jharkhand and DFOs.

22.5.1 Guidelines for field parties

On the first day of local audit the Assistant Audit officer (AAO) should issue requisition for production of registers and records for audit checks. Duty list of party members should be

prepared and got approved by the Reviewing officer. The Supervising Officer should indicate the item of work done originally by himself and other important items specially looked into. The Supervising Officer is expected to guide his staff and examine personally with reference to the initial accounts, all important points raised by the audit party. He should review the work of AAO and Sr. Auditors/Auditors to ensure that all account registers have been checked and necessary process of audit has been carried out. He should review cash book, Demand Register, scrutinise major cases of lease, contracts, auction and important records. Examination of the files/records in respect of paras included in Part-IIA should be carried out so that the objection does not merely become a technical one. The month selected for detail audit and the allocation of work should be specified in the inspection report indicating the member of the party who checked each document. A list of records and files not produced to audit should be prepared and a para on non-production of records incorporated in the draft inspection report indicating the reasons for non-production. The objection relating to important matters and irregularities and the paras of previous inspection reports which cannot be settled on the spot should be incorporated in the draft inspection report for further pursuance by headquarters section. Information regarding outstanding revenue, certificate cases pending, present position of forest offence cases, undisposed forest produce etc. should be collected from the local records in suitable **proforma (Appendix-L, M, N, O, P, Q and R)**.

The inspection report should be drafted by the reviewing officer himself from the materials available in the preliminary objection memo. The report should be discussed with the head of the Office or any other Gazetted Officer and key document thereof should be examined by Reviewing officer.

When any irregularity or mistake is noticed, the same may be brought to the notice of the Head of the Office in the form of preliminary objection memo with a request to return the same with reply within the same day or the day following at the latest. The language of memo should be courteous and no definite conclusion should be drawn against any mistake in procedure etc., where interpretation of law is involved. It should only bring out the omission that appear to have occurred in violation of standing orders of the Government and financial norms requiring the officer concerned to verify the audit objection and take action as deemed necessary under intimation to audit. The financial effect of the objection should always be worked out and mentioned in the preliminary objection memo.

In respect of cases which are likely to be processed into draft paragraphs detail particulars should invariably be mentioned in the objection memo as well as in the draft inspection report enclosing thereto all key documents. If the objection relates to non/short levy/irregular levy by a Government department, it should be brought out how the irregularity led to non-realisation of revenue which could

22.5.2 A new pattern of Inspection Report has been introduced since April 2015 vide C&AG's letter no. 378/PPG/22-2012 dated 12.04.2016. The pattern have been detailed in Chapter-XVI, Paragraph 16.6.15

The paras in the report should be self contained and the views of the DFO/head of the office in reply to preliminary objection or during discussion should be taken into account. Reference to the preliminary objection memo number on which the para is based and the name of the party member raising the objection should be noted against the para in the margin of the inspection report.

The draft inspection report should be forwarded to the headquarter within five days from the date of completion of audit. The draft inspection report should be edited at headquarter section within

a week of its receipt. The arithmetical computations alongwith correctness and validity of objections should be checked. The inspection report should be issued to the Divisional Forest Officer to furnish compliance through respective Principal Chief Conservator of Forests within one month from the date of issue. Copy of the report should be sent to concerned CF, RCCF, PCCF and Government for their comments and to ensure early compliance by DFO. Attention should be drawn towards important objection under the relevant paragraphs of the report.

The inspection report should be pursued by headquarter section till final settlement. All paras having monetary value should be entered in objection book. No objection which are included in Audit Report should be taken as settled until discussion in the PAC is over/the amount in question is realised. Where, however, objections were raised on propriety ground they can be dropped from the inspection report/objection book after they have been included in the Audit Report for discussions in PAC and further action thereon watched through Action Taken Notes and reports of PAC.

[Ref: CAG's letter no.1829-TA-1-256-71 dated 26.07.1971].

The Reviewing Officer shall look into all the inspection reports and make every endeavour to settle the outstanding paragraphs on the spot with discussion with the head of the Office. A statement in Annexure-XII should invariably be enclosed with every draft inspection report.

22.5.3 Inspection programme

For conducting a high quality audit in an economic, efficient and effective way and in a timely manner headquarters have issued certain specific instructions vide its letter No. CR/CO-Ordn/AAP 2018 dated 25.10.2017 for Annual Audit planning on the basis of risk assessment after risk profiling. The same are detailed in Chapter-II, Paragraph 2.14.

22.5.4 Gazetted Supervision

Forest Divisions are to be provided with gazetted supervision to the extent of 50 per cent.

(Headquarters letter no.4434-Tech.Admn/I-770-68 dated 16.12.1969).

22.6 Internal Control Mechanism

22.6.1 Introduction

Internal Control Mechanism is an integral process used by an entity's management and is designed to provide reasonable assurance that the organisation's objectives are being achieved:

- promoting orderly, economical, efficient and effective operations;
- safeguarding resources against loss due to waste, abuse, mismanagement, errors and fraud and other irregularities;
- Adhering to laws, regulations and departmental rules and procedures;
- Developing and maintaining reliable financial and management data and disclosing that data in timely reports;
- Fulfilling accountability operations.

The Audit Institution has a responsibility to assure that various internal controls are working as intended and are adequate to achieve the desired results as because the responsibility for the adequacy and effectiveness of internal control vests with the Management. It is the principal

focus of Audit's attention. The audit objective is to ascertain the adequacy of various internal control viz., Financial Control, Administrative Control, Operational Control, Supervisory Control and Monitoring Control exercised by the following officers:

1.	PCCF	Biodiversity Conservation and Chief Wild Life Warden, Jharkhand, Ranchi.
2.	CCF	Wild Life and Biodiversity Conservation, Jharkhand, Ranchi.
3.	PCCF-cum-Executive Director, Waste Land Development Board, Jharkhand, Ranchi	
4.	C.C.F and Chief Co-ordinator, World Food Programme, Ranchi	
5.	CCF Project Co-ordinator Unit, Jharkhand, Participatory Forest Management Project, Ranchi	
6.	Additional PCCF Personnel & Human Resources Development, Jharkhand	
7.	Additional PCCF Working Plan & Research, JFM and Monitoring, Jharkhand, Ranchi	
8.	CCF Working Plan & Research Circle, Ranchi	
9.	CCF JFM and Monitoring, Jharkhand, Ranchi	
10.	Additional PCCF Development, Jharkhand, Ranchi	
11.	CCF Development, Tribal Sub-plan Area, Ranchi	
12.	CCF Development, Other Area, Plan, Ranchi	

The CCFs are responsible for overall administration of the organisation, formulation of policy for management of forests, evaluation of projects/schemes, monitoring the activities relating to diversion of forest land for non-forest purposes and enforcement of terms and conditions attached thereto. The evaluation of internal control system functioning in the Forest, Environment and Climate Change Department based on INTOSAI guidelines, (Chapter-XVI) shall be as follows.

Sources of documents

The following source of document shall form the basis of audit scrutiny to evaluate the adequacy of internal control mechanism:-

- (i) Jharkhand Budget Manual;
- (ii) Jharkhand Financial Rules;
- (iii) Bihar Forest Manual;
- (iv) Indian Forest Act, 1927;
- (v) Forest (Conservation) Act, 1980
- (vi) WildLife (Protection) Act, 1972
- (vii) Bihar Kasth Chiran (Regulation) Act, 1990;
- (viii) Compensatory Afforestation Fund Management and Planning Authority (CAMPA) Act 2016
- (ix) Guidelines/orders/instructions issued by the State Government/ Union Government

Audit shall examine whether various control measures envisaged in the manual, guidelines, Act and Rules and instructions of Government issued from time to time are strictly adhered to and make a risk assessment in case of non-compliance thereof.

22.6.2 Financial Control

22.6.2.1 Budgetary control

Bihar Budget Manual (as adopted) envisage effective adherence to budgetary controls. It requires preparation of budget estimates on the basis of inputs received from lower formations, spend within budgeted amounts, avoid rush of expenditure towards the close of the financial year and surrender the anticipated saving in time and requisition for supplementary provision only if the original allotment was insufficient. In the Forest, Environment and Climate Change Department the budgetary control is exercised by the Budget Section and in PCCF office by Senior Accounts Officer. However, over all control is exercised by Finance Department.

Audit should -

- ◆ see that provisions of Jharkhand Budget Manual relating to preparation of budget estimate and management of saving were being followed by the Department;
- ◆ see that no unrealistic provisions without any valid ground made;
- ◆ see that anticipated savings are surrendered to Government will in time;
- ◆ see that supplementary provisions are not demanded unless original provision prove insufficient or has been exhausted;
- ◆ see that central share for centrally sponsored schemes are being fully utilised without any lapse;
- ◆ see that no expenditure is incurred without budget provision or in excess of budget provision.

22.6.2.2 Expenditure Control

The Senior Accounts Officer in the PCCF office is primarily responsible for control over expenditure. He is to watch and review the progress of expenditure against sanctioned grants through maintenance of necessary register and issue timely warning to the DDOs not to incur expenditure in excess of the allotment.

It should be seen in audit that :

- ◆ Unnecessary fund is not drawn to avoid lapse of budget provision;
- ◆ Fund is not drawn by transfer credit to 8443-Forest Deposit;
- ◆ No amount is drawn from contingency fund without sanction from Finance Department;
- ◆ departmental receipts are not being utilised for departmental expenditure;
- ◆ expenditure is compiled on the basis of accounts rendered by different DDOs and is sent and reconciled with those in the books of Accountant General(A&E);
- ◆ there is no unauthorised diversion of fund from one scheme to other;
- ◆ Cash books are being maintained by DDOs as per provisions under Treasury Code and physical verification of cash balance was being conducted by the Head of the Office at the end of each month and in periodic intervals;
- ◆ Bill-wise analysis of unspent cash balance is done at the end of the each month;
- ◆ No expenditure has been incurred from available cash;
- ◆ Bank Reconciliation statement for moneys kept in Bank account has been prepared to prevent fraud;
- ◆ All draws are supported by entries in cheque book and book of drawal;

- ◆ All remittances into treasury are reconciled with treasury figures at the end of each month;
- ◆ No rush of expenditure occur at the fag end of the financial year and is not incurred without immediate requirement for payment;
- ◆ Stock and stores, custody of valuable, purchases and execution of schemes/projects/works are being maintained as per departmental rules and procedure.

The aforesaid checks of assessment of internal control mechanism on expenditure control are illustrative only, however, detail check may be exercised with reference to Section-V of MSO (Audit).

22.6.3 Administrative Control

The PCCF, Jharkhand, is the technical head of Forest Administration and is accountable to Government in respect of all wings. He exercises his control over the circles and divisions through supervisory officers viz., Additional Chief Conservator of Forests (seven), Chief Conservator of Forests (sixteen), Regional Chief Conservator of Forests (six) and Conservator of Forests (twenty-five) each assigned with specific duties and responsibilities and functioning in PCCF office. Conservator of Forests works as controlling and administrative officer in respect of divisions under his control and exercises control through periodical inspections, periodical returns etc. submitted by the divisions under his control. There are seventy-four Forest Divisions. The responsibility for proper management of forest and the finance of the division lies with the Divisional Forest Officer (DFO) who is responsible for the financial, administration and technical operation of his division.

Each forest division is divided into ranges headed by a Range Officer. He is responsible for all financial and technical operations of his range. He has to collect, check and consolidate all returns and registers to prepare monthly accounts of his Range and submit various reports/returns in prescribed format to the DFO along with cash accounts.

22.6.3.1 Administrative Report

A brief annual report of progress in each division for the financial year is submitted by DFOs to CFs concerned, accompanied by several returns. The divisional reports are consolidated by circle and sent to PCCF through RCCF, CCF and Addl. CCF who consolidate the same and submit to the Government for review and approval within the stipulated time. The report consists chapters on constitution and management of forest, silvicultural system, exploitation of forest produce, financial results, review of plan schemes etc.

This report may be reviewed by the audit party for gathering important points relating to loss of revenue, wasteful expenditure etc. due to lack of internal control.

It would be seen in audit that assigned duties and responsibilities were being carried out by different functionaries at different levels as per provisions of Act and Rules and instructions and guidelines issued by the Government and PCCF from time to time.

Audit should review reports and returns received from different functionaries for evaluating the adequacy of administrative and financial control and risk management, if any.

22.6.4 Operational Control

CFs are responsible to see that DFOs submit all the prescribed reports and returns in a scheduled time for necessary action at higher level. He is held responsible for any delay in raising demand and disposal of forest produce and vehicles.

Audit should see that prescribed records/registers were being maintained properly, the monthly accounts was being submitted to the Accountant General (A&E) timely, monthly/quarterly/six monthly/annual reports and returns were being prepared and submitted in time to the competent authority and demand for sale of forest produce was being made in time.

Audit should scrutinise the report/returns to evaluate the adequacy of operational control over different operations of DFO having significant impact on revenue and of State.

22.6.5 Supervisory Control

A constant and competent supervision of forest officers and staff at different levels is necessary to ensure satisfactory achievement of internal control objectives. Such supervision imparts necessary guidelines and training which helps in minimising error, waste and wrongful Acts. Statutory provisions for exercising supervisory control over functioning of circles, divisions etc. are mentioned in Bihar Forest Rules, Chapter-II (as adopted). All offices of Forest, Environment and Climate Change Department are inspected by the competent authorities periodically. Inspection Notes in respect of such inspection is prepared by the inspecting authorities and submitted to the higher officer for necessary action.

The audit inspection notes should be examined from the following angles:

- Shortfall in inspection by any Supervising Officer resulting in serious financial irregularity, loss of revenue due to non-observance of codal provisions and instructions issued by Government/ competent authorities;
- Blockage of revenue due to non-disposal of forest produce and non-raising of demand for forest produce sold;
- Loss of revenue due to misappropriation of revenue by way of fraud, embezzlement etc.;
- Loss of revenue due to non-working of coups/non-leasing out of bamboo coups etc.;

22.6.6 Monitoring mechanism

Proper monitoring of the operations entrusted to the field level officers is highly essential. Monitoring operations ensures that internal controls were achieving the desired results. Monitoring of operation should be built into the methods and procedures which administration selects to control operations. It should also ensure that the activities meet the objectives of the organisation. Monitoring includes addressing audit findings and recommendations made by internal and external auditors regarding determination of corrective actions required. Head of the office is required to monitor their operations continuously and take prompt and responsive action on all findings of irregular, uneconomical, insufficient and ineffective operations. PCCF being the technical head of Forest, Environment and Climate Change Department is primarily responsible for proper monitoring of all operations relating to management of forest, augmenting resources, revenue etc. The monitoring of different operations are entrusted to the Chief Conservator of Forests (CCF) placed under Additional Chief Conservator of Forests and PCCFs viz., distribution of allotment for plantation schemes, issue technical direction for successful implementation of the schemes, proper utilisation of forest resources, exploitation of forest

produce, preparation of working plan, maintenance of records to watch the demand collection and balance of Tax/Non-tax forest revenue from different sources etc. as allocated to them.

22.6.7 Audit checks for internal control system for Receipts and Refunds

The following aspects should be seen in audit while evaluating the adequacy of existing internal control system in so far as revenue activities of Government are involved :

- Target fixed for production of any forest produce and revenue is achieved. If not, action taken by competent authority for investigation may be critically examined to ascertain whether reasons for shortfall are attributable to individual negligence or erroneous fixation of target;
- The crops which are of seasonal nature are put to sale well in advance before the commencement of the collection year. Any delay in finalisation of lease, to be investigated to ascertain if it is due to weakness in internal control system;
- The seized forest produce are promptly disposed of by DFOs, if not, reasons for delay may be examined to ascertain the physical existence of such materials;
- The demand were promptly raised. Any delay in finalisation of demand should be examined to find out whether the delay was due to failure of internal control over staff;
- Action taken by competent authority for preparation/revision of working plan may be examined whether due to lack of internal control the preparation/revision was delayed,
- Various reports and returns as envisaged in the Manual, guidelines issued by the Government/PCCF are regularly submitted by DFOs, Working Plan Officers, CFs to PCCF through proper channel and are being examined properly by concerned authorities. Any non-compliance thereto resulting in loss of revenue may be examined,
- Inspection of subordinate offices by competent authorities as provided in the manual were being conducted and there was no shortfall on this score. Inspection Notes should be examined to find out shortcomings leading to loss/leakage of revenue;
- Reconciliation of amount remitted into treasury along with challans/ CTRs were being regularly done by each DDO every month. Non-reconciliation of remittances is a failure of internal control system;
- The periodical evaluation of schemes, activities and various reporting system etc. relating to management of forest were being carried out by competent authorities. If not, the impact may be examined.
- The computation and realisation of various taxes, fees, royalty etc. were in accordance with the applicable Acts and Rules,
- The demands were being raised promptly,
- Adequate control and monitoring mechanism exists to prevent loss or leakage of revenue.
- The cases pending in a Court of law and certificate officer were pursued adequately and appeals were filed within the period of limitation.

22.6.8 Role of Audit against possible Fraud and Corruption in Forest Management

22.6.8.1 Introduction

Fraud is deliberate mis-interpretation of facts and/or significant information by one or more individual among the management, staff or third parties while corruption involves behaviour on the part of officials in the office in which they improperly and unlawfully enrich themselves by misusing the position in which they are placed.

The role of audit in addressing fraud and corruption has come under critical scrutiny in wake of increasing cases of fraud and corruption in both Government Offices and other sectors. **Auditors as such need be more vigilant to and alert for situations, control weaknesses, in adequacies in record keeping, cross and unusual transactions or results, which could be indicative of fraud, improper and unlawful expenditure, unauthorised operations, waste, inefficiency or lack of probity. Supreme Audit Institution (SAI) should endeavour to create an environment that is unfavourable to fraud and corruption for which they need be given adequate mandates that enable them to effectively contribute to fight against fraud and corruption.**

22.6.8.2 Extent of fraud/corruption

Fraud and corruption are mostly interlinked. The auditor is required to be well aware of the complex co-relation between the two. Attention should be drawn to possibility of separate treatment, wherever the situation so warrants. Fraud and corruption may involve:

- i) Intentional misrepresentation of financial information;
- ii) manipulation, falsification and alteration of records;
- iii) misappropriation of money/assets;
- iv) wilful suppression or omission of the effects of transactions from records;
- v) recording of transactions without substance;
- vi) misapplication of accounting policies;
- vii) misuse of office for private gain;
- viii) offer to solicit an offer of inducement or reward as benefit for performance of an official Act;
- ix) attempt to camouflage;
- x) wilful misinterpretation of the provisions of Acts and Rules.

22.6.8.3 Audit checks to prevent fraud and corruption

While conducting audit of the accounts of Forest Receipts, audit should verify:-

- ◆ Whether records were being maintained properly. If any basic record is not maintained or discontinued, impact thereof on annual collection with reference to previous situation;
- ◆ whether assessment of dues were being properly made with correct rates;
- ◆ whether forest receipts were being properly realised and duly credited to Government account;
- ◆ totals of cash book and challan register to ensure amounts received and duly credited to Government account;
- ◆ stock account of token-cum-receipt books in order to prevent fraud by issue of fake receipts;
- ◆ the remittance challans with the treasury records and bank statements;
- ◆ exemption/remission cases with reference to the provisions of Act, Rules and orders;
- ◆ refund cases with reference to all relating records;
- ◆ fines and penalties were being imposed properly and exemptions were allowed by competent authority as per provisions of Forest Acts and Rules;
- ◆ the reasons for shortfall in revenue compared to previous years;
- ◆ whether the provisions of Forest Act, Rules and orders issued from time to

- time were being properly interpreted;
- ◆ whether there was any manipulation/falsification/alteration of records;
- ◆ whether periodical verification of the basic records exhibiting collection of revenue were regularly made by the competent authorities.

Audit should extend his responsibility to provide assurance to make the management aware of the weaknesses in the internal control system. It may submit proposals and recommendations to the auditee office regarding inadequate control which may play a significant role in reducing fraud and corruption.

22.6.9 Internal Audit

Internal audit is an important element of internal control. It provides continuous means for improving an organisation's operations. A strong internal audit unit minimises risk to a management. It also reduces the audit work by the Comptroller and Auditor General of India. It is an independent entity within or outside the Forest department. Internal audit examines and evaluates the level of compliance to the departmental rules and procedure so as to provide independent assurance to senior management on the adequacy of the risk management and internal control frame work in the department. The following aspects may be seen in audit while evaluating the Internal Audit System:

- ◆ organisation of internal audit wing and independence enjoyed by this wing;
- ◆ internal auditing standard set by the Government;
- ◆ duties and responsibilities of Internal Audit Organisation;
- ◆ training of audit personnel;
- ◆ planning of internal audit;
- ◆ whether risk indicators are supported through risk analysis;
- ◆ Inspection reports issued by Internal Audit-timely compliance of audit observation and volume of pendency;
- ◆ pendency in audit coverage;
- ◆ Overall effectiveness of internal audit in terms of :-
 - (a) Departmental compliance of audit observations;
 - (b) Systems corrected at audit instance;
 - (c) Resources and penal action taken at audit instance;
 - (d) Special audit done by this wing outcome thereof.

Forest, Environment and Climate Change Department have not set-up any Internal Audit Wing. In absence of Internal Audit System, it is not ensured whether the objectives were being achieved within the Department. The Forest, Environment and Climate Change Department is responsible for all activities of the organisation including internal control in absence of this wing. Their responsibilities may vary depending upon their functions and characteristics. They are required to see that the prescribed records, registers, periodical reports and returns were being maintained properly for the smooth and methodical functioning of the office/management. They should watch the observance of the provisions of the Acts and Rules, orders and instructions issued by the Government and competent authorities.

Department should make efforts for establishment of an internal audit wing in the Forest, Environment and Climate Change Department as this wing can be a valuable educational and advisory resource on internal control. It can contribute to the efficiency of the external audit efforts by providing direct assistance to the external auditor. A strong internal audit unit can

reduce the audit work of the Supreme Audit Institution (SAI) and avoid needless duplication of work.

22.7 The Compensatory Afforestation Fund Act, 2016 was passed in August 2016 (**Appendix-S**).

22.7.1 Objectives of CAMPA

Compensatory Afforestation Fund Management and Planning Authority (CAMPA) are meant to promote afforestation and regeneration activities as a way of compensating for forest land diverted to non forest uses. National CAMPA Advisory Council has been established as per orders of the Hon'ble Supreme Court with the following mandate:

- to lay down broad guidelines for State CAMPA
- to facilitate scientific, technological and other assistance that may be required by State CAMPA
- to make recommendations to State CAMPA based on a review of their plans and programmes
- to provide a mechanism to State CAMPA to resolve issues of an inter state or Centre state character.

22.7.2 State CAMPA

The Hon'ble Supreme Court also approved the guidelines prepared by the MOEF for utilizing CAMPA funds by an agency to be constituted in the states and to be known as the State CAMPA. Some important guidelines are highlighted below:

- The State CAMPA would presently receive funds collected from user agencies towards compensatory afforestation, additional compensatory afforestation, penal compensatory afforestation, Net Present Value (NPV) and all other amounts recovered from such agencies under the Forest (Conservation) Act, 1980 and presently lying with Adhoc CAMPA.
- The State CAMPA would administer the amount received from the Adhoc CAMPA and utilize the funds collected for undertaking compensatory afforestation, assisted natural regeneration, conservation and protection of forests, infrastructure development, wildlife conservation and protection and other related activities and for the matters connected therewith or incidental thereto.
- State CAMPA would provide an integrated framework for utilizing multiple sources of fundings and activities relating to protection and management of forests and wildlife. Its prime task would be regenerating natural forests and building up the institution engaged in this work including training of the forest officials of various levels.”



Chapter XXIII

Audit of Urban Local Bodies

23.1 Introduction

The Parliament enacted 74th Constitution Amendment Acts, 1992 to empower the Urban Local Bodies (ULBs) to function as institution of self governance. Central Finance Commissions regularly recommended for an audit system to be devised by the State Government for audit of the accounts of ULBs and for Technical Guidance & Support (TGS) to that audit system to be given by the Comptroller & Auditor General (C&AG) of India. The State Government created the Directorate, Local Fund Audit (DLFA) for audit of the accounts of ULBs and notified the post of its Director .

Consequently, the accounts of ULBs are audited by us on test check basis. Further, the post of the Examiner of Local Accounts, Jharkhand has been abolished and the Dy. Accountant General AMG-I is entrusted with the duty of Technically Guiding and Supporting the State Government. AMG-I deals with the audit of accounts of ULBs of Jharkhand through entrustment from the State Government.

The ULBs in Jharkhand have recently shifted from the Cash-based (Single entry) Accounting System to Accrual-based (Double entry) Accounting System which necessitates the audit of Financial Statements i.e. Receipts & Payment Account, Income & Expenditure Account and Balance Sheet. As such, we will have to adept ourselves to the changing set-up of the urban local bodies to be inspected as well as devise appropriate methods of investigation to obtain the desired results. This chapter comprehensively provides for the audit of grants-in-aid and loans, works, establishment, receipts, expenditure, financial statements etc.

23.1.1 General

74th Constitutional Amendment bestowed a constitutional status on ULBs and empowered them to function as Local-Self Governments to provide good urban governance. The 74th Constitution Amendment Acts was the testimony of the political commitment to strengthen grass root democratic institutions of self-governance to provide better opportunity to the people to participate in a more constructive and creative manner in the planning process for democratic development for facilitating achievement of social justice.

23.1.2 Act and Rules

Pursuant to the 74th Constitutional Amendment, the Government of Jharkhand enacted the Jharkhand Municipal Act, 2012 and the Jharkhand Municipal Accounts Rules, 2012 for better functioning and smooth governance by the ULBs.

23.1.3 Audit of ULBs under Technical Guidance and Support (TGS) arrangement

Provision for Technical Guidance and Support (TGS) to be provided by the C&AG for ULBs has been made by the Government of Jharkhand in the Jharkhand Municipal Act, 2012. The State Government has also created the Directorate, Local Fund Audit (DLFA) and notified the post of its Director. It has also accepted the Standard Terms and Conditions of

TGS which were provided by the C&AG Office. Now, the audit of some of the ULBs are to be conducted on test check basis in order to provide TGS to the DLFA.

23.1.4 The audit of ULBs is under the charge of a Deputy Accountant General/AMG-I. The functions of this office are, inter alia, to (i) provide Technical Guidance and Support (TGS) to the Director, Local Fund Audit (DLFA) in all the matters including preparation of Annual Audit Plan, guidance for setting up of a robust internal control mechanism, preparation of Inspection Reports etc. and (ii) conduct audit of the accounts of ULBs on test check basis for providing TGS to the DLFA.

23.2 Annual Budget of ULBs

Jharkhand Municipal Act, 2012 provides for the preparation of Budget of the Municipality under section 108 to 111 as follows: -

23.2.1 Preparation of budget estimate of Municipality (Section 108): -

- (1) The Municipal Commissioner or the Executive Officer shall prepare in each year a budget estimate along with an establishment schedule of the municipality for the ensuing year, and such budget estimate shall be an estimate of the income and expenditure of the municipality
- (2) Subject to the provisions of sub-section (2) of section 99, the budget estimate shall separately state the income and the expenditure of the municipality to be received and incurred in terms of the various heads of accounts.
- (3) The budget estimate shall state the rates, at which various taxes, surcharges, cesses and fees shall be levied by the municipality in the ensuing year.
- (4) The budget estimate shall state the amount of money to be raised as loan during the ensuing year.
- (5) The Mayor and the Chairperson shall present the budget estimate to the Standing Committee before the fifteenth day of February in each year.
- (6) The budget estimate shall be prepared, presented and adopted in such form and in such manner, and shall provide for such matters, as may be prescribed.
- (7) The annual statements prepared under sub-section (1) of section 117 and sub-section (2) of section 131 together with the reports prepared under subsection (1) of section 107 and under sub-section (2) of section 329 shall be enclosed with the budget estimate.

23.2.2 Sanction of budget estimate of Municipality (Section - 110)

(1) The Council shall consider the budget estimate and the recommendations, if any, of the Standing Committee thereon, and shall, by the fifteenth day of March in each year, sanction the budget estimate for the ensuing year with such changes as it may consider necessary, and forward the budget estimate so sanctioned to – (a) the State Government, in the case of a Municipal Corporation, (b) the Director of Municipal Administration, in the case of Municipal Council and Nagar Panchayat.

(2) The budget estimate received by the State Government or the Director of Municipal Administration, as the case may be, under sub-section (1) shall be returned to the municipality before the thirty-first day of March of that year with or without modifications of the provisions relating to grants by the State Government.

23.2.3 Power to alter budget grant (Section - 111) -

A Council, on the recommendation of the Standing Committee, may from time to time, during a year – (a) increase the amount of any budget grant under any head, (b) make an additional budget grant for the purpose of meeting any special or unforeseen requirement arising during the year, (c) transfer the amount of any budget grant or portion thereof under one head to the amount of budget grant under any other head, or (d) reduce the amount of the budget grant under any head.

23.3. Accounts of ULBs

Every ULBs (Nagar Nigam/Nagar Parishad/Nagar Panchayats) in Jharkhand shall maintain its books of account as per Jharkhand Municipal Act (JMA) 2012 and Jharkhand Municipal Accounting Manual (JMAM)/ Jharkhand Municipal Accounting Rules (JMAR) 2012.

23.3.1 Financial Statement (Section - 114)

The Municipal Commissioner or the Executive Officer shall, within four months of the close of a year, cause to prepare a financial statement containing an Income and Expenditure Account and a Receipts and Payments Account for the preceding year in respect of the accounts of the municipality. The form of the financial statement, and the manner in which the financial statement shall be prepared, shall be such as may be prescribed.

23.3.2 Balance sheet (Section – 115)

The Municipal Commissioner or the Executive Officer shall, within four months of the close of a year, cause to prepare a financial statement containing an Income and Expenditure Account and a Receipts and Payments Account for the preceding year in respect of the accounts of the municipality, (2) The form of the financial statement, and the manner in which the financial statement shall be prepared, shall be such as may be prescribed.

23.3.3 Books of account

Every Municipality shall maintain its books of account in respect of each fund, separately for each financial year. The primary books of accounts under the double entry accounting system shall be: (a) Cash Book (b) Bank Book (c) Journal Book and (d) General Ledger and Sub-ledgers.

23.3.4 Accrual basis

(i) The accrual basis recognises transactions and events when they occur rather than when cash is paid or received. For example, a purchase is generally recognised when the delivery of the goods is made by the buyer, even though the payment may be made later.

(ii) The elements recognised under the accrual basis of accounting are assets, liabilities, net assets (or 'equity'), revenues, and expenses. Capital assets, i.e., assets whose benefits are

expected to extend over more than one accounting period, are recognised as expense over the period of benefit through a periodic depreciation or amortisation charge.

(iii) The financial statements under the accrual basis of accounting typically comprise a statement of financial position, a statement of financial performance (or activities), a cash flow statement, and explanatory notes and schedules on information contained in the aforesaid statements.

(iv) Although the focus of accrual accounting is on all assets and not just cash, accrual accounting maintains a complete record of cash flows and a statement of cash flows is now an integral part of accrual-based financial statements.

23.3.5 PROVISIONS FOR AUDIT OF ULBs : SOME GENERAL CHECKS

On the recommendations made by the 13th Finance Commission (para 10.161(ii)) and by the 14th Finance Commission (para 9.61) the functions of Technical Guidance and Support (TGS) to the primary external auditors of ULBs in the State have been entrusted to the Comptroller and Auditor General.

23.3.6 Standard Terms and Conditions of Technical Guidance and Support (TGS):

CAG may provide suitable Technical Guidance and Support to primary external auditors of Local Bodies, viz. Directorate, Local Fund Audit (DLFA) or any other such designated statutory agency for the purpose of strengthening Public Finance Management and Accountability in LBs. The parameters of such TGS, as illustrated in regulation no 152 to 154 of Regulations on Audit and Accounts 2007 issued by CAG and accepted by State Government are given below:

- (1) The local fund auditor will prepare by the end of March every year, an annual audit plan for audit of ULBs in the next financial year and forward it to the Accountant General (Audit), Jharkhand, Ranchi;
- (2) The audit methodology and procedures for audit of ULBs by the local fund auditor will be as per various Acts and statutes enacted by the State Government and guidelines prescribed by the Comptroller and Auditor General of India.
- (3) Copies of inspection reports in respect of selected local bodies shall be forwarded by the local fund auditor to the Accountant General (Audit) for advice on system improvements and the Accountant General (Audit) shall review the same with a view to make suggestions for improvement of existing systems being followed by the local fund audit department. The Accountant General (Audit) will also monitor the quality of the inspection reports issued by the local fund auditor by scrutinising such inspection reports.
- (4) The local fund auditor will furnish returns in such format as may be prescribed by the Comptroller and Auditor General for advice and monitoring.
- (5) The Accountant General (Audit) would conduct test check of some ULBs in order to provide technical guidance. The report of the test check would be sent to the local fund auditor for pursuance of action to be taken by ULBs. The local fund auditor will pursue the compliance of such paragraphs in the inspection reports of the Accountant General (Audit) in the same manner as if these are his own reports.
- (6) Irrespective of the money value of the objections, any serious irregularities such as system deficiencies, serious violation of rules and fraud noticed by local fund auditor will

be intimated to the Accountant General (Audit) immediately so that the corrective action may be suggested

(7) The local fund auditor shall develop, in consultation with the Accountant General (Audit), a system of internal control in his organisation.

(8) The Accountant General (Audit) shall also undertake training and capacity building measures for the local fund audit staff.

23.3.7. In addition to audit to be conducted by the statutory auditor of LBs, CAG of India will have the right to conduct such test check of the accounts and to comment upon and supplement the report of the statutory auditor, as he may deem fit. The CAG of India or any person appointed by him in connection with the audit, shall have the rights, privilege and authority as the CAG has in connection with the audit of Government accounts.

The results of audit may be communicated by CAG or any person appointed by him to the ULBs. The CAG may also forward a copy of the report direct to the Government.

The above terms and conditions will not affect, in any way, the CAG' right to access the accounts and records of the ULBs under other sections of the Comptroller and Auditor General (Duties, Powers and Conditions of services) Act 1971 and under other due statutory provisions.

Provision for Technical Guidance and Support (TGS) to be given by the CAG for ULBs has been made in the Jharkhand Municipal Act 2012 (section 117).

23.4.1 Audit of Urban Local Bodies

Audit, as understood in common parlance, is an examination of the books of accounts to ensure that the final accounts as drawn up, exhibit a true and fair view of the working and the state of affairs of the organisation subjected to audit. The examination involves verification of the authority for and the accuracy of the booked figures with the help of such evidence as may be available in the form of vouchers, invoices, receipts and other documents. The auditor is, therefore, expected to conduct, as far as possible, an independent investigation into the affairs of the body or authority and satisfy himself that the state of affairs, as shown in the final accounts at a given date, reflects a true and fair picture according to the facts available to him, information obtained by him and explanation given to him.

23.4.2 Audit is normally undertaken after the accounts have been audited by the Director, Local Fund Audit. In certain cases, it is possible that the accounts for any period might not have been audited by the Director, Local Fund Audit. In such cases, the fact of non-audit of the accounts by the Director, Local Fund Audit may be commented upon in a separate para of the Draft Inspection Report.

23.4.3 Before conducting the audit:

- (i) the minutes of meetings of ULBs and of the standing committee constituted for regulation of various groups of subject should be studied carefully to have a track of the activities/targets fixed for activities and their achievements;
- (ii) similarly, all reports/returns received/sent in respect of various schemes should also be studied; and
- (iii) the reports of the Director, Local Fund Audit should also be studied. Any

important point referred to therein may also be fully examined and incorporated with audit comments;

23.4.4 The CAG will conduct the audit in accordance with general principles of audit keeping in view the provisions of any law, for the time being in force, applicable to the ULB. The audit of transactions will vary from organisation to organisation depending upon the nature of organisation, the system of accounting and documents maintained. However, some of the items/records which can be subjected to general checks and the general checks expected to be applied by an auditor are given below:

23.4.4.1 Grants:

Besides, the routine checks to be applied in the audit of grants, Audit should see that:

- (1) the grant was utilised for the purpose for which it was given. For this purpose, the expenditure incurred may be examined to see if it was closely related to the object for which the grant was given. If there was any minus balance, it may indicate diversion of funds. In such cases, defects persisting in payments may also be looked into along with the reasons for diversion. Besides, it is also to be ensured that diversion of funds was approved by the competent authority;
- (2) the grant was utilised within the specified period. The extent of un-utilised grants which have become due for refund should be worked out. The reasons for its non-utilisation may be analysed, whether grant was given according to requirement or in any arbitrary manner by Government; and
- (3) the utilisation certificate duly countersigned by the competent authority was submitted by the body. Cases of non-submission of utilisation certificates or improper utilisation should be specifically brought out and commented upon.

(Broadly based on Chapter 5 “Audit of Grants in Aid” of MSO Audit)

- (4) In case of grants given for meeting establishment charges it should be seen that: -
 - (i) proper sanction to the posts for which grant has been made exists;
 - (ii) payment has been made on proper acquittances;
 - (iii) the recovery of over payments of pay etc. to the grant head has not been taken as own income of the body;
 - (iv) in case of ULB, payment in respect of pay and allowances of the posts sanctioned from the funds of the ULB is not being made from the amount of establishment grant received from Government; and
 - (v) pay has not been fixed/raised wrongly based on checking/verification of entries of pay and allowances with reference to Service Books . Performance of the staff employed/posted specifically for certain schemes may be linked up with the quantum of work undertaken, achievements made. Irregular appointments of Drivers/infructuous expenditure on pay and allowances of Drivers of jeep, tractors etc. during the period the vehicle was lying idle should be scrutinized
- (5) In case of grants for execution of Development Schemes the following should be ensured: -
 - (i) works register giving details of grants is maintained properly;

- (ii) the grant was utilised for the purpose for which it had been originally sanctioned according to planned programme;
 - (iii) the conditions governing the grant were fulfilled;
 - (iv) cases of non-utilisation/misutilisation of grant should be examined in detail;
 - (v) details of incomplete work/works not undertaken/works abandoned should be analysed critically; and
 - (vi) grant register are maintained properly and reviewed periodically at an appropriate level.
- Suitable comments may be incorporated in IRs in the light of aforesaid scrutiny.

23.4.4.2

Borrowings

- (i) Audit has the responsibility to ensure that the borrowings of a ULB are so regulated as not to exceed the limits, if any, fixed by the Govt. and that the conditions laid down for it are duly observed.
- (ii) Audit should ensure that the proceeds from borrowings have been properly brought to account and have been expended only on the objects for which the loans were raised or to which borrowed moneys may properly be applied in accordance with the sound principles of public finance.
- (iii) Audit should also examine whether adequate arrangements have been made for amortization of the debt and bring to the notice of the Government instances in which this requirement has been ignored or the arrangements made appear prima facie to be inadequate. The following general principles will govern the examination of amortisation arrangement:-
 - (a) It would be more prudent to relate the arrangements to the objective of the borrowing rather than to the actual currency of the loan. The period should be comparatively short in case where the life of the assets created by utilising the loan is comparatively short.
 - (b) Where a material asset is created, the amortisation period should never exceed its life.
 - (c) Normally, the rate of amortisation should be related to the life of the revenue-producing asset for the creation of which the debt was incurred.
 - (d) Where the net earning power of an asset substantially exceeds the interest on the debt, it may not be necessary to insist upon amortisation. Where depreciation or renewal reserves are constituted for the replacement of assets created from loan funds, amortisation is often omitted altogether or its rate scaled down. However, even in both these types of cases, it is a sound and prudent financial policy to make amortisation arrangements.
 - (e) Where a Sinking Fund has been constituted for the redemption of borrowings, Audit has to satisfy itself that credits to this fund are in accordance with the undertakings given by the local body and set forth in the prospectus of borrowings and the payments are eventually utilised for the purpose for which the fund was created.

23.4.4.3 Loans to Beneficiaries

It should be seen whether:-

- (i) the scheme for grant of loan was sanctioned by the Government;
- (ii) source of financing has been duly determined;
- (iii) the recommendations were duly determined and proper agreement was carried out with the loanees;
- (iv) loans were disbursed only to those who were eligible under the scheme;
- (v) the capacity to realise the loan instalments was assessed before disbursement;
- (vi) demand notices were issued well in time for recovery of principal/interest and matter pursued according to the terms of loan till recovery;
- (vii) prescribed report on utilisation of loan for specified purposes were obtained and recovery of excess release of loan was made in time;
- (viii) loan records are maintained properly and reviewed periodically at an appropriate level.

23.4.4.4 Review of Schemes/Projects/Programmes:

According to Article 243-1 & 243-Y of Constitution of India, State Finance Commission recommends the distribution of financial resources to the State Government. The Central Finance Commission also gives grant to State Government. These funds are utilised in various Schemes/Programmes by the State Government through the ULBs.

23.4.4.5 Cash book/

Cash book is the most fundamental record and audit commences with check of the entire postings in the cash book. The main purpose of auditing the cash book is to ensure that: -

- (i) all receipts are taken into account in full;
- (ii) no improper or fraudulent payments are made;
- (iii) all receipts and legitimate payments are accurately recorded; and
- (iv) the balances reflected in it are worked out correctly from time to time.

For this purpose, the auditor has to see that: -

- (i) the totals and balances are correctly computed;
- (ii) balances are correctly carried forward from day to day and from month to month;
- (iii) the balances, in cash book, are periodically checked with physical balances (treasury/bank passbook /others) and tallied;
- (iv) the receipts are correctly posted in chronological order from all receipt books;
- (v) the payments are duly supported by paid vouchers, which can be accepted as valid legal discharge.
- (vi) withdrawals from and remittances to bank are traced in the

respective pass books and from counterfoils of cheque books/remittance challans;

- (vii) cash realisations are remitted intact into bank within the prescribed/reasonable time;
- (viii) cash receipts are not diverted to meet expenditure and for every payment, specific withdrawals from the bank are made by means of cheques; and
- (ix) where subsidiary cash books are maintained, the transactions therein are duly taken over in the main cash book or a system exists where balances of all cash books are consolidated and reconciled.

23.4.4.6

Receipts:

It should be examined in Audit that:-

- (i) a proper record of receipt books is kept and the books are issued only to persons authorised to issue receipts;
- (ii) the receipts are machine numbered and are issued in chronological order;
- (iii) the return of counterfoil of used/partly used receipts books to safe custody is watched;
- (iv) the receipts are correctly posted in main cash book and where subsidiary accounts are kept, from which totals are taken to cash book, the receipts are correctly posted in these accounts;
- (v) the revenue to be realised is correctly assessed, demand notices issued within time prescribed and recovery watched by proper control records and periodical review of these records;
- (vi) the revenue is correctly classified in accounts;
- (vii) in respect of realisations by way of money order, cheques and drafts, an effective system of collection and accounting has been prescribed and is followed;
- (viii) the realisations are duly posted in demand and collection registers and by across check it is ensured that collections, as posted in demand and collection registers, are duly taken to cash book;
- (ix) loss of revenue is duly examined and written off under sanction of appropriate authority;
- (x) cash receipts are credited to bank intact at the earliest possible date and counterfoils of paying-in-slips are on record; and
- (xi) realisations by cheques are duly remitted to the bank and credits appear in bank account.

23.4.4.7

Payment vouchers :

It should be examined in Audit that:-

- (i) the vouchers are filed in chronological order and are given distinct serial numbers, according to a well-established procedure;
- (ii) the claims are clearly stated and are due and admissible;
- (iii) the arithmetical calculations are correctly made;
- (iv) receipts (stamped where necessary) of the claimants are available;

- (v) materials purchased, with reference to the claims admitted for payment are duly taken note of in the relevant stores/stock registers;
- (vi) the claim admitted is considered reasonable for the purchase and sanction for purchase/payment had been ordered by the prescribed authorities;
- (vii) the vouchers are duly stamped, 'paid and cancelled' to obviate double payment;
- (viii) payments are, as far as possible, made by crossed cheques and cash payment is justified only in exceptional and petty cases and
- (ix) the vouchers are correctly classified and duly accounted for.

23.4.4.8 **Bank reconciliation :**

It should be examined in Audit that:-

- (i) a system exists for a periodical bank reconciliation and one such reconciliation has actually been carried out as on the date of closure of annual account and the statement is a properly agreed one between the two sets of figures;
- (ii) for the differences between balances as per bank pass book and cash book, action has been initiated for reconciliation of the differences;
- (iii) the reconciliation does not reveal old items of credits which reflects in cash book only and not in pass book and if there is any, it has to be ensured that remittance slips for actual remittance in bank are there on record;
- (iv) there are no payments in bank pass book without corresponding entries in cash book and if there is any, it has been duly investigated and does not indicate possible items of misappropriation; and
- (v) the cheque books are kept in safe custody and the procedure for issue of cheques as laid down is duly observed.

23.4.4.9 **Payment to staff:**

It may be checked and ensured that:-

- (i) all posts are created by the authorities competent to create these posts and are in the prescribed scales;
- (ii) appointments /promotion are made as per the prescribed procedure;
- (iii) the initial pay fixation and subsequent pay fixation are correctly regulated according to the rules applicable to the ULB;
- (iv) proper leave accounts and other service records are maintained;
- (v) contributions to provident funds and other funds have been correctly assessed, recovered and deposited in proper specified Account;
- (vi) recoveries towards income tax are being made in cases where they are to be recovered at source ; and
- (vii) For reimbursement of tour expenses, the tours are duly sanctioned by the competent authority and claims are regulated according to rules applicable to the ULB.

23.4.4.10 **Expenditure on wages :**

It may be checked and ensured that:-

- (i) a proper record of employment on specified jobs is available. Competent sanction has been obtained;
- (ii) a proper record of performance of the specified jobs is available;
- (iii) there exists an assessment of work done vis-à-vis, the expenditure incurred;
- (iv) the expenditure has been correctly apportioned between capital and revenue.
- (v) the supervision over the work is adequate; and
- (vi) the work on which employment was made, was necessary and time taken was reasonable.

23.4.4.11 **Office Contingencies :**

Audit should see that:-

- (i) a proper record of expenditure is kept;
- (ii) the expenditure is regulated according to the prescribed scales;
- (iii) there exists adequate justification for abnormal increases in expenditure;
- (iv) control over the expenditure is vested on certain specified authorities and they perform the duties adequately; and
- (v) where necessary, prescribed procedure for incurring the expenditure is observed.

23.4.4.12 **Stock Accounts :**

Audit should see that:-

- (i) there exists necessity effecting the purchase;
- (ii) the item is utilised for the specified purpose;
- (iii) the purchase, issue and consumption are authorised and are according to the prescribed procedure;
- (iv) the purchases and issues are duly taken in the relevant stock registers;
- (v) in case of transfers from one work or section or department to another, they are duly taken note of in respective works, sections or departments;
- (vi) the balances are correctly struck and valued;
- (vii) physical balance is tallied with book balance periodically, procedure prescribed thereof is adequate and is duly observed;
- (viii) excessive, accumulations are avoided and due care is taken in this regard from time to time;
- (ix) old and obsolete stocks are identified and disposed of in time according

to the prescribed procedure;

- (x) the procedure prescribed for effecting purchases is sound and is duly observed;
- (xi) the purchases are made at the most economical time and rate, consistent with quality and the quality of supply is checked with reference to declared quality in the agreement for supply;
- (xii) the disposals are made at rates properly worked out and approved by competent authorities;
- (xiii) the procedure for custody of various articles of stock has been prescribed and are duly observed;
- (xiv) consumption of materials in production or otherwise has been in conformity with the prescribed scales;
- (xv) valuation of products for taking to stock, accounting of issue, and stock taking has been done according to the prescribed procedure and the procedures themselves are fair and reasonable;
- (xvi) record of depreciations in value accounts is properly kept and rates charged are adequate; and
- (xvii) any term/ equipment etc. is not lying idle in stock since long. If it is then such cases may be analysed to judge the reason and suitable commented upon.
- (xviii) Annual Service Maintenance Contract , where necessary, has been executed. If not, financial effect may be commented upon.

(Broadly Based on the Chapter-4 “Audit of Accounts of Stores and Stock” of MSO Audit)

23.4.4.13 Expenditure on works:

It should be examined whether:-

- (i) the project as a whole has been approved by the competent authority and the financing authority, like the State or Central Government etc. ;
- (ii) a time schedule for implementation has been drawn up, indicating the physical and financial target from time to time duly agreed to by the financing authorities as well;
- (iii) for the several components of the projects, required detailed plans and estimates have been drawn up in time, duly approved by the competent technically qualified authority specified for the purpose;
- (iv) the execution of the works was taken up as per approved plan and whether flow of funds was as anticipated; if not, how far the works suffered may be looked into;
- (v) the detailed drawings and designs, where required, were duly drawn up in time and furnished to the executing authorities and if not, the reason and impact thereof;

- (vi) a proper procedure for award of contract is laid down and is duly observed;
- (vii) tenders are invited and properly scrutinized in time before decision is taken;
- (viii) the delays, if any, in preparation of plans and estimates, supply of detailed drawings and designs, invitation and acceptance of tenders, supervision of works in execution etc. have resulted in any loss, not only for the work as such, but also to the development of the local body itself or in execution of schemes taken up by the local body;
- (ix) proper monitoring and supervision of work by the competent authority have been done;
- (x) work has been completed in stipulated time. If not, application for extension of time for completion of work had been submitted within the valid period and grant of same had been made by the competent authority;
- (xi) payments to contractors were in time in accordance with the agreed procedure and any unauthorised aid is involved;
- (xii) proper records of measurement exist and the records are compiled in time by qualified/competent persons and are subjected to adequate supervisory check;
- (xiii) quantities of work executed compare favourably with the estimates and variations are examined and are justified;
- (xiv) the extra items executed are such that they could not be anticipated and not those initially omitted from plans and estimates for tendering and whether the rate paid for them had been correctly assessed in accordance with the contract;
- (xv) a proper record of completion exists and quality of work is subjected to adequate test, according to prescribed procedure and terms of contract;
- (xvi) for reported poor quality of work at the time of completion of inspection, the matter was not noticed by the authority supervising the work and recording the measurements;
- (xvii) in cases of contracts with architects, the terms are properly drawn up to protect the interest of local body to avoid wasteful expenditure, lack of timely supervision on the works by the architect, compensation for losses attributable to failures by architect etc.;
- (xviii) funds are not obtained for works from Government in advance of needs and deposited back with Government for carrying out the works as deposit works, the commencement of work being delayed thereafter, for one reason or other, such as non-availability of land, plans and estimates, non- invitation of tenders, etc.;
- (xix) in respect of expenditure on maintenance and repairs, it is reasonable and called for and is not in remedy of patent defects in initial execution on which timely action had not been taken;

- (xx) proper materials at site account are kept, all receipts and issues noted, surplus material is not procured without a plan on utilisation, just to indicate utilisation of budget provision, control on stock is kept and unused materials at the end of a work are duly transferred back to stock or other works, etc. or otherwise disposed of.
- (xxi) the Secured Advance or Mobilisation Advance as per terms of the contract has been given ,if so, recovery is to be seen;
- (xxii) the statutory deduction such as security deposit, Income Tax, VAT, Royalty and Labour Cess etc. has been made from the Running Account bill of the contractors.

23.4.5 While auditing the accounts of the ULBs, the guidelines contained in Chapter - 5, 6, 7, 10, 12, 13, 14 & 15 of Regulation on Audit and Accounts, 2007 regarding Financial Audit, Compliance Audit, Performance Audit, Role of the CAG in audit of ULBs, Audit Evidence, Conduct of Audit, Audit Notes and Inspection Reports and Audit Reports should also be kept in mind.

23.4.6 In conducting the audit, the provisions in the Auditing Standards for ULBs issued by the CAG should strictly be followed. Besides, Audit Quality Management Framework, Jharkhand Municipal Act 2012, Jharkhand Municipal Account Rules 2012, Constitution & Powers of different committees in the ULBs, conduct of business, Jharkhand Building Byelaws, Jharkhand Urban Planning & Development Rules, Jharkhand Municipal Property Tax Rules, Jharkhand Property Tax Board Rules, Jharkhand Urban Planning & Development Act, Jharkhand Communication Towers and Related Structure Rules, Jharkhand Advertisement Policy, Jharkhand Municipal Empowered Standing Committee Conduct of Business Rules, Jharkhand Financial Rules 2005 and circular/orders/guidelines etc issued by the State/Central Government may be referred to.

(Ref. Para 4.2.2 Chapter-II of Accounting Standards for ULBs)

23.4.7 Information about an audited entity acquired in the course of the auditor's work shall not be used for purposes outside the scope of audit and formation of an opinion or in reporting not in accordance with the auditor's responsibility. It is essential that audit maintains confidentiality regarding audit matters and the information arising from audit task.

(Ref. Para-5.13 Chapter-I of Accounting Standards for ULBs)

23.5 Code of Ethics for IA & AD

23.5.1 A Code of Ethics is a comprehensive statement of the values and principles which should guide the daily work of auditors' in the Supreme Audit Institution of India(SAI). The independence, powers and responsibilities of the public sector auditor place high ethical demands on the SAI and the staff he employs or engages for auditing and accounting work.

23.5.2 The auditor promotes this by adopting and applying the ethical requirements of the concepts embodied in the key principles – Integrity, Independence and Objectivity, Confidentiality and Competence. The conduct of auditors should be beyond reproach at all times and in all circumstances. Any deficiency in their professional conduct or any improper conduct in their personal life places the integrity of auditors, the SAI India, and the quality and validity of their work in an unfavourable light, and may raise doubts about the

reliability and competence of the SAI itself. The adoption and application of a Code of Ethics in the public sector promotes trust and confidence in the auditors.

23.5.3 Thus, the auditor/auditors should adopt and apply this ethical requirements of the concepts embodied in the key principles – Integrity, Independence and Objectivity, Confidentiality and Competence. For details, they should go through the Code of Ethics of the IA&AD.

23.6 AUDIT OF GRANTS, LOANS & ADVANCES

As per the provisions of Jharkhand Municipal Act, 2012, and Rules framed thereunder ULBs receive grants and loans from the State and or Central Government. The grants received may be of ‘general’ or ‘specific’ nature.

23.6.1 General Grants

Grants received for general (unspecified) purposes are usually in the form of lump sum amount from the State Government to facilitate meeting certain expenditure, usually of revenue nature.

23.6.2 Specific Grants

Specific grants are received for carrying out specific projects/schemes or for meeting specific expenditure. Such grants can be of ‘Revenue’ or ‘Capital’ nature depending upon the purpose for which they are received. Certain specific grants can have both capital and revenue components e.g. grant for construction of new roads and subsequent repairs and maintenance of roads. Specific grants may be received in advance or as a re-imbursment of the expenditure incurred. When a specific grant is received in advance, the grantee is required to submit an utilisation certificate in the manner prescribed in the Grant sanction order.

In the same manner the ULBs receive loans from financial institutions or by issuing debentures generally on the security of movable and immovable properties, of course, with the approval of State Government. The ULB also get loans from the State Government.

23.7 Audit of grants and loans

23.7.1 Audit of local bodies or authorities will be conducted in accordance with the general principles and rules of audit.

23.7.2 The general principles and procedure of audit of grants-in-aid have been laid down in Chapter 05 of Section III of CAG’s MSO (Audit).

23.7.3 The general principles and requirement of audit of loans and advances are contained in Chapter 13 of Section III of CAG’s MSO (Audit).

23.8 Audit of grants-in-aid and loans is conducted in the following two stages:

- (i) Audit of sanctions in the office of the sanctioning authority.
- (ii) Audit in the office of the recipient institution/body.

23.8.1 Audit of sanctions in the office of sanctioning authority for Grant-in-aid for general purposes

(i) During the audit of the office of the sanctioning authority, it should particularly be seen whether : -

- (a) the grant has been sanctioned by the competent authority in exercise of the powers conferred on it under the rules framed by Government and the Departmental Codes and Manuals;
- (b) the conditions, if any, attached to the qualification of the grantee concerned prior to receipt of a grant were duly fulfilled;
- (c) the admissible amount of the grants has been calculated in the manner prescribed in the departmental rules or orders after obtaining necessary statements like audited accounts etc.;
- (d) the grant has been sanctioned after obtaining full particulars from the grantee and not in advance of receipt of such particulars;
- (e) the grant has been sanctioned only up to the extent of requirement and to the extent which can be utilised in the financial year and within the time limit for the expenditure, if any, fixed ;
- (f) there is proper method by which the sanctioning authority satisfies itself about the fulfilment of the conditions and the method is adequate;
- (g) necessary periodical reports, statement etc. have been prescribed by the sanctioning authority and their receipt on the due dates from the grantee is properly watched;
- (h) the sanctioning authorities have 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 all the conditions of such grants and loans are being fulfilled. Such procedure may provide for: -
 - (i) Submission of periodical progress reports;
 - (ii) Submission of audited statement of accounts;
 - (iii) Inspection of grantee institutions;
 - (iv) Review of these reports and taking action on irregularities noticed during inspection.
 - (v) Maintenance of a register of grants-in-aid to watch the receipt of utilisation certificates and its periodic review by the appropriate authority.
 - (vi) Maintenance of a register of the permanent and semi-permanent assets, (equipments, buildings etc.) acquired wholly or mainly out of Government grants as envisaged in Rules 281 (V) of General Financial & Account Rules of the State Government. Devising a system to ensure that these assets are being put to intended use and there are no instances of diversion or sale of assets.

(ii) Apart from above the following may also be scrutinised;

- (a) What action, if any, is being taken with regard to obtaining utilisation certificates not received; grant/dues being recovered in cash or by adjustment from other grants?
- (b) Has any legal action been taken against the defaulting grantees? Are

subsequent grants also being paid despite such defaults?

- (c) Are all the 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? Is there any report or assessment by which the authorities review, from time to time, the annual achievements and is such an achievement reasonably proportionate to the efforts put in and expenditure involved? Such a review could be usefully made over a period of years. For instance, if a scheme of grants-in-aid for operation 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.
- (e) There may also be defects in the sanction or in the scheme itself which mitigate against an effective procedure to check the purpose for which the grant is utilised. Such deficiencies in the sanction of the scheme should also be examined.
- (f) The Inspecting Officers should take decision whether records of a particular recipient body or authority are to be examined. If so, a detailed note stating reasons justifying the selection of such authorities or bodies depending on the points noticed during the course of audit of the sanctioning authority should invariably be furnished to Group Officer, of the wing by name for further action at head office.

23.8.2 Audit of Sanctions in the office of Sanctioning authority for Grants-in-aid for specific purpose grant:

Besides satisfying itself about the competence of the authority sanctioning grant-in-aid and that the said authority had acted in pursuance of the approved policy of the Government, Audit should also scrutinise the procedure followed by the sanctioning authorities for ensuring the proper utilisation of grants or loans and fulfilment of conditions attached to them. In exercising this check, the records in the office of the sanctioning authority should be scrutinised in two stages, namely scrutiny of the system and its adequacy and scrutiny of the sanctions with a view to ascertaining whether the prescribed procedure is actually followed or not. So far as the scrutiny of the procedure and its adequacy is concerned, factors like the amount of grants/loans sanctioned, existence of prescribed procedural instructions, existence of efficient internal audit and administrative inspection system in the department for an effective control over the proper utilisation of grants or loans are to be examined to ensure that they are comprehensive with reference to the financial rules and regulations of the Government and the general or specific orders issued from time to time in this regard. The accounts and audit arrangements existing in the recipient body or authority should also be ascertained. After ensuring about the existence of a sound financial procedure by which the sanctioning authorities satisfy themselves about proper utilisation of the grant or loan, Audit should also see that the procedure prescribed is actually followed by the sanctioning authorities. For this, Audit should, inter alia, see that the audited statements of accounts for the grants or loans have actually been received and have been scrutinised by the sanctioning authority; that the unspent balances of grants and/or loans have been worked out and steps have been taken for adjusting the same against future grants and loans or their refund and that the records of the sanctioning authority indicate clearly that

the grants/loans have been utilised by the recipient body for the purposes for which they were actually given. It may also be ascertained whether the administrative inspection, if any, envisaged in the procedure has been conducted and the inspection reports reveal any defects about the maintenance of accounts and utilisation of the grants. The follow up action on the inspection reports may also be examined and commented upon.

23.9 Audit of Utilization Certificates

23.9.1 Scrutiny of cases of non-submission of Utilisation Certificates of Grants: -

Officers and field parties should make an attempt to analyse

- (a) system for watching utilisation certificates,
- (b) efforts made to obtain them,
- (c) system of release of future grants, where utilisation certificates or accounts are not available and (d) actual utilisation in one or two cases, if possible.

23.9.2 All important cases of non-submission of utilisation certificate may be probed and it may invariably be scrutinised whether: -

- (1) money was utilised and if so, to what extent and whether the accounts were available with the sanctioning authority. In case of non-utilisation the reasons therefore should be analysed to the extent possible;
- (2) records were maintained in a satisfactory manner to enable the sanctioning authority to know the actual position of utilisation and submission of accounts in each case;
- (3) the sanctioning authority has any arrangements for inspection of the grantee institutions to satisfy itself about proper utilisation of grant/loan? If such system existed, whether non-submission of the utilisation certificates/accounts had any relation with the lack of proper and effective inspection;
- (4) proper and effective pursuance of pending utilisation certificates was done; and
- (5) further grant/grant-in-aid is released without receipt of utilisation certificates of grant/grant-in-aid for the preceding financial year. Efforts should be made to highlight the fact that in the absence of accounts of previous year's expenditure, the release of grants for future, made on adhoc basis, was improper and the position of outstanding utilisation certificates suitably commented in draft Inspection Report.

23.10 Selection of cases

AMG 1 shall select a few cases falling under Section 15 (1) of the DPC Act for purposes of scrutiny of the books and accounts of the recipient bodies or authorities. The selection of such cases will be made judiciously taking into account, inter alia, the magnitude of the grant and/or loan and any peculiar or unusual condition attaching to such grant and/or loan, and subject to the provision under Section 15 (1) of the Act.

23.11 Loans

With the help of sanctions for loans, the records relating to the loans are examined to see that the loan has been sanctioned by the authority competent to sanction the loan in exercise of the powers conferred on him by the rules and in pursuance of the approved policy of the Government and accepted pattern of assistance. The general principles and procedure of audit of Borrowings, loans etc. are contained in chapter 13, section III of the CAG's MSO (Audit).

The general conditions governing sanction of loans are also laid down in section 133 in Chapter 16 of The Jharkhand Municipal Act, 2012.

Power of municipality to raise loan.- (1) The municipality may, from time to time, raise, by a resolution in this behalf passed at a meeting of the municipality, a loan within the limits set by the comprehensive debt limitation policy framed under section 132, by the issue of debentures or otherwise, on the security of the property tax or of all or any of the other taxes, surcharges, cesses and fees and dues under this Act or of both the property tax and all or any of the other taxes, surcharges, cesses and fees and dues under this Act, or on the guarantee by the State Government, of any sum of money which may be required for the purpose of –

- (a) execution of works under this Act, or
- (b) acquisition of lands and buildings for the purposes of this Act, or
- (c) paying off any debt due to the State Government, or
- (d) repayment of a loan raised under this Act, or
- (e) acquisition of a public utility concern which renders such services as the municipality is authorized to render under this Act, or
- (f) purchase of vehicles, locomotive engines, boilers and machinery necessary for carrying out the purposes of this Act, or
- (g) any other purpose for which the municipality is, by or under this Act or any other law for the time being in force, authorized to borrow:

Provided that any loan proposed to be raised which goes beyond the limits set by the comprehensive debt limitation policy as aforesaid shall require the previous sanction of the State Government with regard to its purpose, the quantum, the rate of interest and the period for repayment, and the other terms and conditions, if any: Provided further that in addition to the loans as aforesaid, the municipality may also take loan from the State Government or any statutory body or public sector corporation.

23.12 Audit in the office of recipient body or Authority

(i) The provisions contained in Para 3.5.17 to 3.5.19 of M.S.O. (Audit) - Second Edition 2002 - are observed in audit of accounts/records of the office of the recipient body or authority.

(ii) The points relating to borrowings in para 5.2.6 (b) should also be seen.

Besides it may be observed in audit of body or authority whether : -

- (a) a separate cash book in proper form has been maintained and the transactions are entered in it as and when they take place and whether the cash book bears evidence of check;
- (b) the expenditure incurred is closely related with the object for which the loan was made and whether there is no diversion of funds;
- (c) the expenditure has been incurred with proper planning and economy and observing the usual financial rules to safeguard economy;
- (d) all the registers including stock registers have been maintained properly and checked periodically;
- (e) the scale of expenditure is approved and the purchases are made economically after calling the tenders or quotations;

- (f) in the case of expenditure on works, maintenance of muster rolls, measurement books, preparation of estimates and payment of bills have been made after observing the general principles and whether there is any evidence of periodical check of the progress of work;
- (g) the records of grantees bear evidence of check by the sanctioning authorities and whether the periodical registers or statements prescribed by them have been sent to them on the prescribed dates;
- (h) there is undue delay in submission of accounts by the grantees;
- (i) all payments are covered by proper vouchers and acknowledgements for payments.

23.12.1 Under Section 15 of CAG's (DPC) Act, 1971, the scrutiny of records of all bodies or authorities in receipt of grants/loans for specific purpose is not obligatory. The decision to undertake the actual scrutiny of the books and accounts of recipient bodies or authorities may be taken in the light of recommendations of the Inspecting Officers as a result of examination of records of the sanctioning authorities.

23.12.2 Any question arising from such scrutiny should be referred to the sanctioning authorities for elucidation or comments. The relevant Inspection Report should also be issued to the sanctioning authorities and not to the recipient institutions. However, care should be taken to ensure that the facts (on which the comments are based) are got confirmed by the sanctioning authorities/recipient institution depending on the circumstances of each case.

23.12.3 The right of access to the books and accounts of authorities or bodies under Section 15(1) of the C&AGs (D.P.C) Act, 1971 will be limited to checking whether the grant or loan received from Government has been duly shown as receipt in the accounts of the authority or body, whether the grant or loan has been fully utilised for the purposes or objects for which they were sanctioned and the financial procedure, if any, prescribed in this behalf has been observed? Whether unspent balance, if any, has been refunded to the Government and whether the conditions attached to the grant or loan have been fulfilled?

23.12.4 Besides the scrutiny of accounts of connected records of the grantee institutions, the local audit parties should carefully go through all the minutes relating to various meetings of the governing body/executive council/Finance Committee etc. as, sometimes, the same also provide material for the Audit Report.

23.13 ESTABLISHMENT AUDIT

23.13.1 General: - Issues relating to cadre, recruitment, appointments, confirmation, promotion, pay, budget etc. in respect of Jharkhand Municipal Act, 2012, auditor may refer to the provisions of the aforesaid Acts/Rules as the case may be.

23.13.2 Establishment Bills

During audit of establishment bills, an auditor may see that-

- (a) establishment and fixed recurring charges are duly sanctioned and drawn according to the sanctioned scale and promptly posted in the Audit

Register;

- (b) a last pay certificate is attached to the establishment Bill in the case of all transfers and that the transfers are authorized by the competent authority;
- (c) income-tax deductions are duly made as required by the rules, and that recoveries are paid into the Treasury within seven days;
- (d) pay and acting allowances are separately shown, and that the names of all persons on leave, under suspension, or on deputation as well as those employed in an officiating capacity are entered both in the bills and in the leave statements appertaining thereto;
- (e) increments claimed have actually accrued: Examine the periodical increment certificate with the service book;
- (f) in the case of fixed conveyance and horse allowance, certificates of actual maintenance of the conveyance, etc., have been furnished;
- (g) the pay drawn in an Establishment Bill for a particular month is not disbursed before the first working day of the following month;
- (h) the numbers and dates of the bills subsequently drawn have been quoted on the original bills; supplementary bills should be checked by reference to the original bills in which the amounts are withheld or refunded.
- (i) health certificates have been furnished where necessary in the case of new appointments

23.13.3 While conducting audit of establishment, the checks generally to be exercised in respect of some of the items by the audit party are detailed below:

23.13.4 Service Books

- (a) service books are maintained for all employees holding substantive posts;
- (b) the record of service of each officer is complete;
- (c) entries for all events (leave, increments, promotion, training etc.) in the official career of a Government official are made in the Service Books and attested by head of the office,
- (d) alteration in the date of birth is not made without the sanction of the competent authority; entries in the front page are re-attested every five years;
- (e) annual certificate of service verification recorded in the service book. Entries in pay columns are verified with reference to the office copies of the pay bills for the month or months selected for detailed audit to see that they agree. The quantum of check of Service Books has been prescribed so that each Service Book will be verified once in four years as the Service Books are the only documents for verification of pension.

23.13.4.1 In the Service Book selected for check, the correctness of pay and increments allowed to the Government employees from time to time for the period to which the check of Service Book relates is also to be checked.

23.13.4.2 It is also checked that no payment has been made to a Government employee beyond their attaining the age of superannuation or on the expiry of term of extension of service sanctioned by the competent authority. The audit endorsement duly signed by the in charge of the Inspection party is required to be made in the Service Books checked during audit.

23.13.5 Leave Account

The Leave Accounts are to be checked to see that-

- (a) leave accounts in the prescribed form are maintained for all officials;
- (b) leave granted is posted promptly and properly and closed after the incumbent returns to duty from leave and every entry has been duly attested;
- (c) leave at credit has been correctly calculated in accordance with rules and the leave account has been revised with reference to orders relating to completion of probation, confirmation etc;
- (d) the fact of issue of certificate under provisions of Service Rules is recorded, where the period of leave is counted as service for increment under that rules.
- (e) subsidiary leave accounts have been maintained, where necessary;
- (f) the collective record of the various kinds of special leave granted to the employee is maintained;
- (g) the nature and extent of leave sanctioned is correctly due and admissible to the employee; and
- (h) there are no cases of evasion of leave rules.

23.13.6 Salaries and Allowances :

It is to be seen that:-

- (i) there are sanctions of competent authority in respect of Staff whose salaries are being charged and that the staff had been appointed against the various posts after regular appointment orders. There is budget provision for drawl of salaries and allowances;
- (j) salary has not been charged in respect of an official who was not on duty;
- (k) absentee statement was attached with the bill, wherever necessary; the details in the absentee statement are correctly shown with reference to the service books, leave accounts and other records;
- (l) the pay fixation statements are checked when scales have been revised or amended;
- (m) the (periodical) increments had been drawn at correct rates and after proper sanction;
- (n) leave salary has been drawn after necessary sanction and that necessary entries appear in the leave account, service records;
- (o) arrears claims have been drawn correctly and that necessary entries in the previous relevant bills/service book. Requisite certificates are recorded on the bill;
- (p) allowances e.g. HRA, CCA, etc. have been sanctioned properly and drawn after fulfilment of conditions attached with each allowance;
- (q) The classification, rates and totals of each bill are correct. Recoveries in respect of advance drawn are being effected regularly. Interest has been charged, wherever leviable, correctly. Income Tax has been deducted as per Finance Act applicable;

- (r) acquittance rolls of establishment have to be examined to see that there is proper
- (s) acquittance for each amount disbursed, that the amounts have been disbursed to the persons entitled to receive them and that the arrangements for keeping a proper watch overrun-disbursed amounts are satisfactory.

23.13.7 Travelling Allowances

It is an important function of audit to see that the scrutiny entrusted to the controlling officers under the rules in relation to these bills is exercised by them properly. It should also be seen in audit that:-

- (i) there is proper sanction to undertake tour or to carry out transfer order, purpose of journey is fully recorded, distances and rates of D.A. claimed are correct;
- (ii) classification is correctly recorded;
- (iii) claimants have travelled in the entitled class of accommodation;
- (iv) copies of approved programme are attached with bill. Requisite certificates are recorded.

23.13.8 Medical (reimbursement) claims:

It should be seen in audit that:-

- (i) these have been correctly allowed, after fulfilment of requirements of rules laid down in this behalf, to the staff/officers;
- (ii) claims of entitled family members i.e. fully dependent members have been paid. It is also to be seen that treatment was taken from the Authorised Medical Attendant, Hospital and Dispensaries. No payment has been made in respect of inadmissible medicines.

23.13.9 Provident Fund

The general principles laid down in Paragraphs 3.12.1 to 3.12.8 of Manual of Standing Orders of the CAG and provisions contained in Model Rules for Management of Provident Fund, 1933 should be kept in view while exercising checks over Provident Fund cases. It is further to be seen that:

- (i) subscriptions on accounts of P.F. have been made at prescribed rates and credited to the ledger accounts;
- (ii) employees' contribution was remitted into Provident Fund account between the 1st and 4th of each month so that interest might accrue for the month of deposit;
- (iii) advances from P.F. have been allowed after proper sanction and on fulfilment of various conditions, on each occasion, as laid down in applicable P.F. Rules. Recovery of advances is being made and that interest has been calculated correctly, wherever applicable. Payment of interest has been made correctly/credited to ledger accounts correctly;
- (iv) Apart from above, nominations, Insurances Policies and Final payment cases should be specially scrutinized to see their validity/correctness;
- (v) contributions have not been withheld without the sanction of the competent authority;
- (vi) the total of the ledger balances is reconciled with the PF Pass Book balance every month through the Abstract of Balances and an agreement is effected every year between the two sets of balances after interest has been added.

23.13.10 Contingencies

In addition to the checks embodied in para 5.2.6(K) of Chapter 5, provisions of the Audit Code are also to be kept in view. It should be seen in audit that:-

- (i) the expenditure has been incurred by an officer competent to incur it;
- (ii) vouchers contain pay orders of competent authority and are supported by payees' acknowledgement with dates of payment;
- (iii) details given in such vouchers agree with entries recorded in other registers e.g. store purchases have been correctly entered in stores ledgers, and that entries are attested by competent authority;
- (iv) all charges incurred must be paid and drawn at once and under no circumstances may they be allowed to stand over to be paid from the grant of the following year, and;
- (v) no money is withdrawn from the bank unless it is required for immediate payment.
- (vi) the bill is in proper form and the classification is correctly recorded thereon;
- (vii) the requisite sub-vouchers are enclosed with the bill; and
- (viii) any certificates required under the rules have been furnished
- (ix) the expenditure is a proper charge against the funds of the local body.

23.13.11 Advances

Advances are usually made by local bodies to their employees for various purposes under different conditions, on various terms and conditions. Some of these are interest-free while some are interest-bearing advances. Eligibility, entitlement, quantum vary in each case.

Audit should see that advances have been sanctioned by competent authority correctly keeping in need eligibility. Repayment/ adjustment is being made strictly in accordance with the terms and conditions attached to such advances. Calculations of interest levied are correct. Posting in Advance Ledger is complete and that there are no omissions. No advances have been written off except with the sanction of the Government. It should be seen that correct balances are brought forward from the previous years.

The audit report should also detail in separate paragraphs advances granted in the year which are considered irregular and advances outstanding for adjustment after due period of adjustment.

23.13.12 Gratuity & Leave encashment

It is to be seen in audit that the payment of gratuity is not to be paid to an employee against whom a departmental enquiry has been instituted till it is concluded. Calculations of Gratuity, Qualifying Service, Emoluments, etc. and encashment of leave are correct. The authorization is in accordance with the gratuity rules applicable in each case.

23.13.13 Pension and Gratuity

The general principles laid down in Articles 202, 203, 206 and 209 of Audit Code and Paragraphs 3.6.1 to 3.6.22 of Manual of Standing Orders of the CAG should be kept in view while exercising checks over pension cases. It is further to be seen that:-

- (i) rules have duly been framed by the local authority for the payment of pension and gratuity and that these rules have been approved by the Government;
- (ii) in the case of superior servants who have not been admitted to the benefits of a provident fund and of inferior servants on pensionable establishments, a certificate of admissibility has been obtained from in each case for payment of gratuity or pension or for enhancement of a pension;
- (iii) payment is not in excess of that admissible under the rules framed by the local authorities;
- (iv) life certificates have been furnished in all the cases where pensioners have not appeared in person to receive payment;
- (v) the amount of pension drawn is in consonance with the Pension Payment Order and the Register of Permanent pay orders;

23.14 SOURCE OF RECEIPTS AND AUDIT

Jharkhand Municipal Act, 2012 provides for the Municipal Fund as follows;

Section 98. Financial assistance from the State Government

- (1) The State Government, may, from time to time, give grants or financial assistance to the municipality with or without conditions under which such grants or financial assistance shall be applied.
- (2) The State Government may, for giving such grants or assistance, lay down a scheme which may include the conditions of release of such grants or assistance and may provide for the division of municipalities into different classes for that purpose.
- (3) The State Government may give grants to the municipality for implementation, in full or in part, of any scheme included in the annual development plan of the municipality.
- (4) The State Government may constitute an authority, as may be prescribed, to institute a Jharkhand Urban Development Fund to finance urban development projects in the state.

Section 99- Municipal Fund

- (1) There shall be a fund to be called the Municipal Fund which shall be held by the municipality in trust for the purposes of this Act, and all moneys realized or realizable under this Act and all moneys otherwise received by the municipality shall be credited thereto.
- (2) Subject to such directions as the State Government may issue in this behalf, and keeping in view the classification of municipal areas under section 7, the income and expenditure of the municipality shall be kept under such heads of accounts, including those for water-supply, drainage and sewerage, solid waste management, road development and maintenance, slum services, commercial projects and other account heads as may be specified and the general account head, in such manner, and in such form, as may be prescribed, so as to facilitate the imposition of user charges and preparation of any subsidy report under this Act. Explanation.- For the purposes of this section, "commercial projects" shall include municipal markets, market development projects, property development

projects, and such other projects of a commercial nature as may be specified by the municipality, from time to time.

(3) Every head of account specified under sub-section (1) shall be split up into a revenue account and a capital account and all items of income and expenditure shall be kept appropriately under such revenue account or capital account, as the case may be.

23.15 Internal revenues of municipality.-

The internal revenues of the municipality shall consist of its receipts from the following sources:- (a) taxes levied by the municipality, (b) user charges levied for provision of civic services, and (c) fees and fines levied for performance of regulatory and other statutory functions.

23.16 Audit of receipts

Audit of receipts includes an examination of the systems and procedures and their efficacy in respect of:-

- (1) identification of potential tax assessees, ensuring compliance with laws as well as detection and prevention of tax evasion;
 - (2) pursuit of claims with due diligence and that these are not abandoned or reduced except with adequate justification and proper authority;
 - (3) prompt investigation of losses of revenue through fraud, default or mistake including, if required, through the review of other similar cases;
 - (4) exercise of discretionary powers in an appropriate manner including levy of penalties and initiation of prosecution;
 - (5) appropriate action to safeguard the interests of the Government on the orders passed by departmental appellate authorities;
 - (6) any scheme as may be introduced by the Government from time to time;
 - (7) any measures introduced to strengthen or improve revenue administration
- 8 amounts that may have fallen into arrears, maintenance of records of arrears and action taken for the recovery of the amounts in arrears;
9. other ancillary and non-assessment functions including expenditure incurred by the departments;
- 10 achievement of targets, accounting and reporting of receipts and their cross verification and reconciliation with the accounts records; and
- 11 amounts of refunds, rebates, drawbacks, remissions and abatements to see that these are correctly assessed and accounted for.

23.17 AUDIT OF FINANCIAL STATEMENTS

Section 114. Financial Statement.-

(1) The Municipal Commissioner or the Executive Officer shall, within four months of the close of a year, cause to prepare a financial statement 4 containing an Income and Expenditure Account and a Receipts and Payments Account for the preceding year in respect of the accounts of the municipality,

(2) The form of the financial statement, and the manner in which the financial statement shall be prepared, shall be such as may be

Section 115. Balance Sheet.-

(1) The Municipal Commissioner or the Executive Officer shall, within four months of the close of a year, cause to be prepared a Balance Sheet of the assets and the liabilities of the municipality for the preceding year.

(2) The form of the Balance Sheet, and the manner in which the Balance Sheet shall be prepared, shall be such as may be prescribed

23.17.1 Receipts and Payments Account

The receipts and payments (R & P) statements is a summary of all cash inflows and outflows during a specific period. It starts with the opening cash and bank balances and ends with the closing cash and bank balances. The R & P are shown summarized at the account headlevel. It follows the principle:

“Opening Cash and Bank Balances + total receipts for the period = Total Payments + Closing Balances.”

For the purpose of preparing the R&P statement, the receipts and payments sides of the bankbook are summarized against individual ledger account.

23.17.2 Income and Expenditure Statement

The Income and Expenditure Statement shows income earned and expenses incurred by the ULB during the period. It also shows the excess of income over expenditure (surplus) or excess of expenditure over income (deficit). In brief it shows the result of operations of the ULB for the period.

It should be seen in Audit whether:-

- i. all transaction (income, expenditure, assets and liabilities) are correctly classified and stated in sufficient detail;
- ii. all grants sanctioned or received by the municipality during the year, have been accounted properly, and where any deduction is made out of such grants towards any dues of the ULB, whether such deductions have been properly accounted;
- iii. any special funds have been created as per the provisions of any statute and whether the special funds have been utilized for the purposes for which they have been created;
- iv. In respect of contracts that are in existence during the year there are any deviations from the sanctioned plans and the estimates without the sanction of the competent authority;
- v. the ULB is maintaining proper records showing full particulars, including quantitative details and status of fixed assets, whether these fixed assets have

- been physically verified at reasonable intervals, whether any materials discrepancies were noticed on such verification and if so, whether the same has been properly dealt with in the books of account;
- vi. in case of leasehold property given by the ULB, lease rentals are collected regularly by the ULB and that the lease agreements are renewed after their expiry;
 - vii. physical verification has been conducted by the ULB at reasonable intervals in respect of stores;
 - viii. the procedures of physical verification of stores followed by the ULB are reasonable and adequate? If not, the inadequacies in such procedures should be reported;
 - ix. any material discrepancies have been noticed on physical verification of stores as compared to book records, and if so, whether the same has been properly dealt with in the books of account;
 - x. proper procedures are in place to identify any unserviceable or damaged stores and whether provision for the loss in this respect, if any, has been made in the accounts;
 - xi. the valuation of stores is in accordance with the accounting principles laid down in the rules and the basis of valuation of stores is same as in the preceding year. If there is any deviation in the basis of valuation, the effect of such deviation, if material, should be reported;
 - xii. the parties to whom loans or advances have been given by the ULB are repaying the principal amounts as stipulated and are also regular in payment of the interest and if not, whether reasonable steps have been taken by the municipality for recovery of the principal and interest;
 - xiii. advances given to municipal employees and interest thereon are being regularly recovered;
 - xiv. there exist an adequate internal control procedure for the purchase of stores, including components, plant and machinery, equipment and other assets?
 - xv. applicable procurement rules and procedures are being followed and if so, significant deviations should be identified and reported;
 - xvi. the municipality is regular in depositing statutory dues including tax deducted at source, service tax, VAT, cess payable to government etc. and if not, the nature and cause of such delay and the amount not deposited;
 - xvii. the municipality is regular in remittance of pension and leave encashment contributions or any other amounts which the municipality is liable to remit towards the retirement dues of its employees, including employees on deputation;
 - xviii. any expense of personal nature of the Officers or employee has been charged to the municipality accounts; if so, the details thereof;
 - xix. the Bank reconciliation statement has been properly prepared for all the bank accounts of the ULB and the remedial actions including all correcting entries have been taken on a timely basis;
 - xx. the year-end and reconciliation procedures prescribed have been carried out as per the rules;
 - xxi. all the expenditure incurred by the Municipality are authorized by appropriate provision in the sanctioned budget, whether made originally or subsequently and are in all cases such as are authorized by Act;

- xxii. all revenue has been properly assessed, accounted for, collected and recovery action taken on timely basis;
- xxiii. all sums due to and received by the Municipality have been brought to account within the prescribed time limits and are in all cases such as are authorized by Act;
- xxiv. in respect of all bills for charges on account of all works and other expenditure, proper certificates have been furnished in support of them and that no deviation has been made for the sanctioned plans and the estimates without the sanctions of the competent authority;
- xxv. the amounts received as specific grants have been utilized for the purposes as stated in the grant sanction order;

23.18 AUDIT OF INTERNAL CONTROL

23.18.1 Internal Control is an integral process and is effected by an entity's management and personnel and is designed to provide reasonable assurance that the following general objectives are being observed:

- (i) fulfilling accountability obligations;
- (ii) complying with applicable laws and regulation;
- (iii) executing orderly ethical, economical, efficient and effective operations; and
- (iv) safeguarding resources against loss.

(This chapter is broadly based on Internal Control Evaluation Manual of CAG of India)

23.18.2 Internal control as an integral process

- (a) internal control is not one event or circumstances, but a series of actions that permeate an entity's activities. These actions occur throughout an entity's operations on an ongoing basis. They are pervasive and inherent in the way the management runs the organization.
- (b) Internal control should be built in rather than built on. The internal control system is most effective when it is built into the organization's infrastructure and operations and is an integral part of the essence of and integrated within the basic management process of planning, executing and monitoring.
- (c) Built in internal control also helps in cost control. Adding new procedures that are separate from existing ones adds costs. By focusing on existing operations and their contribution to effective internal control, and by integrating controls into basic operating activities, an organization often can avoid unnecessary procedures and costs.

23.18.3 Components of Internal control

Internal control consists of five interrelated components:

- Control environment
- Risk management
- Control activities
- Information and communication
- Monitoring

23.18.4 Role of Audit in Internal Control

Auditors assessing of internal control procedures implies:

- determining the significance and the sensitivity of the risk for which controls are being exercised;
- 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 control;
- 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 assessments and discussing the necessary corrective actions.

23.18.5 Interface between external auditor and internal audit

(a) The external auditors need to develop a good working relationship with the internal audit units so that experience and knowledge can be shared and work can be supplemented mutually and complemented so that the benefits to be gained can be maximized. Including internal audit observation and recognizing their contribution in the external audit report, when appropriate, can also test this relationship. The external auditors should develop procedures for assessing the internal audit unit's work to determine to which extent it can be relied upon. A strong internal audit unit could reduce the audit work of the external auditor and avoid needless duplication of work. The external auditors should study the internal audit reports, related working papers and compliance to and settlement of audit findings.

(b) Although internal and external auditors have different and clearly defined roles they do share the same broad purpose of serving parliament and the public by helping to ensure the highest standards of regularity and propriety for the use of public funds and resources and in promoting efficient, effective and economic public administration. Good co-operation maximizes the benefits which can be gained from working together in areas where there is an overlap in the work to be done.

23.18.6 General Checklist for Audit of Internal Control

Checklist regarding Evolution of Internal Controls

SI No.	Check list	Yes /No	NA	Work Paper Reference
1	Whether there exists a formal mechanism in the shape of Acts & Policy statements in respect of standards and process for internal control.			

2	Whether the Organizational structure provides for clear reporting lines that establish links between accountability, responsibility and authorization of various activities.			
3	Whether a well-defined delegation of powers exists, with important/exceptional matters being under the powers of higher levels of management.			
4	Whether the objectives of the Organization are well defined and whether there are any specific targets prescribed.			
5	Whether procedural manuals exist in respect of.			
	a. Financial matters (cash, banking, accounting, income, expenditure, budgeting, etc.)			
	b. Staff recruitment, training, performance and discipline			
	c. purchase of goods and services, contracts			
	d. Outsourcing of functions			
	e. Code of personal conduct with guidance on gifts			
6	f. Use of computer systems whether the various officials are given adequate training in their functional areas			
7.	Whether there is separation of duties in such a way that more than one individual is involved in a transaction.			
8.	Whether there are physical access measures restricting access to buildings, information systems, Valuables, etc.			
9	Whether there is a system of supervision one review of the work of various functionaries.			
10	Whether there are systems for taking adequate remedial action in case of theft, Fraud, defalcation etc.			
11	Whether there are adequate safeguards to Protect cash, Valuables and resources through security police escort, Safes, strong rooms, Physical access restriction, Etc.			
12	Whether there are systems to ensure timely rendition of accounts.			

13	Whether there are systems to obtain declaration of assets, intimation of certain high value transaction. etc.			
14.	Administrative control Register: <ul style="list-style-type: none"> a. Expenditure control register b. Advance register c. Pay bill register d. TA and LTC bill register e. Medical claim expenditure register f. Issue register g. Stationery register h. Stock register i. Stock issue register j. Dead stock register k. Investment register l. Register of contracts m. Register of refund of revenue n. Grants-in-aid register o. Sanction register p. Register of cheque books 			
15	EDP controls			
	Examine:			

	<p>a. Type of activity/ function computerized</p> <p>b. Whether various reports generated are being authenticated utilized for the purpose for which these have been developed</p> <p>c. Whether provision exists for generating management information system (MIS) reports for control purpose.</p> <p>d. Whether adequate security existed for accessory as well as recording/modification of data only by authorized personnel.</p> <p>e. Whether There exist well defined policy or guidelines on access control the system integrity and community plan in case of disaster.</p>			
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23.19 INSPECTION REPORTS

Reporting is an essential part of any audit as through this process the results of audit are presented to the intended users on the responsible party's compliance with the stated criteria. Compliance audit involves reporting the deviations from the applicable criteria and violations of the applicable rules, regulations etc., so that corrective actions may be taken, and those responsible for such deviations or violations could be held accountable for their actions. Auditors should consider materiality for reporting purposes and adhere to the principles of completeness, objectivity, timeliness and contradictory process while reporting.

- The principle of completeness requires the auditor to consider all relevant audit evidence before issuing a report;
- The principle of objectivity requires the auditor to apply professional judgement and scepticism in order to ensure that all reports are factually correct and that findings or conclusions are presented in a relevant and balanced manner;
- The principle of timeliness implies preparing the report in due time; and
- The principle of a contradictory process implies checking the accuracy of facts with the apex auditable entity and incorporating responses from responsible officials at appropriate places.

23.19.1 Duties and Responsibilities of the Inspecting Officer: -

Normally auditor should be able to issue inspection memos and put up notes. Separatereports, in the form of material for inclusion in the Inspection Report should be submitted by them, by the Assistant Audit Officers in the audit party to the Inspecting officer, based on the actual work done and inspection memos issued by them after taking into account the replies there to. The Inspecting officer will remain responsible for the efficiency of the inspection as a whole, though some items of works may suitably be entrusted to the subordinate staff. He must guide the members of the party in their work and determine the extent of independent action to be allowed to each of its members with reference to their experience, qualities and capacity to act independently. Based on such judgment, the Inspecting Officer may permit individual members of the party to issue audit memos themselves and see them in due course after issue. In cases

where it is considered appropriate, he should stipulate that the memos be issued only with his approval. The Inspecting officer should always keep himself posted with the progress of audit and the observations that have been communicated to the office inspected.

[Ref: Para 6.1.8 of MSO (Audit)]

23.19.2 Distribution of works: -

Allocation/distribution of works among the members of the local audit party should be made by the head of the party. The full details regarding the nature of works allocated to each member of the party should also be attached to the Draft Inspection Report.

23.19.3 Draft Inspection Report (DIR):

On the completion of each audit assignment, the Inspecting Officer shall prepare a draft inspection report. All officials posted in the Audit Party shall cooperate and contribute in the drafting process in such a manner, as decided by the inspecting officer.

23.19.4 The culmination of the audit process is the reporting which summarizes the evidence gathered during the conduct of audit and communicates the audit opinion and other findings. It is essential for the auditor to prepare report in such a way so that audit observations are easy for reader to understand. Timeliness of the report is the essence as delay may make the report irrelevant and corrective action may not be practicable.

23.19.5 The content of the report should be easy to understand and free from vagueness or ambiguity supported by sufficient, relevant and reliable audit evidence and be independent, objective, fair, complete, accurate, constructive and concise.

[Ref: Para 1.1. & 2.1 of Chapter IV of Auditing standard (As) for PRIs and ULBs]

23.19.6 The audit Inspection Report (I.R.) should be complete i.e. it should contain all pertinent information needed to satisfy the audit objectives and to promote an adequate and correct understanding of the matter reported. It should also include appropriate background information.

(Ref: 2.10. of Chapter IV of Accounting Standards (AS) for PRIs & ULBs)

23.19.7 In most cases, a single example of a deficiency is not sufficient to support a broad conclusion or a related recommendation. All that it supports is that a deviation, an error or a weakness existed. However, except as necessary, detailed supporting data need not be included in the report.

(Ref: Para 2.10.1 of Accounting Standards for PRIs & ULBs)

23.19.8 Evidence presented should be true and the conclusions should be correctly portrayed so that the report is accurate. The conclusions should flow from the evidence. The need for accuracy is based on the need to assure the users that what is reported is credible and reliable. The report should include only information findings and conclusions that are supported by competent and relevant evidence in the auditor's working papers.

(Ref: Para 2.11 & 2.11.1 in Chapter IV of Accounting Standards for PRIs & ULBs)

23.19.9 The Presentation throughout the report be balanced in content and tone. The audit report should be fair and impartial and not misleading and should place the audit results in

proper perspective. This means presenting audit results impartially and guarding against the tendency to exaggerate or over emphasise deficient performance.

(Ref: Para 2.12 Chapter IV of Accounting Standards for PRIs & ULBs)

23.19.10 The audit results should be presented in the report persuasively and the conclusions (and recommendations) followed logically from the facts presented. The information presented should be sufficient to convince the readers to recognize the validity of the findings and reasonableness of audit conclusions.

(Ref: Para 2.13 Chapter IV of Accounting Standards for PRIs & ULBs)

23.19.11 The report should be easy to read and understand. Use of straightforward, non-technical language is essential. If technical terms and unfamiliar abbreviations are used, they should be clearly defined.

(Ref: Para 2.14 Chapter IV of Accounting Standards for PRIs & ULBs)

23.19.12 Being concise requires that the report is no longer than necessary to convey the audit opinion and conclusions. Too much detail detracts from the report and conceals the audit opinion and conclusions and confuses the readers. Complete and concise reports are likely to receive greater attention.

(Ref: Para 2.15 Chapter IV Accounting Standards for PRIs & ULBs)

23.19.13 In drafting the report it is essential that a detached, dispassionate and objective attitude is maintained and that expressions suggestive of a political opinion or bias are avoided.

[Ref: 7.3.27 Chapter – III, Section VII of MSO (Audit)]

23.19.14 Efforts should be made to reduce the use of passive voice and complex sentences and to avoid verbosity, parenthetical clauses and inclusion of information extraneous to the comments and strictly not relevant. Inclusion of statistical data that are not quite relevant and not necessary for clear presentation of the issues should be avoided.

[Para 7.3.30 Chapter – III, Section VII of MSO (Audit)]

23.19.15 I.R. should be confined to serious irregularities and to matter of a general nature, which are important enough to be brought to the notice of the authorities and the Government. It should be divided into paragraphs and arranged in order of importance of the subject dealt with; all objections of a similar character or on the same subject should be grouped together. When there are several items of the same nature, they should be entered in a statement; a reference should be made to it in the body of the report.

23.19.16 Objections and observations arising out of audit should be communicated at the earliest opportunity and should be registered at first in detail in the prescribed records maintained in the audit office.

[Ref: Para 7.2.2 of MSO (Audit)]

23.20.1 Audit evidence:

Sufficient, competent, relevant and reliable evidence should be obtained to support the auditor's judgment and conclusions regarding the body, programme and function under audit.

The audit findings, conclusions and recommendations must be based on evidence. Since auditors seldom have the opportunity of considering all information about the audited entity, it is crucial that the data collection and sampling techniques are carefully chosen.

23.20.2 The following paras will explain audit evidence as an auditing standard:

- (i) The audit findings, conclusions and recommendations must be based on evidence. Since Auditors seldom have the opportunity of considering all information about the audited entity, it is crucial that the data collection and sampling techniques are carefully chosen. When computer based system data are an important part of the audit and the data reliability is crucial to accomplishing the audit objective, auditors need to satisfy themselves that the data are reliable and relevant.
- (ii) Auditors should have a sound understanding of techniques and procedures such as inspection, observations, enquiry and confirmation, to collect audit evidence. The Auditor should ensure that the techniques employed are sufficient to reasonably detect all quantitative material error and irregularities.
- (iii) In choosing approaches and procedures, consideration should be given to the quality evidence, i.e. the evidence should be sufficient, competent, relevant, reliable and as direct as possible so as to fulfil the need for interferences to be made.
- (iv) Auditors should adequately document the audit evidence in working papers, including the basis and extent of the planning, work performed and the findings of audit. Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the Auditor's significant findings and conclusions.
- (v) Adequate documentation is important for several reasons. It will:
 - (a) Confirm and support the Auditor's opinions and reports;
 - (b) Increase the efficiency and effectiveness of the audit.
 - (c) Serve as a source of information for preparing reports or ensuring any enquiries from the audited entity or from any other party.
 - (d) Serve as evidence of the Auditor's compliance with auditing standards;
 - (e) Facilitate planning and supervision.
 - (f) Help the Auditor's professional development.
 - (g) Help to ensure that delegated work has been satisfactorily performed; and
 - (h) Provide evidence of work done for future reference.
- (vi) The Auditor should bear in mind that the content and arrangement of the working papers reflect the degree of the Auditor's proficiency, experience and knowledge. Working papers should be sufficiently complete and detailed to enable an experienced Auditor having no previous connection with the audit subsequently to ascertain from them what work was performed to support the conclusions.

[Ref: Para 8.2.1 to 8.2.6 of Chapter-III of Auditing standard for audit of PRIs & ULBs)]



Appendix-A
Refer para-1.10

Statement showing list of Auditee units under purview of AMG-I

Sl. No.	Department	Name of Department/ Office	Place	Category
1	Building Construction	Secretary, Building Construction Department	Ranchi	Medium
2	Building Construction	Building Construction Special Division	Ranchi	High
3	Building Construction	Building Construction Division 1	Ranchi	High
4	Building Construction	Building Construction Division	Chaibasa	High
5	Building Construction	Building Construction Division 2	Ranchi	High
6	Building Construction	Building Construction Division	Dhanbad	High
7	Building Construction	Building Construction Division	Garhwa	High
8	Building Construction	Building Construction Division	Latehar	High
9	Building Construction	Building Construction Division	Hazaribag	High
10	Building Construction	Building Construction Division	Giridih	High
11	Building Construction	Building Construction Division	Jamshedpur	High
12	Building Construction	Building Construction Division	Dumka	High
13	Building Construction	Building Construction Division	Gumla	High
14	Building Construction	Building Construction Division	Deoghar	Medium
15	Building Construction	Building Construction Division	Daltonganj	High
16	Building Construction	Building Construction Division	Godda	Medium
17	Building Construction	Building Construction Division	Saraikella	Medium
18	Building Construction	Building Construction Division	Simdega	Medium
19	Building Construction	Building Construction Division	Khunti	Medium
20	Building Construction	Building Construction Division	Bokaro	Medium
21	Building Construction	Building Construction Division	Ramgarh	Medium
22	Building Construction	Building Construction Division	Sahebganj	Medium
23	Building Construction	Building Construction Division	Chatra	Medium
24	Building Construction	Building Construction Division	Jamtara	Medium
25	Building Construction	Building Construction Division	Pakur	Medium
26	Building Construction	Building Construction Division	Lohardagga	Medium
27	Building Construction	Building Construction Division	Koderma	Medium
28	Building Construction	Building Construction Circle , Chhotanagpur	Ranchi	Low
29	Building Construction	Design, Building Construction Department	Ranchi	Low
30	Building Construction	CE, Building Construction Department	Ranchi	Low
31	Building Construction	Building Construction Circle	Dumka	Low
32	Building Construction	Building Construction Circle	Hazaribag	Low
33	Building Construction	Monitoring cum Evaluation cum Purchase, BCD	Ranchi	Low
34	Building Construction	Building Construction Circle II	Ranchi	Low
35	Drinking Water and Sanitation	Secretary, Drinking Water and Sanitation Department	Ranchi	High
36	Drinking Water and Sanitation	DW&S Division	Chaibasa	High
37	Drinking Water and Sanitation	DW&S Division Ranchi (West)	Ranchi	High
38	Drinking Water and Sanitation	DW&S Division CKP	Chaibasa	High
39	Drinking Water and Sanitation	DW&S (Mec)Division	Chaibasa	Medium
40	Drinking Water and Sanitation	DW&S Division	Chatra	High
41	Drinking Water and Sanitation	DW&S Division Chas	Bokaro	High
42	Drinking Water and Sanitation	DW&S Division Tenughat	Bokaro	High
43	Drinking Water and Sanitation	DW&S Division	Deoghar	Medium
44	Drinking Water and Sanitation	DW&S Division 1	Dhanbad	High
45	Drinking Water and Sanitation	DW&S Division II	Dhanbad	High
46	Drinking Water and Sanitation	DW&S Division Ranchi (East)	Ranchi	High
47	Drinking Water and Sanitation	DW&S (Mech) Division	Dhanbad	High

48	Drinking Water and Sanitation	DW&S Division no: II	Giridih	High
49	Drinking Water and Sanitation	DW&S Division	Gumla	High
50	Drinking Water and Sanitation	DW&S Division No II	Dumka	Medium
51	Drinking Water and Sanitation	DW&S Division	Garhwa	High
52	Drinking Water and Sanitation	DW&S Division	Godda	High
53	Drinking Water and Sanitation	DW&S Division Madhupur	Deoghar	High
54	Drinking Water and Sanitation	DW&S Division	Giridih	Medium
55	Drinking Water and Sanitation	DW&S Division Jhumritelaiya	Koderma	Medium
56	Drinking Water and Sanitation	DW&S Division	Hazaribagh	High
57	Drinking Water and Sanitation	DW&S (Mech) Division	Jamshedpur	Medium
58	Drinking Water and Sanitation	DW&S Division Khunti	Khunti	Medium
59	Drinking Water and Sanitation	DW&S Division at Adityapur (saraikele)	Saraikele	Medium
60	Drinking Water and Sanitation	DW&S Division Adityapur	Jamshedpur	Medium
61	Drinking Water and Sanitation	DW&S Division	Latehar	High
62	Drinking Water and Sanitation	DW&S Division	Lohardaga	Medium
63	Drinking Water and Sanitation	DW&S Division	Medininagar	High
64	Drinking Water and Sanitation	DW&S Division	Pakur	Medium
65	Drinking Water and Sanitation	DW&S Division	Jamtara	Medium
66	Drinking Water and Sanitation	DW&S Division , Ramgarh	Ramgarh	High
67	Drinking Water and Sanitation	DW&S Mech (Urban) Division	Ranchi	High
68	Drinking Water and Sanitation	DW&S Division Gonda	Ranchi	Medium
69	Drinking Water and Sanitation	DW&S Division Hatia Project	Ranchi	Medium
70	Drinking Water and Sanitation	DW&S Swarnrekha Distributory Division Booty More	Ranchi	Medium
71	Drinking Water and Sanitation	DW&S Division	Dumka	Low
72	Drinking Water and Sanitation	DW&S (Mech) Division	Ranchi	Medium
73	Drinking Water and Sanitation	DW&S (Mech) Division	Dumka	Low
74	Drinking Water and Sanitation	DW&S (Mech) Division	Hazaribagh	Low
75	Drinking Water and Sanitation	DW&S (Mech) Division	Medininagar	Low
76	Drinking Water and Sanitation	DW&S Swarnrekha Head Works Division Booty	Ranchi	High
77	Drinking Water and Sanitation	DW&S (M) Division	Gumla	Low
78	Drinking Water and Sanitation	DW&S Division	Sahibganj	Medium
79	Drinking Water and Sanitation	DW&S Division 1	Dumka	Low
80	Drinking Water and Sanitation	DW&S Division	Saraikele	Medium
81	Drinking Water and Sanitation	DW&S Division	Simdega	High
82	Drinking Water and Sanitation	DW&S Circle I Ranchi	Ranchi	Low
83	Drinking Water and Sanitation	DW&S Circle Medininagar	Medininagar	Low
84	Drinking Water and Sanitation	DW&S Mechanical Circle	Ranchi	Low
85	Drinking Water and Sanitation	DW&S Urban Circle	Ranchi	Low
86	Drinking Water and Sanitation	DW&S Ranchi Region	Ranchi	Low
87	Drinking Water and Sanitation	DW&S Circle Adityapur	Jamshedpur	Low
88	Drinking Water and Sanitation	DW&S Regional Division ,	Dumka	Low
89	Drinking Water and Sanitation	DW&S Circle	Dhanbad	Low
90	Drinking Water and Sanitation	DW&S Circle	Gumla	Low
91	Drinking Water and Sanitation	DW&S Circle	Hazaribagh	Low
92	Drinking Water and Sanitation	DW&S Circle	Dumka	Low
93	Drinking Water and Sanitation	DW&S Circle	Deoghar	Low
94	Drinking Water and Sanitation	DW&S Circle	Chaibasa	Low
95	Energy	EE (Electrical), Electric Works Division , Engineers Hostel No.-2 Dhurwa	Ranchi	High
96	Energy	EE (Electrical) Electric Works Division , Randhir Verma Chowk Near Registry office Hirapur	Dhanbad	Medium
97	Energy	SE (Electrical) Electric Works Circle , Near Nepal House, Doranda	Ranchi	Low
98	Forest, Environment and Climate Change	Secretary, Forest Environment Department	Ranchi	Medium

99	Forest, Environment and Climate Change	DFO, Ranchi Forest Division	Ranchi	High
100	Forest, Environment and Climate Change	DFO, Buffer Area Palamau Tiger Project Medininagar	Medininagar	High
101	Forest, Environment and Climate Change	CF, Core Area Project Tiger, Palamau	Medininagar	High
102	Forest, Environment and Climate Change	DFO, Jamshepur Forest Division	Jamshepur	High
103	Forest, Environment and Climate Change	DFO, Giridih East Forest Division, Giridih	Giridih	High
104	Forest, Environment and Climate Change	DFO, Wild Life Division, Doranda	Ranchi	High
105	Forest, Environment and Climate Change	DFO, Deoghar Forest Division .	Deoghar	High
106	Forest, Environment and Climate Change	DFO, Forest Division Dumka	Dumka	High
107	Forest, Environment and Climate Change	DFO, Hazaribagh West Forest Division	Hazaribagh	High
108	Forest, Environment and Climate Change	DFO, Chatra South Forest Division	Chatra	High
109	Forest, Environment and Climate Change	DFO, Forest Division Bokaro	Bokaro	High
110	Forest, Environment and Climate Change	DFO, Medininagar Forest Division Medininagar	Medininagar	High
111	Forest, Environment and Climate Change	DFO, Forest Division, Sahibganj	Sahibganj	High
112	Forest, Environment and Climate Change	DFO, Giridih West Forest Division Giridih	Giridih	High
113	Forest, Environment and Climate Change	DFO, Dhanbad Forest Division	Dhanbad	High
114	Forest, Environment and Climate Change	DFO, Gumla Forest Division	Gumla	High
115	Forest, Environment and Climate Change	DFO, Saraikela Forest Division	Saraikela	High
116	Forest, Environment and Climate Change	DFO, Chatra North Forest Division	Chatra	High
117	Forest, Environment and Climate Change	DFO, Godda Forest Division	Godda	High
118	Forest, Environment and Climate Change	DFO, Social Forestry Division	Dumka	High
119	Forest, Environment and Climate Change	DFO, Wildlife Division	Hazaribagh	Medium
120	Forest, Environment and Climate Change	DFO, Forest Division Ramgarh	Ramgarh	Medium
121	Forest, Environment and Climate Change	DFO, Hazaribagh East Forest Division	Hazaribagh	Medium
122	Forest, Environment and Climate Change	DFO, Simdega Forest Division	Simdega	Medium
123	Forest, Environment and Climate Change	DFO, Forest Division, Koderma	Koderma	Medium
124	Forest, Environment and Climate Change	DCF & Regional Director Elephant Project Jamshepur	Jamshepur	Medium
125	Forest, Environment and Climate Change	DFO, Garhwa (South) Forest Division	Garhwa	Medium
126	Forest, Environment and Climate Change	DFO, Saranda Forest Division	Chaibasa	Medium
127	Forest, Environment and Climate Change	DFO, Khunti Forest Division , Khunti	Khunti	Medium
128	Forest, Environment and Climate Change	DFO, Forest Division Latehar	Latehar	Medium
129	Forest, Environment and Climate Change	DFO, Garhwa (North) Forest Division	Garhwa	Medium
130	Forest, Environment and Climate Change	DFO, SF Division Ranchi	Doranda	Medium
131	Forest, Environment and Climate Change	DFO, Lohardaga Forest Division Lohardaga	Lohardaga	Medium
132	Forest, Environment and Climate Change	DFO SF Division Latehar	Latehar	Medium
133	Forest, Environment and Climate Change	DFO, Forest Division, Pakur	Pakur	Medium
134	Forest, Environment and Climate Change	DFO, Social Forestry Division, Garhwa	Garhwa	Medium
135	Forest, Environment and Climate Change	DFO, Porahat Forest Division	Chaibasa	Medium
136	Forest, Environment and Climate Change	DFO, Kolhan Forest Division	Chaibasa	Medium
137	Forest, Environment and Climate Change	DFO, Social Forestry Division, Adityapur	Jamshepur	Medium
138	Forest, Environment and Climate Change	DFO, Jamtara Forest Division	Jamtara	Medium
139	Forest, Environment and Climate Change	DFO, Chaibasa Forest Division	Chaibasa	Medium
140	Forest, Environment and Climate Change	DFO, Social Forestry Division, Hazaribagh	Hazaribagh	Medium
141	Forest, Environment and Climate Change	DFO SF Division, Simdega	Simdega	Medium
142	Forest, Environment and Climate Change	DCF, Training Ranchi	Ranchi	Medium
143	Forest, Environment and Climate Change	DFO, SF Division, Koderma	Koderma	Medium
144	Forest, Environment and Climate Change	DFO, Social Forestry Division, Chaibasa	Chaibasa	Medium
145	Forest, Environment and Climate Change	CCF & State Silviculturist (CF & State Silviculturist)	Ranchi	Medium
146	Forest, Environment and Climate Change	DFO, Social Forestry Division	Deoghar	Medium
147	Forest, Environment and Climate Change	DFO, Tribal Cell (DCF, Tribal Development elopment Cell), Jharkhand , Doranda	Ranchi	Low
148	Forest, Environment and Climate Change	CF, Working Plan Circle	Bokaro	Low

149	Forest, Environment and Climate Change	CF, Territorial Circle Bokaro	Bokaro	Low
150	Forest, Environment and Climate Change	RCCF, Bokaro	Bokaro	Low
151	Forest, Environment and Climate Change	CF, Bokaro Circle, Bokaro	Bokaro	Low
152	Forest, Environment and Climate Change	CF, Working Plan Circle, Bokaro	Bokaro	Low
153	Forest, Environment and Climate Change	DFO, World Food Programme Division (Tasar)	Chaibasa	Low
154	Forest, Environment and Climate Change	CF, Territorial Circle, Chaibasa	Chaibasa	Low
155	Forest, Environment and Climate Change	DFO, Saranda State Trading Division	Chaibasa	Low
156	Forest, Environment and Climate Change	CF, Working Plan Circle	Chaibasa	Low
157	Forest, Environment and Climate Change	DFO, State Trading Division -II	Chaibasa	Low
158	Forest, Environment and Climate Change	CCF, Territorial Circle, Chatra (CF, Territorial Circle, Chatra)	Chatra	Low
159	Forest, Environment and Climate Change	DFO, World Food Programme Division	Daltonganj	Low
160	Forest, Environment and Climate Change	CCF, Working Plan Circle, Dumka, Deoghar (CF, Working Plan Circle, Dumka, Deoghar)	Deoghar	Low
161	Forest, Environment and Climate Change	DFO (PR), Publicity and Extension Division, Ranchi	Doranda	Low
162	Forest, Environment and Climate Change	Addl PCCF, Ranchi Region Ranchi (RCCF Ranchi)	Doranda	Low
163	Forest, Environment and Climate Change	Addl PCCF Development Jharkhand	Doranda	Low
164	Forest, Environment and Climate Change	Addl PCCF & Chief Coord. WFP, Ranchi (CCF & Chief Coord. WFP, Ranchi)	Doranda	Low
165	Forest, Environment and Climate Change	DFO SF, Planning & Monitoring Division, Ranchi	Doranda	Low
166	Forest, Environment and Climate Change	CF, SF, Monitoring & Evaluation Circle, Ranchi	Doranda	Low
167	Forest, Environment and Climate Change	DFO, World Food Programme Division, Ranchi	Doranda	Low
168	Forest, Environment and Climate Change	DFO, World Food Programme Division, Dumka	Dumka	Low
169	Forest, Environment and Climate Change	CF, Territorial Circle, Dumka	Dumka	Low
170	Forest, Environment and Climate Change	Regional CCF	Dumka	Low
171	Forest, Environment and Climate Change	Addl PCCF & Director Extension Forestry, Santhal Pargana, Dumka	Dumka	Low
172	Forest, Environment and Climate Change	CF, Territorial Circle	Garhwa	Low
173	Forest, Environment and Climate Change	CF, Territorial Circle Garhwa	Garhwa	Low
174	Forest, Environment and Climate Change	CF, Territorial Circle Giridih	Giridih	Low
175	Forest, Environment and Climate Change	DFO, State Trading Division	Gumla	Low
176	Forest, Environment and Climate Change	CF, Territorial Circle	Gumla	Low
177	Forest, Environment and Climate Change	Forester Training School, Hazaribag	Hazaribag	Low
178	Forest, Environment and Climate Change	Director, Foresters Training School	Hazaribag	Low
179	Forest, Environment and Climate Change	CF, Working Plan Circle	Hazaribag	Low
180	Forest, Environment and Climate Change	CF, Territorial Circle	Hazaribag	Low
181	Forest, Environment and Climate Change	Addl PCCF & Director Extension Forestry North Chhotanagpur & Palamau, Hazaribag	Hazaribag	Low
182	Forest, Environment and Climate Change	DFO, State Trading Division	Hazaribag	Low
183	Forest, Environment and Climate Change	Addl PCCF Hazaribagh Region Hazaribagh (Regional CCF)	Hazaribag	Low
184	Forest, Environment and Climate Change	CF, Territorial Circle Deoghar	Deoghar	Low
185	Forest, Environment and Climate Change	CCF Working Plan Circle, Chaibasa, Jamshedpur (CF, Working Plan Circle, Chaibasa)	Jamshedpur	Low
186	Forest, Environment and Climate Change	CF, Territorial Circle Jamshedpur	Jamshedpur	Low
187	Forest, Environment and Climate Change	Addl PCCF, Jamshedpur Region, Jamshedpur (RCCF Jamshedpur)	Jamshedpur	Low
188	Forest, Environment and Climate Change	DFO State Trading Division -II Latehar	Latehar	Low
189	Forest, Environment and Climate Change	Lac Treatment Plant, Latehar	Latehar	Low

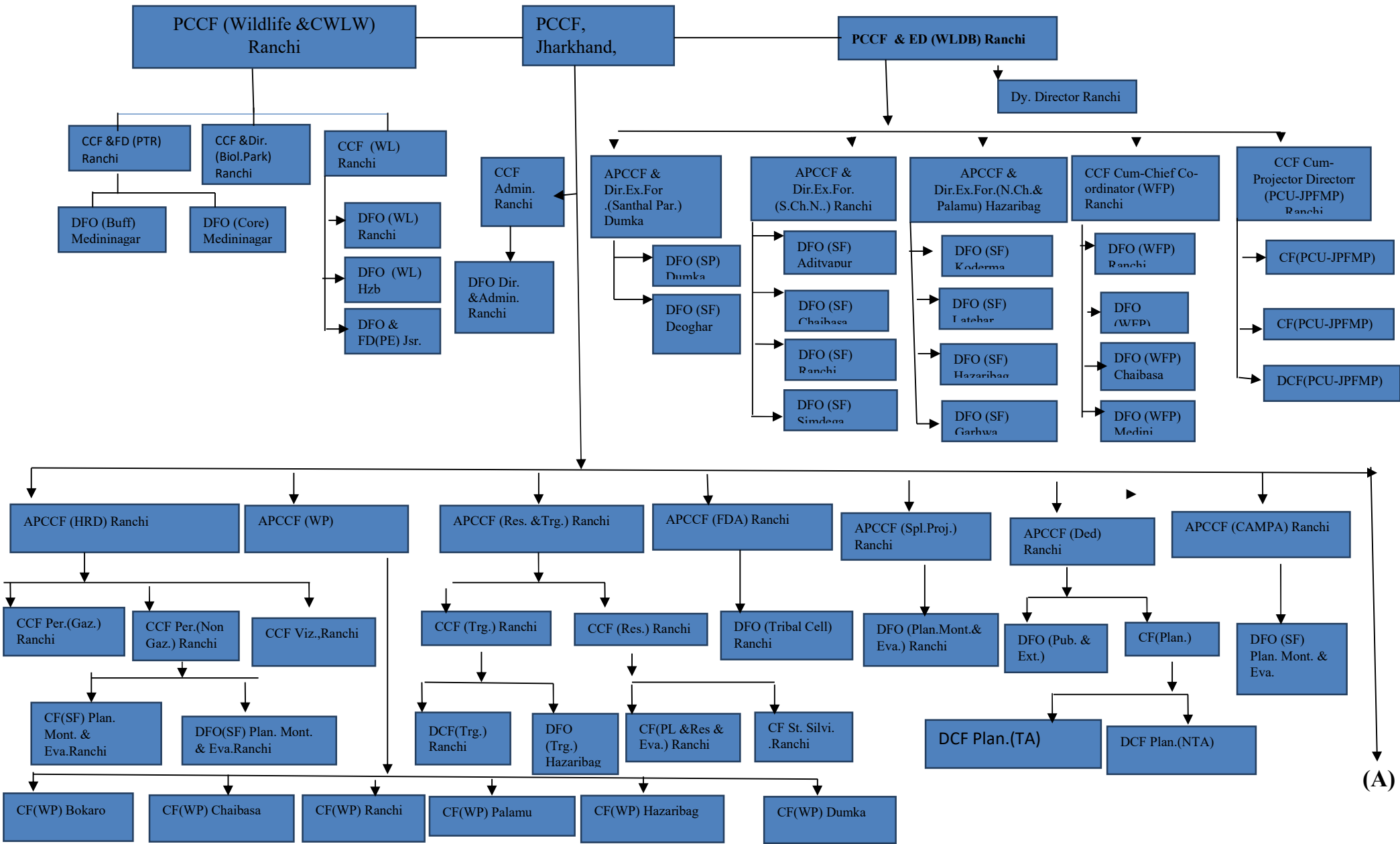
190	Forest, Environment and Climate Change	CF, Territorial Circle, Medininagar	Medininagar	Low
191	Forest, Environment and Climate Change	CCF & Regional Director, Palamau Tiger Project, Medininagar	Medininagar	Low
192	Forest, Environment and Climate Change	CF, Working Plan Circle, Medininagar	Medininagar	Low
193	Forest, Environment and Climate Change	Regional CCF	Palamau	Low
194	Forest, Environment and Climate Change	CCF, Plantation Research & Evolution Ranchi (CF, Plantation Research & Evolution)	Ranchi	Low
195	Forest, Environment and Climate Change	CF, Working Plan Circle	Ranchi	Low
196	Forest, Environment and Climate Change	PCCF, Jharkhand	Ranchi	Low
197	Forest, Environment and Climate Change	CF, Territorial Circle Ranchi	Ranchi	Low
198	Forest, Environment and Climate Change	Addl PCCF, Working Plan Jharkhand	Ranchi	Low
199	Forest, Environment and Climate Change	Regional CCF,	Ranchi	Low
200	Forest, Environment and Climate Change	DCF, Planning Monitoring & Evaluation Cell, Doranda	Ranchi	Low
201	Forest, Environment and Climate Change	Addl PCCF & Director, Extension Forestry, South Chhotanagpur	Ranchi	Low
202	Forest, Environment and Climate Change	CF Planning Circle	Ranchi	Low
203	Forest, Environment and Climate Change	PCCF cum ED, Wast Land Development . Board	Ranchi	Low
204	Forest, Environment and Climate Change	Compensatory Afforestation Fund Management and Planning Authority (CAMPA)	Ranchi	Low
205	Forest, Environment and Climate Change	Addl PCCF Human Resource Development Jharkhand	Ranchi	Low
206	Forest, Environment and Climate Change	Addl PCCF, Special Project, Jharkhand Ranchi	Ranchi	Low
207	Forest, Environment and Climate Change	DCF, Planning Non Tribal Area Ranchi	Ranchi	Low
208	Forest, Environment and Climate Change	Addl PCCF & Director Extension Forestry South Chhotanagpur Ranchi	Ranchi	Low
209	Forest, Environment and Climate Change	Addl PCCF, FDA Jharkhand	Ranchi	Low
210	Forest, Environment and Climate Change	CCF, Research Jharkhand	Ranchi	Low
211	Forest, Environment and Climate Change	DCF, Planning Tribal Area Ranchi	Ranchi	Low
212	Forest, Environment and Climate Change	Addl PCCF, Research & Training Jharkhand	Ranchi	Low
213	Forest, Environment and Climate Change	DCF, Planning Tribal Area	Ranchi	Low
214	Forest, Environment and Climate Change	Addl PCCF, Special Project, Jharkhand	Ranchi	Low
215	Forest, Environment and Climate Change	CCF, Wildlife Jharkhand	Ranchi	Low
216	Forest, Environment and Climate Change	Addl PCCF Vigilance Jharkhand (CCF Vigilance Jharkhand)	Ranchi	Low
217	Forest, Environment and Climate Change	CCF, Training Jharkhand	Ranchi	Low
218	Forest, Environment and Climate Change	Forest Development Authority	Ranchi	Low
219	Forest, Environment and Climate Change	CCF, Personnel (Gazetted) Jharkhand	Ranchi	Low
220	Forest, Environment and Climate Change	CF, Plantation Research and Evaluation Circle Ranchi	Ranchi	Low
221	Forest, Environment and Climate Change	Social Forestry Planning (Yojana) Monitoring and Evaluation Circle	Ranchi	Low
222	Forest, Environment and Climate Change	CCF-cum- Chief Co-Ordinator, World Food Programme , Jharkhand	Ranchi	Low
223	Forest, Environment and Climate Change	Project Co-ordination Unit, Jharkhand Sahbhagi Forest Management Project	Ranchi	Low
224	Forest, Environment and Climate Change	CCF, Personnel (Non-Gazetted) Jharkhand	Ranchi	Low
225	Forest, Environment and Climate Change	Biodiversity Conservation and Chief WildeLife Warden	Ranchi	Low
226	Forest, Environment and Climate Change	DCF Project Co-ordination Unit (WB Aided), Jharkhand	Ranchi	Low
227	Forest, Environment and Climate Change	CCF, Administration (O/o the PCCF, Jharkhand)	Ranchi	Low

228	Forest, Environment and Climate Change	Jharkhand State Pollution Control Board	Ranchi	Low
229	Forest, Environment and Climate Change	Jharkhand Bio Diversity Board, Ranchi	Ranchi	Low
230	Forest, Environment and Climate Change	Lac Cultivation Crop in Forest Dranda	Ranchi	Low
231	Forest, Environment and Climate Change	CCF-Cum Director Bhagwan Birsa Biological Park Ranchi ,	Ranchi	Low
232	Road Construction	Secretary, Road Construction Department	Ranchi	High
233	Road Construction	RCD, Road Division	Ranchi	High
234	Road Construction	RCD, Road Division	Dumka	High
235	Road Construction	RCD, Road Division	Deoghar	High
236	Road Construction	RCD, Road Division	Gumla	High
237	Road Construction	RCD, Road Division	Godda	High
238	Road Construction	RCD, Road Division	Garhwa	High
239	Road Construction	RCD, Road Division	Dhanbad	High
240	Road Construction	RCD, Road Division	Sahebganj	High
241	Road Construction	RCD, Road Division, Manoharpur, Chakradharpur	Manoharpur	High
242	Road Construction	RCD, Road Division	Jamshedpur	High
243	Road Construction	RCD, Road Division	Latehar	High
244	Road Construction	RCD, Road Division	Giridih	High
245	Road Construction	RCD, Road Division	Bokaro	High
246	Road Construction	RCD, Road Division	Hazaribag	High
247	Road Construction	RCD, Road Division	Daltonganj	High
248	Road Construction	RCD, Road Division	Saraikella	High
249	Road Construction	RCD, Road Division	Simdega	High
250	Road Construction	RCD, Road Division	Ramgarh	High
251	Road Construction	RCD, Road Division	Chatra	High
252	Road Construction	RCD, Road Division	Koderma	High
253	Road Construction	RCD, Road Division	Chaibasa	High
254	Road Construction	RCD, Road Division	Jamtara	High
255	Road Construction	RCD, Road Division	Lohardagga	High
256	Road Construction	RCD, Road Division	Pakur	High
257	Road Construction	Project Implementation Cell , ADB Project	Ranchi	High
258	Road Construction	National Highway Division	Daltonganj	Medium
259	Road Construction	National Highway Division	Deoghar	Medium
260	Road Construction	National Highway Division	Ranchi	Medium
261	Road Construction	Planning and Investigation Division	Ranchi	Low
262	Road Construction	Field Survey and Advance Planning Division	Ranchi	Low
263	Road Construction	National Highway Division	Gumla	Low
264	Road Construction	Road Circle	Chaibasa	Low
265	Road Construction	National Highway Division	Chaibasa	Low
266	Road Construction	Road Division Rural	Ranchi	High
267	Road Construction	Road Circle	Daltonganj	Low
268	Road Construction	National Highway Division	Dhanbad	Low
269	Road Construction	Soil Investigation & Advance Planning Division	Ranchi	Low
270	Road Construction	RCD, Road Division	Khunti	High
271	Road Construction	NH Circle	Dhanbad	Low
272	Road Construction	Road Circle	Dumka	Low
273	Road Construction	National Highway Division	Hazaribag	Low
274	Road Construction	Road Circle	Hazaribag	Low
275	Road Construction	Field Survey and Advance Planning	Dumka	Low
276	Road Construction	Road Circle	Ranchi	Low
277	Road Construction	Central Design Organisation, RCD	Ranchi	Low
278	Road Construction	Communication, RCD	Ranchi	Low
279	Road Construction	Quality Control, RCD	Ranchi	Low
280	Road Construction	NH Wing, RCD	Ranchi	Low

281	Road Construction	NH Circle	Ranchi	Low
282	Road Construction	Advance Planning Circle	Ranchi	Low
283	Road Construction	Quality Control Division 4	Ranchi	Low
284	Road Construction	Quality Control Division 1	Ranchi	Low
285	Road Construction	Central laboratory Division	Ranchi	Low
286	Road Construction	Quality Control Division 3	Ranchi	Low
287	Road Construction	Quality Control Division 2	Ranchi	Low
288	Road Construction	Ring Road Division	Ranchi	Low
289	Road Construction	Road Mechanical Division	Ranchi	Low
290	Road Construction	Road Mechanical Circle	Ranchi	Low
291	Road Construction	Road Mechanical Division	Sahebganj	Low
292	Road Construction	State Highway Authority of Jharkhand	Ranchi	Low
293	Urban Development elopment and Housing	Secretary, Urban Development elopment Department	Ranchi	High
294	Urban Development elopment and Housing	Basukinath Nagar Panchayat	Basukinath	Medium
295	Urban Development elopment and Housing	Bishrampur Nagar Parishad	Bishrampur	Medium
296	Urban Development elopment and Housing	Chaas Municipal Corporation	Bokaro	High
297	Urban Development elopment and Housing	Dumka Housing Division	Camp at Dhanbad	Low
298	Urban Development elopment and Housing	Chaibasa Nagar Parishad	Chaibasa	Medium
299	Urban Development elopment and Housing	Chatra Nagar Parishad	Chatra	Medium
300	Urban Development elopment and Housing	Deoghar Municipal Corporation	Deoghar	High
301	Urban Development elopment and Housing	Madhupur Nagar Parishad	Deoghar	Medium
302	Urban Development elopment and Housing	Dhanbaad Municipal Corporation	Dhanbaad	High
303	Urban Development elopment and Housing	Mineral Area Development elopment Authority (MADA), Dhanbad	Dhanbad	High
304	Urban Development elopment and Housing	Chirkunda Nagar Parishad	Dhanbad	Medium
305	Urban Development elopment and Housing	Dhanbad Housing Division	Dhanbad	Low
306	Urban Development elopment and Housing	Dhanbar Nagar Panchayat	Dhanbar	Low
307	Urban Development elopment and Housing	Dumka Nagar Parishad	Dumka	Medium
308	Urban Development elopment and Housing	Chakulia Nagar Panchyat	East Singhbhum	Low
309	Urban Development elopment and Housing	Mango Municipal Corporation	East Singhbhum	Low
310	Urban Development elopment and Housing	Jugsalai Municipality	East Singhbhum	Low
311	Urban Development elopment and Housing	Majhiyawaan Nagar Panchayat	Garhwa	Medium
312	Urban Development elopment and Housing	Garhwa Nagar Parishad	Garhwa	Medium
313	Urban Development elopment and Housing	Banshidhar Nagar Panchayat	Garhwa	Low
314	Urban Development elopment and Housing	Giridih Municipal Corporation	Giridih	High
315	Urban Development elopment and Housing	Barki Saraiya Nagar Panchayat	Giridih	Low
316	Urban Development elopment and Housing	Godda Nagar Parishad	Godda	Medium
317	Urban Development elopment and Housing	Mahagama Nagar Panchayat	Godda	Low
318	Urban Development elopment and Housing	Gumla Nagar Parishad	Gumla	Medium
319	Urban Development elopment and Housing	Hazaribagh Municipal Corporation	Hazaribagh	High
320	Urban Development elopment and Housing	Hazaribagh Housing Division	Hazaribagh	Low
321	Urban Development elopment and Housing	Jamshedpur NAC	Jamshedpur	High
322	Urban Development elopment and Housing	Jamshedpur Housing Division	Jamshedpur	Low
323	Urban Development elopment and Housing	Mihijam Nagar Parishad	Jamtara	Medium
324	Urban Development elopment and Housing	Jamtara Nagar Panchayat	Jamtara	Medium
325	Urban Development elopment and Housing	Khunti Nagar Panchayat	Khunti	Medium
326	Urban Development elopment and Housing	Jhumritillaya Nagar parishad	Koderma	Medium
327	Urban Development elopment and Housing	Koderma Nagar Panchayat	Koderma	Medium
328	Urban Development elopment and Housing	Domchanch Nagar Panchayat	Koderma	Low
329	Urban Development elopment and Housing	Latehar Nagar Panchayat	Latehar	Medium
330	Urban Development elopment and Housing	Lohardaga Nagar Parishad	Lohardaga	Medium
331	Urban Development elopment and Housing	Husainabad Nagar Panchayat	Medaninagar	Low
332	Urban Development elopment and Housing	Medininagar Municipal Corporation	Medininagar	High
333	Urban Development elopment and Housing	Pakur Nagar Parishad	Pakur	Medium
334	Urban Development elopment and Housing	Chhatarpur Nagar Panchayat	Palamu	Low

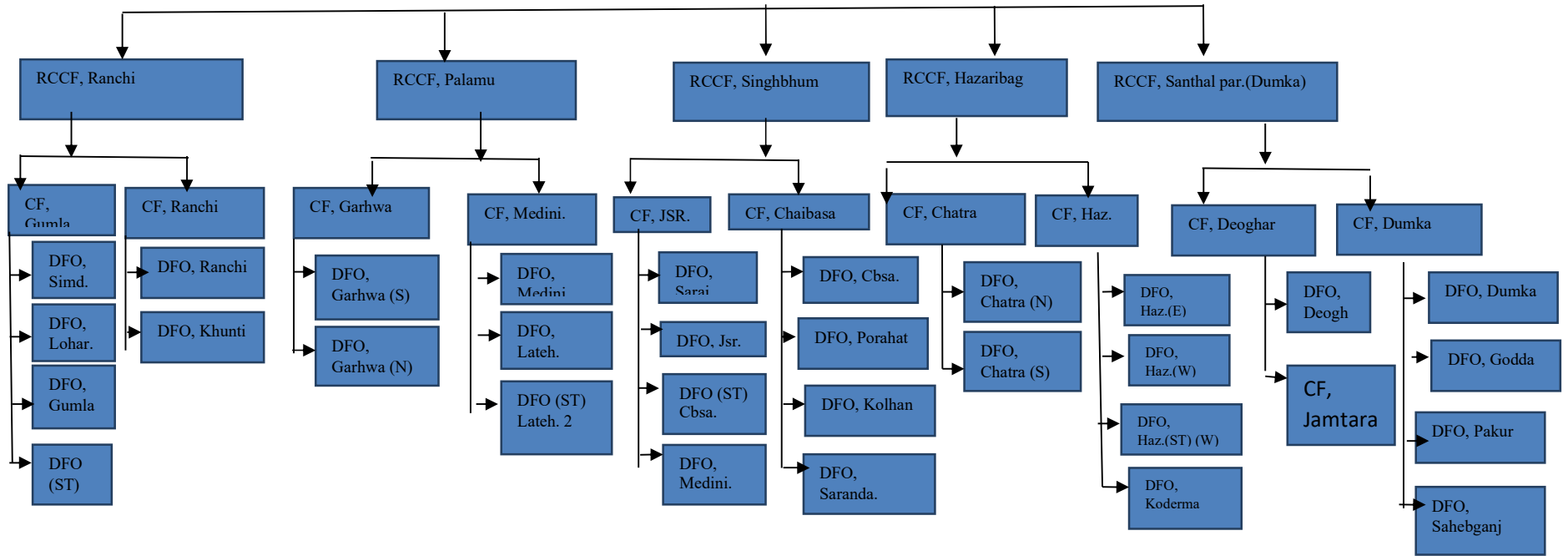
335	Urban Development elopment and Housing	Hariharganj Nagar Panchayat	Palamu	Low
336	Urban Development elopment and Housing	Ramgarh Nagar Parishad	Ramgarh	Low
337	Urban Development elopment and Housing	Ranchi Municipal Corporation	Ranchi	High
338	Urban Development elopment and Housing	Bundu Nagar Panchayat	Ranchi	Medium
339	Urban Development elopment and Housing	Ranchi Housing Division	Ranchi	Low
340	Urban Development elopment and Housing	Barharwa Nagar Panchayat	Sahebganj	Low
341	Urban Development elopment and Housing	Rajmahal Nagar Panchayat	Sahebgunj	Low
342	Urban Development elopment and Housing	Sahebgunj Nagar Parishad	Sahibganj	Medium
343	Urban Development elopment and Housing	Kapali Nagar Parishad	Saraikele	Low
344	Urban Development elopment and Housing	Saraikele Nagar Panchayat	Saraikele	Low
345	Urban Development elopment and Housing	Adityapur Municipal Corporation	Saraikele	High
346	Urban Development elopment and Housing	Simdega Nagar Parishad	Simdega	Medium
347	Urban Development elopment and Housing	Phusro Nagar Parishad	Tenughat	Low
348	Urban Development elopment and Housing	Chakradharpur Nagar Parishad	West Singhbhum	Medium

Appendix-K
Organizational set-up of Forest, Environment and Climate Change Depart



(A)

(A)



Appendix-L

Refer Para: 22.5

**Statement showing arrears in collection of revenue of more than Rs.
1000/- Outstanding for more than three years.**

Name of the Person	Date from which outstanding	Year	Amount	Reasons for delay in realisation

Appendix-M

Refer Para: 22.5

Statement of Certificate cases

	No. of Cases	Amount
Opening balance as on 1.4.		
Addition during		
Total		
Realisation during		
Closing balance as on 31.3		

Year wise break up of the Closing Balance

Year	No. of Cases	Amount

Appendix-N

Refer Para: 22.5

Statement showing position of undisposed forest produce as on 31st March

Sl. No.	Description Of stock	Date of receipt	Authority and Reasons for Receiving Such stock	Quantity Of stock	Value of stock (if value is not available the schedule of rates are to be adopted)	Physical Verification		Present state of stock i.e. saleable or unsaleable	Action taken to dispose of the stock
						Last date On which conducted	Reasons for not conducting verification		
1	2	3	4	5	6	7	8	9	10

Appendix-O
Refer Para: 22.5

**Statement showing Forest Offence Cases Compounded but
Compounding Fee Not realized.**

Sl. No.	No. of cases				Amount				Year wise break up		
	OB As on 1.4 ...	Addition During	Clearance During	CB as on 31 st March 19.....	OB as On 1.4...	Addition During	Clearance During	CB as On 31 st stipulated time March 19.....	OB as On 1.4....	Addition during	Clearance during
1	2	3	4	5	6	7	8	9	10	11	12

Appendix-P
Refer Para: 22.5

Forest Offence Cases detected but not compounded

No. of cases				Amount				Year wise break up		
OB as on 1 st April 19.....	Addition During	Clearance During	CB on 31 st March 19.....	OB as On 1 st April 19.....	Addition During	Clearance During	CB on 31 st March 19.....	Year	No. of Cases	Amount
1	2	3	4	5	6	7	8	9	10	11

Appendix-Q
Refer Para: 22.5
Undetected Forest Offence Cases

Sl. No.	No. of cases				Amount				Year wise break up		
	OB as On 1.4... during	Addition During	Clearance During	CB as On 31 st March	OB as On 1.4...	Addition During	Clearance During	CB as 31 st March	Year	No. of Cases	Amount
1	2	3	4	5	6	7	8	9	10	11	12

Appendix-R
Refer Para: 22.5

**Statement showing the Security deposit lying with
the division for more than 3 years as on 31st March.....**

Year	No of cases	Amount	Reasons for not Refunding to the Contractors
(1)	(2)	(3)	(4)

Appendix-S

Refer Para: 22.7

THE COMPENSATORY AFFORESTATION FUND ACT, 2016

ACT NO. 38 OF 2016

[3rd August, 2016.]

An Act to provide for the establishment of funds under the public accounts of India and the public accounts of each State and crediting thereto the monies received from the user agencies towards compensatory afforestation, additional compensatory afforestation, penal compensatory afforestation, net present value and all other amounts recovered from such agencies under the Forest (Conservation) Act, 1980; constitution of an authority at national level and at each of the State and Union territory Administration for administration of the funds and to utilise the monies so collected for undertaking artificial regeneration (plantations), assisted natural regeneration, protection of forests, forest related infrastructure development, Green India Programme, wildlife protection and other related activities and for matters connected therewith or incidental thereto.

WHEREAS the Supreme Court in its order in T.N. Godavarman Thirumulpad *vs.* Union of India and Others [Writ Petition (Civil) No. 202 of 1995], dated the 30th October, 2002, observed that a Compensatory Afforestation Fund be created in which all the monies received from the user agencies towards compensatory afforestation, additional compensatory afforestation, penal compensatory afforestation, net present value of the diverted forest land or catchment area treatment plan shall be deposited;

AND WHEREAS it had also been observed that the money received from the user agencies in cases where forest land diverted falls within protected areas, that is, the areas notified under the Wild Life (Protection) Act, 1972 (35 of 1972) for undertaking activities related to protection of biodiversity or wildlife shall also be deposited in the Fund;

AND WHEREAS the Supreme Court has directed that, besides artificial regeneration (Plantations), the Fund shall also be utilised for undertaking assisted natural regeneration, protection of forests, infrastructure development, wildlife protection and other related activities and an independent system of concurrent monitoring and evaluation should be evolved and implemented through the Compensatory Afforestation Fund to ensure effective and proper utilisation of funds;

AND WHEREAS the Supreme Court in its judgment dated 26th September, 2005 in the said Writ Petition observed that the Fund generated for protecting ecology and providing regeneration should not be treated as a Fund under article 266 and article 283 of the Constitution;

AND WHEREAS in its direction dated the 5th May, 2006, the Supreme Court had directed that since the Government has not constituted a Compensatory Afforestation Fund Management and Planning Authority (hereinafter referred to as Authority), an *ad hoc* Authority should be constituted till the Compensatory Afforestation Fund Management and Planning Authority becomes operational and directed to centrally pool the money recovered on behalf of the said Authority lying in the States and Union territories into the *ad hoc* Compensatory Afforestation Fund Management and Planning Authority;

AND WHEREAS Central Government formulated guidelines dated the 2nd July, 2009 on the subject of State Authority for utilisation of funds lying with the *ad hoc* Authority;

AND WHEREAS in its direction dated the 10th July, 2009, the Supreme Court had directed that the guidelines and structure of the State Authority prepared by the Central Government may be notified and implemented;

AND WHEREAS in its directions dated the 10th July, 2009, the Supreme Court further directed that till an alternative system is put in place, after obtaining permission from the Supreme Court, the money towards compensatory afforestation, net present value and protected areas (national parks, wildlife sanctuaries) shall continue to be deposited in the *ad hoc* Authority;

AND WHEREAS in compliance of the directions of the Supreme Court including its order dated the 5th May, 2006, over rupees thirty eight thousand crores as collected by the State Governments and Union territory Administrations have been placed under the *ad hoc* Authority, and deposited in the nationalised banks;

AND WHEREAS absence of permanent institutional mechanism for utilisation of funds collected by the State Governments and Union territory Administrations is the main reason for accumulation of huge unspent funds in the *ad hoc* Authority;

NOW, THEREFORE, based on the above orders, directions and observations of the Supreme Court to ensure safety, security and expeditious utilisation in a transparent manner of funds accumulated with the *ad hoc* Authority and the funds to be collected by the State Governments and Union territory Administrations, it is proposed to create a National Compensatory Afforestation Fund and a National Compensatory Afforestation Fund Management and Planning Authority at the national level, and a State Compensatory Afforestation Fund and a State Compensatory Afforestation Fund Management and Planning Authority in each State and Union territory, by an Act of Parliament.

BE it enacted by Parliament in the Sixty-seventh Year of the Republic of India as follows: —

CHAPTER I

PRELIMINARY

1. Short title, extent and commencement.— (1) This Act may be called the Compensatory Afforestation Fund Act, 2016.

(2) It extends to the whole of India except the State of Jammu and Kashmir*.

(3) Save as otherwise provided in this Act, it shall come into force on such date¹ as the Central Government may, by notification in the Official Gazette, appoint.

2. Definitions.—In this Act, unless the context otherwise requires,—

(a) “*ad hoc* Authority” means the *ad hoc* Compensatory Afforestation Fund Management and Planning Authority constituted under the order dated the 5th May, 2006 of the Supreme Court in T.N. Godavarman Thirumulpad vs. Union of India and Others, [Writ Petition (Civil) No. 202 of 1995];

(b) “Chairperson, National Authority” means the Chairperson of the governing body of the National Authority;

(c) “Chairperson, State Authority” means the Chairperson of the governing body of the State Authority;

(d) “compensatory afforestation” means afforestation done in lieu of the diversion of forest land for non-forestry use under the Forest (Conservation) Act, 1980 (69 of 1980);

(e) “environmental services” includes—

(i) provision of goods such as wood, non-timber forest products, fuel, fodder, water and provision of services such as grazing, tourism, wildlife protection and life support;

(ii) regulating services such as flood moderation, carbon sequestration and health of soil, air and water regimes;

(iii) supporting such other services necessary for the production of ecosystem services, biodiversity, nutrient cycling and primary production including pollination and seed dispersal;

1. 30th September, 2018, *vide* notification NO. S.O. 3967(E), dated 13th August, 2018, *see* Gazette of India, Extraordinary, Part II, sec. 3(ii).

*. *Vide* notification No. S.O. 3912(E), dated 30th October, 2019, this Act is made applicable to the Union territory of Jammu and Kashmir and the Union territory of Ladakh.

(f) “Head of the regional office” means the senior-most officer appointed by the Central Government at regional office to deal with the forest conservation matters under the Forest (Conservation) Act, 1980 (69 of 1980);

(g) “monitoring group” means a group of experts to monitor the activities undertaken from amounts released from the National Fund and State Fund constituted under sub-section (3) of section 9;

(h) “National Authority” means National Compensatory Afforestation Fund Management and Planning Authority constituted under section 8;

(i) “National Fund” means the National Compensatory Afforestation Fund established under sub-section (1) of section 3;

(j) “net present value” means the quantification of the environmental services provided for the forest area diverted for non-forestry uses, as may be determined by an expert committee appointed by the Central Government from time to time in this regard;

(k) “penal compensatory afforestation” means afforestation work to be undertaken over and above the compensatory afforestation specified in the guidelines issued under the Forest (Conservation) Act, 1980, in lieu of the extent of area over which non-forestry activities have been carried out without obtaining prior approval of the competent authority under the Forest (Conservation) Act, 1980 (69 of 1980);

(l) “prescribed” means prescribed by rules made by the Central Government in consultation with the State Governments under this Act;

(m) “State Authority” means the State Compensatory Afforestation Fund Management and Planning Authority constituted under section 10;

(n) “State Fund” means the State Compensatory Afforestation Fund established by each State under sub-section (1) of section 4;

(o) “State Government” includes Union territory Administration;

(p) “user agency” means any person, organisation or company or department of the Central Government or State Government making a request for diversion or de-notification of forest land for non-forest purpose or using forest land for non-forest purpose in accordance with the provisions contained in the Forest (Conservation) Act, 1980 (69 of 1980) and the rules made and guidelines issued, thereunder.

CHAPTER II

ESTABLISHMENT, MANAGEMENT AND UTILISATION OF NATIONAL COMPENSATORY AFFORESTATION FUND AND STATE COMPENSATORY AFFORESTATION FUNDS

3. Establishment of National Fund.— (1) With effect from such date as the Central Government may, by notification in the Official Gazette, appoint in this behalf, there shall be established for the purposes of this Act, a special Fund to be called the “National Compensatory Afforestation Fund” under the public account of India.

(2) The National Fund shall be under the control of the Central Government and managed by the National Authority in such manner as may be prescribed.

(3) On the date of establishment of the National Fund, all monies collected by the State Governments and Union territory Administrations which has been placed under the *ad hoc* Authority and deposited in the nationalised banks shall be transferred to the National Fund.

(4) There shall also be credited into the National Fund, by each State on yearly basis, ten per cent. of the funds realised from the user agencies in respect of the forest land diverted in their favour, which have been credited directly into the State Fund.

(5) There shall also be credited to the National Fund—

- (a) grants-in-aid received, if any, by the National Authority;
- (b) any loan taken or any borrowings made by the National Authority;
- (c) any other sums received by the National Authority by way of benefaction, gift or donations.

(6) The monies received in the National Fund shall be an interest bearing fund under public accounts of India.

(7) The balance in the National Fund shall be non-lapsable and get interest as per the rate declared by the Central Government on year to year basis.

4. Establishment of State Fund.—(1) With effect from such date as each State Government may, by notification in the Official Gazette, appoint in this behalf, there shall be established for the purposes of this Act, a special Fund to be called the “State Compensatory Afforestation Fund (name of State)” under public accounts of such State:

Provided that in case of Union territory having no legislature, such fund shall be established under the public account of Union of India with effect from such date as the Union territory Administration may, by notification in the Official Gazette, appoint in this behalf.

(2) The State Fund in each State shall be under the control of the State Government of such State and managed by the State Authority of such State, in such manner as may be prescribed.

(3) There shall be credited into the State Fund of a State—

(i) the unspent balance of all monies which has been transferred by *ad hoc* Authority to the State Compensatory Afforestation Funds Management and Planning Authority constituted in such State in compliance of guidelines dated the 2nd July, 2009;

(ii) all monies transferable from the National Fund under clause (a) of section 5;

(iii) all monies realised from user agencies by such State towards compensatory afforestation, additional compensatory afforestation, penal compensatory afforestation, net present value, catchment area treatment plan or any money for compliance of conditions stipulated by the Central Government while according approval under the provisions of the Forest (Conservation) Act, 1980 (69 of 1980); and

(iv) the funds recoverable from user agencies by such State in cases where forest land diverted falls within the protected areas, that is, areas notified under sections 18, 26A or 35 of the Wild Life (Protection) Act, 1972 (53 of 1972) for undertaking activities relating to the protection of biodiversity and wildlife.

(4) A State Government may also credit to the State Fund constituted by it—

(i) grants-in-aid received, if any, by the State Authority;

(ii) any loan taken or any borrowings made by the State Authority;

(iii) any other sums received by the State Authority by way of benefaction, gift or donations.

(5) The monies received in the State Fund shall be an interest bearing fund under public accounts.

(6) The balance in each State Fund shall be non-lapsable and get interest as per the rate declared by the Central Government on year to year basis.

5. Disbursement and utilisation of National Fund.—Save as otherwise provided in this Act, the monies available in the National Fund shall be disbursed and utilised in the following manner, namely:—

(a) ninety per cent. of the all monies collected by a State, which has been placed under the *ad hoc* Authority and the interest accrued thereon, shall be transferred to the State Fund established in such state under sub-section (1) of section 4;

(b) the balance ten per cent. of all monies collected by the States and Union territory Administrations, which has been placed under the *ad hoc* Authority and the interest accrued thereon,

and all fresh accrual to the National Fund, as provided in sub-section (4) of section 3, and the interest accrued thereon, shall be utilised for meeting—

- (i) the non-recurring and recurring expenditure for the management of the National Authority including the salary and allowances payable to its officers and other employees;
- (ii) the expenditure incurred on monitoring and evaluation of works executed by the National Authority and each State Authority;
- (iii) the expenditure incurred on specific schemes approved by governing body of the National Authority.

Explanation.—For the purposes of this section, “scheme” includes any institute, society, centre of excellence in the field of forest and wildlife, pilot schemes, standardisation of codes and guidelines and such other related activities for the forestry and wildlife sector.

6. Disbursement and utilisation of State Fund.—Save as otherwise provided in this Act, the monies available in a State Fund shall be disbursed and utilised in the following manner, namely:—

(a) the money received for compensatory afforestation, additional compensatory afforestation, penal compensatory afforestation, catchment area treatment plan and for any other site specific scheme may be used as per site-specific schemes submitted by the State along with the approved proposals for diversion of forest land under the Forest (Conservation) Act, 1980 (69 of 1980);

(b) the monies received towards net present value and penal net present value shall be used for artificial regeneration (plantation), assisted natural regeneration, forest management, forest protection, forest and wildlife related infrastructure development, wildlife protection and management, supply of wood and other forest produce saving devices and other allied activities in the manner as may be prescribed;

(c) the interest accrued on funds available in a State Fund and the interest accrued on all monies collected by the State Governments, which has been placed under the *ad hoc* Authority and deposited in the nationalised banks, in compliance of the directions of the Supreme Court dated the 5th May, 2006, shall be used for conservation and development of forest and wildlife in the manner as may be prescribed;

(d) all monies realised from the user agencies in accordance with the decision taken by the Standing Committee of the National Board for Wild Life constituted under section 5A of the Wild Life (Protection) Act, 1972 (35 of 1972) or the orders of the Supreme Court involving cases of diversion of forest land in protected areas shall form the corpus and the income therefrom shall be used exclusively for undertaking protection and conservation activities in protected areas of the State including facilitating voluntary relocation from such protected areas and in exceptional circumstance, a part of the corpus may also be used subject to prior approval of the National Authority;

(e) ten per cent. of amount realised from the user agencies, which has been credited directly into the State Fund in a year shall be transferred to the National Fund to meet expenditure as provided in clause (b) of section 5;

(f) the non-recurring and recurring expenditure for the management of a State Authority including the salary and allowances payable to its officers and other employees may be met from a part of the interest accrued on the amounts available in the State Fund, in the manner as may be prescribed;

(g) in case of trans-boundary forestry or environmental implication of diversion of forest land for non-forest purposes in a particular State, if found expedient and necessary by the National Authority, it may, in consultation with the concerned State Authorities order that such sum as may be justified for reparation of the trans-boundary effects, be transferred to State Fund of such State or States;

(h) State Authority shall release monies to agencies identified for execution of activities in pre-determined instalments as per the annual plan of operation finalised by steering committee of such State Authority and executive committee of the National Authority.

7. Accounting procedure.— The accounting procedure to regulate the manner of crediting the monies to the National Fund and State Fund in a year shall be in such manner as may be prescribed.

CHAPTER III

CONSTITUTION OF NATIONAL AUTHORITY AND STATE AUTHORITIES

8. Constitution of National Authority.— (1) With effect from such date as the Central Government may, by notification in the Official Gazette, appoint in this behalf, there shall be constituted a National Authority to be called the “National Compensatory Afforestation Fund Management and Planning Authority”.

(2) The National Authority shall manage and utilise the National Fund for the purposes of this Act.

(3) The National Authority shall consist of a governing body and shall be assisted by an executive committee, monitoring group and administrative support mechanism.

(4) The governing body of the National Authority shall consist of the following, namely:—

(i) Minister for Environment, Forest and Climate Change, Government of India—Chairperson, *ex officio*;

(ii) Secretaries of Ministries dealing with Environment, Forest, Climate Change, Finance (Expenditure), Rural Development, Land Resources, Agriculture, Panchayati Raj, Tribal Development, Science, Technology, Space and Earth Sciences and Chief Executive Officer, National Institution for Transforming India Ayog, Government of India—Members, *ex officio*;

(iii) Director General of Forests and Special Secretary, Ministry of Environment, Forest and Climate Change, Government of India—Member, *ex officio*;

(iv) Additional Director General of Forests (Forest Conservation), Ministry of Environment, Forest and Climate Change, Government of India—Member, *ex officio*;

(v) Additional Director General of Forests (Wildlife), Ministry of Environment, Forest and Climate Change, Government of India—Member, *ex officio*;

(vi) Mission Director, National Mission for a Green India, Ministry of Environment, Forest and Climate Change, Government of India—Member, *ex officio*;

(vii) Financial Adviser, Ministry of Environment, Forest and Climate Change, Government of India—Member, *ex officio*;

(viii) five Principal Chief Conservator of Forests, not more than one from each of the ten regions, to be nominated by the Ministry of Environment, Forest and Climate Change, Government of India on rotation basis for a period of two years, at a time—Members, *ex officio*;

(ix) Inspector General of Forests (Forest Conservation), Ministry of Environment, Forest and Climate Change, Government of India—Member, *ex officio*;

(x) five experts, one each from environmentalists, conservationists, scientists, economists, and social scientists appointed by the Central Government for a period of two years subject to not more than two consecutive terms—Members.

(5) The Central Government may appoint an officer of the rank of an Additional Director General of Forests as the Chief Executive Officer of the National Authority who shall be the Member—Secretary of the governing body and the executive committee of the National Authority.

9. Executive committee and monitoring group of National Authority.— (1) The governing body of the National Authority shall, in performance of its functions and powers under the Act, be assisted by the executive committee and the monitoring group.

(2) The executive committee of the National Authority shall consist of the following, namely:—

(i) Director General of Forests and Special Secretary, Ministry of Environment, Forest and Climate Change, Government of India—Chairperson, *ex officio*;

(ii) Additional Director General of Forests (Forest Conservation), Ministry of Environment, Forest and Climate Change, Government of India—Member, *ex officio*;

(iii) Additional Director General of Forests (Wildlife), Ministry of Environment, Forest and Climate Change, Government of India—Member, *ex officio*;

(iv) Mission Director, National Mission for a Green India, Ministry of Environment, Forest and Climate Change, Government of India—Member, *ex officio*;

(v) Financial Adviser, Ministry of Environment, Forest and Climate Change, Government of India—Member, *ex officio*;

(vi) Head of all regional offices of the Ministry of Environment, Forest and Climate Change, Government of India—Members, *ex officio*;

(vii) Inspector General of Forests (Forest Conservation), Ministry of Environment, Forest and Climate Change, Government of India—Member, *ex officio*;

(viii) a professional ecologist, not being from the Central Government, to be appointed by the Central Government— Member;

(ix) three experts, one each in the fields of forestry, tribal development, forest economy development, not being from the Central Government, to be appointed by the Central Government— Members;

(x) Chief Executive Officer of the National Authority—Member-Secretary.

(3) The monitoring group shall consist of six experts in the field of environment, economics, wildlife, forest, remote sensing and geographical information system and social sector and the Director General, Forest Survey of India, Ministry of Environment, Forest and Climate Change, Government of India.

(4) The following officers shall be appointed by the National Authority for a period not exceeding five years, to assist the executive committee in performance of its functions and powers under the Act, namely:—

(i) Joint Chief Executive Officer of the rank of Inspector General of Forests;

(ii) Financial Advisor and Chief Accounts Officer of the rank of Director in the Government of India; and

(iii) Deputy Chief Executive Officers of the rank of Deputy Inspector General of Forests.

(5) The governing body of the National Authority may with the prior concurrence of the Central Government create posts in the National Authority at the level of Assistant Inspector General of Forests and other officials to assist the executive committee and monitoring group in performance of its functions under the Act.

10. Constitution of State Authority.— (1) With effect from such date as the Central Government may, by notification in the Official Gazette, appoint in this behalf, there shall be constituted a State Authority to be called the “State Compensatory Afforestation Fund Management and Planning Authority” in each State.

(2) The Central Government may, if so desires, appoint different dates for constitution of State Authority in each of the States.

(3) The State Authority constituted in a State shall be responsible for the management of the State Fund of such State and its utilisation for the purposes of the Act.

(4) The State Authority shall consist of a governing body and shall be assisted by a steering committee and an executive committee.

(5) The governing body of a State Authority shall consist of the following, namely:—

(i) Chief Minister of the State and in case of a Union territory having no legislature, the Lieutenant Governor or the Administrator, as the case may be—Chairperson, *ex officio*;

(ii) Minister of Forests—Member, *ex officio*;

(iii) Chief Secretary—Member, *ex officio*;

(iv) Principal Secretaries of the Departments dealing with Environment, Finance, Planning, Rural Development, Revenue, Agriculture, Tribal Development, Panchayati Raj, Science and Technology—Members, *ex officio*;

(v) Principal Chief Conservator of Forests (Head of Forest Force)-Member, *ex officio*;

(vi) Chief Wildlife Warden—Member, *ex officio*;

(6) Principal Secretary in-charge of the Forest Department in a State shall be Member Secretary of the State Authority in such State.

(7) The State Government shall appoint an officer of the rank not below the rank of a Chief Conservator of Forests as the Chief Executive Officer of the State Authority who shall be the Member- Secretary of the steering committee and the executive committee of the State Authority.

11. Steering committee and executive committee of State Authority.—(1) The governing body of the State Authority shall, in performance of its functions and powers under the Act, be assisted by the steering committee and the executive committee.

(2) The steering committee of a State Authority shall consist of the following, namely:—

(i) Chief Secretary—Chairperson, *ex officio*;

(ii) Principal Secretaries of the Departments dealing with Forests, Environment, Finance, Planning, Rural Development, Revenue, Agriculture, Tribal Development, Panchayati Raj, Science and Technology—Members, *ex officio*;

(iii) Principal Chief Conservator of Forests (Head of Forest Force)—Member, *ex officio*;

(iv) Chief Wildlife Warden—Member, *ex officio*;

(v) Nodal Officer, the Forest (Conservation) Act, 1980 (69 of 1980) Member, *ex officio*;

(vi) Head of the concerned regional office of the Ministry of Environment, Forest and Climate Change—Member, *ex officio*;

(vii) Nodal Officer, State Forest Development Agency—Member, *ex officio*;

(viii) an expert on tribal matters or a representative of tribal communities to be appointed by the State Government—Member;

(ix) Chief Executive Officer, State Authority—Member-Secretary.

(3) The executive committee of a State Authority shall consist of the following, namely:—

(i) Principal Chief Conservator of Forests (Head of Forest Force) —Chairperson, *ex officio*;

(ii) Chief Wildlife Warden—Member, *ex officio*;

(iii) an officer not below the rank of a Chief Conservator of Forests dealing with forest and wildlife related schemes—Member, *ex officio*;

(iv) an officer not below the rank of a Chief Conservator of Forests dealing with forestry research—Member, *ex officio*;

(v) Nodal Officer, State Forest Development Agency—Member, *ex officio*;

(vi) a representative each of the Departments dealing with Environment, Finance, Planning, Rural Development, Revenue, Agriculture, Tribal Development, Panchayati Raj, Science and Technology—Members, *ex officio*;

(vii) Financial Controller or Financial Adviser, to be nominated by the Finance Department—Member, *ex officio*;

(viii) two eminent non-government organisations to be appointed by the State Government—Members;

(ix) two representatives of district level Panchayati Raj Institutions to be appointed by the State Government—Members;

(x) an expert on tribal matters or a representative of tribal community to be appointed by the State Government—Member;

(xi) Chief Executive Officer, State Authority—Member-Secretary.

(4) The State Authority may appoint the following officers for a period not exceeding five years, to assist the steering committee and executive committee in performance of its functions under the Act, namely:—

(i) Joint Chief Executive Officer of the rank not below the rank of a Conservator of Forests;

(ii) Financial Advisor and Chief Accounts Officer of the rank not below the rank of a Deputy Secretary in the State Government;

(iii) Deputy Chief Executive Officer of the rank not below the rank of a Deputy Conservator of Forests.

(5) The governing body of the State Authority may with the prior concurrence of the State Government create posts in the State Authority at the level of Assistant Conservator of Forests and other officials to assist the steering committee and executive committee in performance of its functions under the Act.

12. Term of office and conditions of service of members.— Save as otherwise provided in this Act, the terms of office and other conditions of the service of the members of the National Authority, executive committee, monitoring group, Chief Executive Officer and officials appointed by the National Authority, members of State Authority, steering committee and executive committee of each State Authority shall be such as may be prescribed.

13. Disqualifications.— A person shall be disqualified for being appointed as a member of the National Authority, executive committee of the National Authority, a State Authority, steering committee and executive committee of a State Authority, monitoring group, if he—

(i) has been convicted and sentenced to imprisonment for an offence which, in the opinion of the Central Government, involves moral turpitude; or

(ii) is an undischarged insolvent; or

(iii) is of unsound mind and stands so declared by the competent court; or

(iv) has been removed or dismissed from the service of the Government or organisation or undertaking owned by the Government; or

(v) has, in the opinion of the Central Government, such financial or other interest in the National Authority or the concerned State Authority as is likely to affect the duties discharged by him of his function as a member.

CHAPTER IV

POWERS AND FUNCTIONS OF NATIONAL AUTHORITY AND STATE AUTHORITIES

14. Powers and functions of National Authority.—(1) The governing body of the National Authority shall—

(i) formulate broad policy framework for functioning of the National Authority and State Authorities as may be notified by the Central Government;

(ii) approve the annual report and audited accounts of the National Authority;

(iii) review reports on decision taken by executive committee and monitoring group of the National Authority including investment decisions;

- (iv) approve the proposal for the schemes specified in sub-clause (iii) of clause (b) of section 5;
- (v) approve the proposals for creation of posts in the National Authority, subject to prior permission of the Central Government;
- (vi) provide a mechanism to State Authorities to resolve issues of inter-State or Centre-State character;
- (vii) formulate such procedures for delegation of financial and administrative powers to the National Authority and State Authorities as may be notified by the Central Government.

(2) The governing body of the National Authority shall meet at least once in six months.

(3) The governing body and executive committee of the National Authority and the monitoring group of the National Authority shall meet at such places and shall observe such rules and procedures in regard to transaction of business at its meeting, including the quorum thereat, as may be prescribed.

15. Powers and functions of executive committee of National Authority.—(1) The executive committee of the National Authority shall—

- (i) approve within three months from the date of receipt, annual plan of operations of State Authorities, with such amendments as it deems fit and proper;
- (ii) formulate proposals for schemes specified in sub-clause (iii) of clause (b) of section 5;
- (iii) execute schemes specified in sub-clause (iii) of clause (b) of section 5;
- (iv) deploy staff on contract or on deputation basis to the posts in the National Authority;
- (v) formulate proposals for creation of posts in the National Authority at the level of Assistant Inspector General of Forests and other officers;
- (vi) invest surplus amounts available in the National Fund;
- (vii) execute other day-to-day work in respect of receipt of amounts in the National Fund;
- (viii) maintain books of account and such other records;
- (ix) facilitate scientific, technological and other assistance that may be required by State Authorities;
- (x) present its decisions to the governing body of the National Authority for information;
- (xi) maintain and update a public information system on the National Authority and present all information on its transaction in the public domain;
- (xii) undertake any other work as may be assigned by the governing body of the National Authority or the Central Government, from time to time.

(2) The executive committee of the National Authority shall meet at least once in every three months.

16. Functions of monitoring group.—(1) The monitoring group shall—

- (i) evolve independent system for concurrent monitoring and evaluation of the works implemented in the States and Union territories utilising the funds released by the National Authority and State Authorities to ensure effective and proper utilisation of funds by utilising the services of the regional offices, of the Central Government in the Ministry of Environment, Forest and Climate Change:

Provided that the Central Government may also undertake third party monitoring and evaluation of the works implemented in the States and Union territories utilising the funds released by the National Authority and State Authorities through individual and institutional experts including remote sensing agencies;

- (ii) inspect and undertake financial audit of works executed by utilising the funds released by the National Authority and State Authorities in the State and Union territories;

(iii) devise measures for transparency and accountability.

(2) The monitoring group shall meet at least once in three months.

17. Powers and functions of State Authority.—(1) The governing body of a State Authority shall—

(i) lay down the broad policy framework for the functioning of such State Authority within the overall framework notified by the Central Government on the recommendations of the National Authority;

(ii) review the working of the State Authority from time to time.

(2) The governing body of a State Authority shall meet at least once in six months.

(3) The governing body, steering committee and executive committee of a State Authority shall meet at such places and shall observe such rules and procedures in regards to transaction of business at its meeting, including the quorum thereat, as may be prescribed.

18. Powers and functions of steering committee of State Authority.—(1) The steering committee of a State Authority shall—

(i) scrutinise and approve with such amendments as it may deems fit and proper the annual plan of operations prepared by the executive committee of such State Authority and send the same to the executive committee of the National Authority for final approval;

(ii) monitor the progress of the utilisation of funds released from the State Fund;

(iii) review reports on decision taken by executive committee including investment decisions;

(iv) approve, subject to prior concurrence of the State Government, proposals formulated by the executive committee for creation of posts in the State Authority;

(v) approve annual report of the State Authority and send the same to the State Government to lay it, each year, in each House of the State Legislature;

(vi) ensure inter-departmental coordination.

(2) The steering committee of a State Authority shall meet at least once in every three months.

19. Functions and powers of executive committee of State Authority.—(1) The executive committee of a State Authority shall—

(i) formulate and submit annual plan of operations to the steering committee of the State Authority for its concurrence;

(ii) undertake qualitative and quantitative supervision, monitoring and evaluation of the works being implemented from amounts available in the State Fund;

(iii) invest surplus amounts available in the State Fund of such State;

(iv) maintain books of account and other records;

(v) submit reports to the steering committee of the State Authority;

(vi) prepare annual report of the State Authority;

(vii) deploy staff on contractual basis or on deputation to the posts in the State Authority;

(viii) formulate proposals for creation of posts in the State Authority;

(ix) be responsible for delegation of financial or administrative powers;

(x) be responsible for other day-to-day working in respect of the State Authority;

(xi) maintain and update public information system on the State Authority and present all information on its transaction in the public domain;

(xii) undertake any other work as may be assigned by the governing body or steering committee of the State Authority or the State Government, from time to time.

(2) The executive committee of a State Authority shall meet at least once in every three months.

CHAPTER V

FINANCE, ACCOUNTS, AUDIT AND ANNUAL REPORT

20. Budget of National Authority.— (1) The National Authority shall prepare its budget for the next financial year, showing the estimated receipts and expenditure of the National Authority and forward the same to the Central Government, in such form and at such time in each financial year as may be prescribed.

(2) The National Authority, shall adopt financial regulation and procedures, in particular the procedure for drawing up and implementing the budget of the National Authority as may be prescribed.

21. Investment of funds by National Authority.— The National Authority may invest its funds, including any reserve fund, in the securities of the Central Government and in scheduled banks in such manner as may be prescribed:

Provided that the grants received from the Central Government shall not be invested and shall be utilised for the purposes and in the manner attached to it.

22. Accounts and audit of National Authority.—(1) The National Authority shall maintain proper accounts and other relevant records and prepare an annual statement of accounts in such form as may be prescribed in consultation with the Comptroller and Auditor-General of India.

(2) The accounts of the National Authority shall be audited by the Comptroller and Auditor-General of India at such intervals as may be specified by him and any expenditure incurred in connection with such audit shall be payable by the National Authority to the Comptroller and Auditor-General.

(3) The Comptroller and Auditor-General and any other person appointed by him in connection with the audit of the accounts of the National Authority shall have the same right and privileges and authority in connection with such audit as the Comptroller and Auditor-General generally has in connection with the audit of the Government accounts and, in particular, shall have the right to demand the production of books, accounts, connected vouchers and other documents and papers and to inspect the office of the National Authority.

(4) The accounts of the National Authority as certified by the Comptroller and Auditor-General or any other person appointed by him in this behalf together with the audit report thereon, shall be forwarded annually to the Central Government by the National Authority.

(5) The Comptroller and Auditor-General shall, within a period of six months from the date of commencement of the Act, audit the accounts of the all monies collected by the State Governments and Union territory Administrations, which has been placed under the *ad hoc* Authority and deposited in the nationalised banks and submit the report to the Central Government under this section.

(6) The Central Government shall have the power to conduct the special audit or performance audit of the National Fund and of the National Authority through the Comptroller and Auditor- General.

23. Annual report of National Authority.— (1) The National Authority shall prepare, its annual report, giving a full account of its activities during the previous financial year and forward a copy thereof to the Central Government, in such form and at such time, for each financial year, as may be prescribed.

(2) The annual report shall, *inter alia*, provide for—

(i) the summary of monitoring and evaluation of activities undertaken from amounts released from the National Fund and State Funds during the year;

(ii) the summary of specific schemes specified in sub-clause (iii) of clause (b) of section 5 executed during the year;

(iii) the amount of money received and expended.

24. Annual report and audit report of National Authority to be laid before Parliament.— The Central Government shall cause the annual report and audit report together with a memorandum of action taken on the recommendations contained therein to be laid as soon as may be after the reports are received before each House of Parliament.

25. Budget of State Authority.—(1) Each State Authority shall prepare its budget for the next financial year, showing the estimated receipts and expenditure of the State Authority and forward the same to the State Government, in such form and at such time, in each financial year, as may be prescribed.

(2) Each State Authority shall adopt financial regulation and procedures, in particular the procedure for drawing up and implementing the budget of the State Authority as may be prescribed.

26. Investment of funds by State Authority.—State Authority may invest funds available in the State Fund of such State in the securities of the Central Government and in scheduled banks in such manner as may be prescribed:

Provided that the grants received from the State Government shall not be invested and shall be utilised for the purpose and in the manner prescribed.

27. Accounts and audit of State Authority.—(1) Each State Authority shall maintain proper accounts and other relevant records and prepare an annual statement of accounts in such form as may be prescribed in consultation with the Comptroller and Auditor-General of India.

(2) The accounts of each State Authority shall be audited by the Comptroller and Auditor-General at such intervals as may be specified by him and any expenditure incurred in connection with such audit shall be payable by the State Authority to the Comptroller and Auditor-General.

(3) The Comptroller and Auditor-General and any other person appointed by him in connection with the audit of the accounts of the State Authority shall have the same right and privileges and authority in connection with such audit as the Comptroller and Auditor-General generally has in connection with the audit of the Government accounts and, in particular, shall have the right to demand the production of books, accounts, connected vouchers, other documents and papers and to inspect the office of the State Authority.

(4) The Accounts of the State Authority as certified by the Comptroller and Auditor-General or any other person appointed by him in this behalf together with the audit report thereon, shall be forwarded annually to the State Government by the State Authority.

(5) The Comptroller and Auditor-General shall, within a period of six months from the date of commencement of the Act, audit the accounts of all the monies which have been transferred by the *ad hoc* Authority to the State Compensatory Afforestation Fund Management and Planning Authorities constituted in the States in compliance of guidelines dated the 2nd July, 2009 and submit the report to the State Government under this section.

(6) The Central Government and the State Government concerned shall have the power to conduct the special audit or performance audit of the State Fund and of the State Authority through the Comptroller and Auditor-General.

28. Annual report of State Authority.—(1) Each State Authority shall prepare its annual report, giving a full account of its activities during the previous financial year and forward a copy thereof to the concerned State Government, in such form and at such time, for each financial year, as may be prescribed.

(2) The annual report of a State Authority shall, *inter alia*, provide for—

(i) the number and location of each reforestation, afforestation and conservation activity subject to the requirement of this section;

(ii) the amount and location of lands in hectares, cleared, conserved and planted in connection with the activity; and

(iii) the amount of afforestation money collected and expended.

29. Annual report and audit report of State Authority to be laid before State Legislature.—The State Government shall cause the annual report and the audit report together with a memorandum of action taken on the recommendations contained therein to be laid as soon as may be after the reports are received before each House of the State Legislature:

Provided that in case of a Union territory having no legislature, the Central Government shall cause the annual report and the audit report together with a memorandum of action taken on the recommendations contained therein to be laid as soon as may be after the reports are received before each House of the Parliament.

CHAPTER VI

MISCELLANEOUS

30. Power to make rules.—(1) The Central Government in consultation with the State Governments may, after previous publication, make rules for carrying out the purposes of this Act.

(2) In particular, and without prejudice to the generality of the foregoing power, such rules may provide for all or any of the following matters, namely:—

- (a) the management of the National Fund by the National Authority under sub-section (2) of section 3;
- (b) the management of State Fund by the State Authorities under sub-section (2) of section 4;
- (c) the manner of using the money for purposes specified in clause (b) of section 6;
- (d) the manner of utilising the money for purposes specified in clause (c) of section 6;
- (e) the manner of payment of the salary and allowances payable to the officers and other employees of the State Authority under clause (f) of section 6;
- (f) the accounting procedure regulating the manner of crediting the monies to the National Fund and State Funds under section 7;
- (g) the terms of office and other conditions of the service of the members of the National Authority, executive committee, monitoring group, Chief Executive Officer and officials appointed by the National Authority, members of State Authority, steering committee and executive committee of each State Authority under section 12;
- (h) the rules and procedures in respect of the transaction of business of the governing body and executive committee of the National Authority and monitoring group of the National Authority and the place of meeting, including the quorum under sub-section (3) of section 14;
- (i) the rules and procedures in respect of the transaction of business of the governing body, steering committee and executive committee of a State Authority and the place of meeting, including the quorum under sub-section (3) of section 17;
- (j) the preparation of the budget of the National Authority under sub-section (1) of section 20;
- (k) the financial regulation and procedures, in particular the procedure for drawing up and implementing the budget of the National Authority under sub-section (2) of section 20;
- (l) the investment of the funds of the National Authority under section 21;
- (m) the maintenance of the accounts and other relevant records and preparation of an annual statement of accounts by the National Authority under sub-section (1) of section 22;
- (n) the preparation of the annual report by the National Authority under sub-section (1) of section 23;
- (o) the preparation of the budget of the State Authority under sub-section (1) of section 25;
- (p) the financial regulation and procedures, in particular the procedure for drawing up and implementing the budget of the State Authorities under sub-section (2) of section 25;
- (q) the investment of funds by the State Authorities under section 26;
- (r) the maintenance of the accounts and other relevant records and preparation of annual statement of accounts by each State Authority under sub-section (1) of section 27;

(s) the preparation of the annual report by the State Authorities under sub-section (1) of section 28; and

(t) any other matter which is required to be, or may be prescribed.

(3) Every rule made under this Act shall be laid, as soon as may be after it is made, before each House of Parliament, while it is in session, for a total period of thirty days which may be comprised in one session or in two or more successive sessions, and if, before the expiry of the session immediately following the session or the successive sessions aforesaid, both Houses agree in making any modification in the rule or both Houses agree that the rule should not be made, the rule shall, thereafter have effect only in such modified form or be of no effect, as the case may be; so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that rule.

31. Transfer of assets, liabilities, etc.— (1) On and from the date of constitution of the National Authority—

(i) all the assets and liabilities of the *ad hoc* Authority shall stand transferred to, and vested in, the National Authority;

Explanation.—The assets of the *ad hoc* Authority shall be deemed to include all rights and powers, all properties, whether movable or immovable, including in particular, cash balances, deposits, and all other interests and rights in, or arising of, such properties as may be in the possession of the *ad hoc* Authority and all books of account and other documents relating to the same, and liabilities shall include all debts, liabilities and obligations of whatever kind;

(ii) without prejudice to the provisions of clause (i), all debts, obligations and liabilities incurred, all contracts entered into and all matters and things engaged to be done by, with or for the *ad hoc* Authority immediately before constitution of the National Authority, for or in connection with the purpose of the *ad hoc* Authority, shall be deemed to have been incurred, entered into or engaged to be done by, with or for, the National Authority;

(iii) all sums of money due to the *ad hoc* Authority immediately before constitution of the National Authority shall be due to the National Authority;

(iv) all suits and legal proceedings instituted or which could have been instituted by or against the *ad hoc* Authority may be continued or may be instituted by or against the National Compensatory Authority.

(2) On and from the date of constitution of a State Authority—

(i) all the assets and liabilities of the State Compensatory Afforestation Fund Management and Planning Authority constituted in such State in compliance of guidelines dated the 2nd July, 2009 shall stand transferred to, and vested in, the State Authority.

Explanation.—The assets of the State Compensatory Afforestation Fund Management and Planning Authority constituted in such State in compliance of guidelines dated the 2nd July, 2009 shall be deemed to include all rights and powers, all properties, whether movable or immovable, including in particular, cash balances, deposits, and all other interests and rights in, or arising of, such properties as may be in the possession of the State Compensatory Afforestation Fund Management and Planning Authority constituted in such State in compliance of guidelines dated the 2nd July, 2009 and all books of account and other documents relating to the same, and liabilities shall include all debts, liabilities and obligations of whatever kind;

(ii) without prejudice to the provisions of clause (i), all debts, obligations and liabilities incurred, all contracts entered into and all matters and things engaged to be done by, with or for the State Compensatory Afforestation Fund Management and Planning Authority constituted in such State in compliance of guidelines dated the 2nd July, 2009 before this Act came into force, for or in connection with the purpose of the State Compensatory Afforestation Fund Management and Planning Authority constituted in such State in compliance of guidelines dated the 2nd July, 2009, shall be deemed to have been incurred, entered into or engaged to be done by, with or for, the State Authority;

(iii) all sums of money due to the State Compensatory Afforestation Fund Management and Planning Authority constituted in such State in compliance of guidelines dated the 2nd July, 2009 before constitution of the State Authority shall be due to the State Authority;

(iv) all suits and legal proceedings instituted or which could have been instituted by or against the State Compensatory Afforestation Fund Management and Planning Authority constituted in such State in compliance of guidelines dated the 2nd July, 2009 may be continued or may be instituted by or against the State Authority.

32. Validation.—(1) Notwithstanding anything contained in any judgment, decree or order of any court, the amount credited to the National Fund shall be deemed to be credited and shall always be deemed to have been credited to the public account of India within the meaning of articles 266 and 283 of the Constitution, and it shall be regulated by law made by Parliament in this behalf.

(2) Notwithstanding anything contained in any judgment or order of any court, all the monies collected by the State Governments and the Union territory Administrations which has been placed under the *ad hoc* Authority and deposited in the nationalised banks and the interest accrued thereon shall stand transferred to the National Fund.

(3) Notwithstanding anything contained in any judgment or any order of any court, the amount credited to the State Fund shall be deemed to be credited and shall always be deemed to have been credited to the public account of the State within the meaning of articles 266 and 283 of the Constitution, and it shall be regulated by law made by the State Legislature in this behalf.

33. Power of Central Government to issue directions.—(1) The Central Government may, if it finds necessary or expedient in the public interest, issue such policy directives to the National Authority or any State Authority, in writing and such policy directives shall be binding upon the National Authority or the State Authority, as the case may be.

(2) The decision of the Central Government, whether a question is one of policy or not, shall be final.