

CHAPTER-VII

PRINCIPLES AND PROCESS OF AUDIT OF THE ACCOUNTS OF GENERAL AND SOCIAL SECTOR–I OFFICES

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CHAPTER-VII
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OF GENERAL AND SOCIAL SECTOR OFFICES

7.1 GENERAL INSTRUCTION:

7.1.1 The general principles and method of audit:

The general principles and method of audit of the initial accounts of General and Social Sector offices are set forth in the following paragraphs. They are explanatory of or, supplementary to, the rules and instructions contained in the CAG's MSO (Audit) and other appropriate codes issued by the CAG of India. It must be clearly understood that these instructions represent the minimum that is expected of an intelligent auditor and should never be construed as limiting the auditor's duties.

7.1.2 Paper clippings:

Field parties in course of verifying the records should take into consideration the paper clippings as source of information for detailed investigation and not merely for verification of facts.

(B.O. OA/IC-I/2000-2001/21 dt 28.03.2001)

7.1.3 Examination of Accounts:

a) Immediately on taking up of an audit all accounts registers and records i.e. the assessments and collection of receipts, stores, cash, measurement book, muster rolls, vouchers etc., for the entire period covered by audit should be generally inspected and examined with a view to seeing that (1) they are written up to date, complete in all respects and susceptible to audit, (2) they are maintained and checked in accordance with prescribed rules and (3) the writings do not indicate any attempt to tamper with the records or to evade the requirements of rules. The recorded transactions should be surveyed intelligently and if necessary, doubtful and abnormal items examined closely. The general examination should be conducted by the supervising officer or the AAO/Supervisor. Where subsidiary registers of cash and stores accounts are kept, it should be verified that they are properly maintained and the totals and balances are correctly taken over to the main registers.

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

- i) the registers under scrutiny are maintained in the prescribed form;
- ii) the registers are page numbered and a certificate of page counting is recorded by a responsible officer on the first page;
- iii) all the columns provided therein are correctly filled in;
- iv) the transactions recorded therein are entered in chronological order;
- v) there is no evidence of tampering with the entries or pages of the registers;
- vi) there are no overwriting, use of erasures etc. and all corrections are made by drawing a line through the erroneous entries and inserting fresh entries under proper attestation by the competent authority;
- vii) each register is kept up to date and contains records showing review made by the competent authority at regular intervals as provided in the rules;
- viii) the recorded transactions should be scrutinized intelligently and abnormal items should be examined closely.

7.2 AUDIT OF NON-TAX-RECEIPTS:

7.2.1 Assessment and Accountal of Receipts:

Non-tax receipts (Departmental receipts) of the Government are generally in the nature of receipts for services rendered or supplies made, issue of licence fees, bed rents and other charges in Hospitals, seat rents in Government Hostels and receipts of miscellaneous nature like, sale proceeds of condemned articles, dead stock, sales proceeds of seeds, water rates realized etc., While auditing such receipts emphasis should be given to proper assessment of dues rather than mere accountal of such receipts. It should, inter-alia, be seen that:

1. the amount collected as services fees, licence fees, etc. are in accordance with the provision of acts and rules framed there under;
2. the procedure prescribed by the government or any other authority specified in the act has been followed ;
3. adequate regulations and procedures have been framed to secure an effective check on the determination of revenue realizable for the services rendered etc., at the rates, if any, prescribed and their collection and the proper allocation of revenue so collected and to see that such regulations and procedures are observed;
4. where any financial rule or orders prescribes the scales and /or periodicity of recoveries, there is no deviation, without proper authority, from such scale or periodicity :
5. a register for recording of all recurring and non-recurring demands is kept in accordance with rules and the collections are watched against those;
6. sums due are regularly recovered and checked against demands ;

(hqs. circular no.3-letter no.1320-rev-a/8-78 dated 5.3.73).

7. arrangements for collection are satisfactory and there are no outstanding requiring special attention :
8. payees are invariably granted machine numbered receipt in prescribed form, a proper stock of such receipts is maintained and periodically verified and a certificate of count of receipt forms is recorded in the book over the dated signature of the government officer in charge of the book before a receipt book is issued from stock and brought to use;
9. moneys received are brought to account immediately and ordinarily, there is no undue delay in their remittances to the treasury ;
10. the return of the counter foils of used receipt books is properly watched and the counterfoils are recorded after check to ensure that there was no delay or omission in bringing the receipts to accounts ;
11. there is a system of internal check and the responsibility of conducting the internal checks is entrusted to some responsible official and there is recorded evidence that he exercises these checks;
12. adequate control and monitoring mechanism have been devised to prevent loss or leakage of revenue;
13. the receipts are not directly appropriated for departmental expenditure, except to the extent provided in the rules;

14. the cases pending in courts of law or before appellate authorities have been pursued adequately and appeals wherever justified or considered necessary, have been filed within the period of limitation;
15. any remissions granted are duly supported with the sanctions of the competent authority & there are adequate machinery for detection of cases of evasion;
16. the amount realized on a receipt has been clearly written both in words and figures. any indistinct and doubtful entry, should be viewed with suspicion and further proof regarding the amount actually realized should be demanded from the office inspected;
17. the amount realized as per receipt has been correctly noted in the demand register,
18. the receipt has been duly signed by the head of the office or any other officer sub-ordinate to him, whether gazetted or non-gazetted who has been authorized by the head of the office to sign the receipts on his behalf; and
19. the estimates of revenue have been realized at the end of the financial year.

[Paragraph 2.3.13 of MSO (Audit)]

7.2.2 Demand Register:

To watch over the realization of the non-tax revenue the Demand Register maintained by the auditee unit should be examined to see whether the mimes of all persons from whom taxes, fees or other revenue are due have been entered in the Demand Register. The register should, therefore, be checked with any other register, roll or other records maintained showing their names to ensure correctness of entries made therein. It should further be seen that the closing balances of the previous demands have been correctly brought forward.

7.3 AUDIT OF CASH/CASH BOOK: (CASH CONTROL SYSTEM)

Each and every Drawing and Disbursing Officer (DDO) is required to maintain a Cash Book (in WB TR form No.4 or such other forms prescribed for offices in particular), to record all monetary transaction of the auditee organisation as soon as it occurs. In course of audit, following guiding principles should be observed to ensure that the Head of Office/DDO have exercised effective control in cash management of the Organization.

1. Only one Cash Book for each office is maintained in a bound register with Pages machine numbered and a certificate of counting of the Pages recorded under the signature of the Head of the Office/DDO, before bringing the same in use.
2. The Cash Book is neatly maintained in good hand writing.
3. There is no use of eraser/erezex (white fluid) or overwriting of an entry made in the cash book. If a mistake is discovered, it is corrected by drawing the pen through the incorrect entry and inserting the correct one in red ink between the lines. The Head of the Office/DDO should invariably put dated initial on each and every correction made in the Cash Book.
4. All monetary transactions i.e. receipts and payments are correctly recorded in the Cash Book in the order of occurrence and on the dates they actually take place and the entries of the Cash Book are attested by the Head of the Office/DDO in token of check.

5. The Cash Book is closed and balanced each day and completely checked. The head of the office verifies the totalling of the cash book or gets this done by some responsible subordinate other than the writer of the Cash Book and initials it in token of verification.
6. The balance is written in figure and words. The DDO may write the balance in his own hand writing in words.
7. Bill-wise analysis of the balance with dates of encashment shall be recorded in the Cash Book at the end of each day/month and agreed with the closing cash balance.
8. Full details of the money held in cash is also worked out and recorded in the Cash Book whenever the cash book has been closed. At the end of each month, the cash in chest is to be physically verified by the Head of Office/DDO and a certificate in his own handwriting is to be recorded over his dated signatures in the Cash Book about the amount of cash actually found at the time verification and whether the same tallies with the balances appearing in the Cash Book. Moneys kept in deposit with banks, Personal Ledger Accounts (PL Account), Local Fund Account (LF Account) or otherwise are not shown as payments. The analysis of cash balance is to show separately as cash in hand, cash with bank, cash in P.L. Account, Deposit Account, Bank Account, in cheque, etc.
9. A number of Subsidiary Cash Book may be maintained in an office to identify the transactions distinctly from others. A subsidiary Cash Book to record the transaction in respect of Personal Ledger Account or Account opened with a bank may be maintained. Permanent advance may be accounted for in a separate subsidiary Cash Book. But in all cases, the Main Cash Book shall show the summary of the transactions of the Subsidiary Cash Book(s) either in a memorandum column or in the body of the Cash Book. The daily closing balance of the Main Cash book should reflect the balances of the Subsidiary Cash Book(s).
10. Adequate security as envisaged in Rule 22 of W.B.F.R Vol-I in respect of the persons who are entrusted with the custody of cash and stores has been obtained and accepted by competent authority and relevant documents kept in the safe custody of the department.
11. There is no tendency to keep unduly large cash balance in hand and that cash in hands of cashiers, etc. does not exceed the amount of security taken from them.
12. A complete account of the permanent advance held, if any, is available in the cash book, full details of the cash in hand and un-recouped vouchers are being worked out and clearly recorded whenever the Cash Book has been closed.
13. The expenditure shown as met from the permanent advance has not been incurred in excess of the amount of permanent advance sanctioned, by spending regularly from departmental receipts or other un-disbursed balances or amounts drawn from the Treasury on different specific purposes.
14. No item of un-disbursed pay and allowances is held in hand for more than three months.
15. The permanent advance is fully recouped when the Cash Book is closed at the end of the financial year.
16. The arrangements for obtaining cash from treasuries and of realization from other sources and for custody, payments and accounting thereof are in conformity with the rules.

17. No money required for immediate disbursement is drawn from the treasury in anticipation of demands or to prevent lapse of budget grants or that charges incurred in the year have not been met from the budget allotment of the next year.
18. Public money in the custody of the department is kept in strong embedded treasure chests and secured by two locks of different patterns. In the absence of any precise orders from Governments the officer in charge of the chest makes such arrangement for the custody of the key and proper disbursement of all money as he considers fit. Duplicate keys of all locks and original key of one lock in use are kept apart from the original key of the other lock and in a different person's custody, when practicable. The chest is never opened without both custodians being present in cases where the keys of the two locks are kept in the custody to different persons. Whenever a cashier is attached to an office, the key of one of the locks of the treasure chest remains in his possession.
19. Advance paid for departmental purposes do not remain unadjusted for unduly long periods for want of accounts supported by vouchers or refund of unspent balance.
20. Private cash is not mixed up with the regular cash balance of Government.
21. Accounts of imprest and temporary advances, if any, are regularly closed and rendered punctually every month and they are properly examined by the recouping Officer, before recoupment.
22. Moneys received from another DDO by endorsement of bills in cash or otherwise to make payments on his behalf for specific purpose or purposes are disbursed without undue delay in accordance with rules or orders and the adjustment vouchers along with unspent amount, if any are sent to the DDO without undue delay.
23. Apart from checking of the totals of the months as per quantum fix by the CAG, it should include checking of the opening balance for proper carry forward from the closing balance of the previous month and that of the closing balance of the months selected for scrutiny to the next month.

[Govt. of W.B. Fin. Dep. Memo No. 12155-F dt 04.12.1990 and HQs D.O. No.770-TA-1/117-4 dated 7.9.74]

7.3 (A) Following points should be carefully verified while checking Cash Book of Corporation/Company:-

- (i) It should be seen that instructions issued by the Corporation/Company for writing Cash Book are strictly followed.
- (ii) That the cash held by sub-ordinate officers is checked at least once in two months by the Controlling Officer.
- (iii) All entries regarding receipts of cash as shown in the counterfoils of receipt Books as well as cash drawn from banks duly certified under proper dates and with correct particulars.
- (iv) That there is no tendency to keep unduly large balance in hand.
- (v) That the chest has been adequately insured so that actual holding of cash should not exceed the limit covered by insurance.
- (vi) Whether there was any withdrawal from bank for payment despite having adequate balance in cash.
- (vii) Withdrawal of money through "self cheques" should be discouraged as far as possible.

Cheque Books

Cheque Books required by disbursing officers are obtained by them from the respective banks. It should be scrutinized:

- (i) That the Cheque Books on receipt are carefully examined by the disbursing officer who should count the number of cheques contained in each and record a certificate of count on the fly leaf.
 - (ii) That the Cheques Books must be kept under lock and key in the personal custody of the disbursing officer. Counter foils of the used cheque books should be carefully preserved.
 - (iii) That the disbursing officer draws cheques for the minimum of cash actually required to meet current disbursement only.
 - (iv) That in case of expiry of the currency of Cheque due to non-presentation within three months after the month of issue, it may be received back by the drawer who should then destroy it and draw fresh cheques in lieu of it. The fact of destruction and the number and date of new cheque and old cheque are required to be recorded in the counter foils of old and new cheques and that necessary entries are recorded in the Cash Books.
 - (v) That on receipt of a cheque being lost the drawing officer shall obtain a certificate from the bank to the effect that the relevant cheque has not been paid and will not be paid in future on presentation.
 - (vi) That when a cheque is required to be cancelled the fact of cancellation should be recorded in the counter foil and the cheque, if in the possession of drawer should be destroyed. If the cheque is not in the possession of drawer, he should promptly request the bank to stop payment of the cheque and on receipt of confirmation from the bank written back entry is to be passed in the books of accounts. A cheque remaining unpaid for six months after the month of issue should be cancelled and written back.
 - (vii) That a register of cheque book is maintained in the form prescribed by the Corporation/Company.
- Counter foils of paid cheque: The monetary limits prescribed by the Corporation/Company from time to time for signing of cheques on behalf of the Corporation/Company are duly observed and initials of concerned officer/officers are recorded in the counter foils.

7.3.1 Physical verification of cash in presence of audit

(a) Physical verification of Cash of the auditee organization is to be conducted by the DDO/Head of the Office, in presence of audit on the first day of the inspection and a report indicating clearly the result of such verification along with the denomination-wise details of cash found on verification, details of cheque(s) including stale/time barred cheque(s), Page no. of the cash book where the figures appeared, discrepancies, if any between the book balance and physical balance should be prepared and submitted to the GSS-I Headquarters section along with IR. A detailed list of the vouchers/sub-vouchers if any, found in lieu of cash indicating the date, purpose and amount of cash-vouchers, authority under which the expenditure was incurred, should also be prepared and submitted along with the Report of Physical verification of cash as per the format given in **Annexure 'J'**.

(b) Following to be looked into by audit during Physical verification of Cash by DDO on the 1st day of audit:

1. Whenever cash is verified, it should be seen that the Cash Book is written up to date and all entries are to the date of verification.
2. If any voucher/sub-voucher were considered as part and parcel of the Cash Balance the details of vouchers as well as the Xerox copies of all the vouchers and the authority by whom the pay order was given should be collected and commented suitably in the IR.
3. Refusal to conduct physical verification of cash by the DDO/Head of Office, in presence of audit Team should immediately be brought to notice of the Group Officer.
4. It should also be seen in audit that the Government safe contains nothing but Government money and Government Valuables.

(BO No.0A/IC-I/97-98/14 dt. 10.3.98, Government of West Bengal Finance Department order no. 4889-F dated 30.5.1997)

7.3.2 Detailed scrutiny of the Receipt side of the Cash Book

Detailed scrutiny of the Receipt side of the Cash Book should be conducted in the manner stated below

1. Moneys received from the treasury as shown in the Bill Register should be entered into the Cash Book;
2. Whether there has been any temporary misappropriation. With a view to achieving this, the paid vouchers should be checked with the Bill register to see that they have been properly entered in the Register and that the dates of encashment shown in the Register agree with the actual dates of encashment of the bills. While verifying the Bill Register with the Cash Book, it should be specially seen that the dates of encashment shown in the Bill Register agree with the dates of receipts shown in the Cash book;
3. In cases where the impressions of the 'Paid' stamps on the vouchers are not distinct enough to indicate the exact date of payments, the actual date should be found out by a reference to the relevant schedule of payments. In such cases if the schedule of payments and vouchers do not reach in time or have not been received at all or have been received in part, a list of paid vouchers under all heads of accounts drawn by local office should be prepared from the records of Treasury/Sub-Treasury irrespective of the distance between Treasury/Sub-Treasury and local office and checked with Bill Register and Cash Book;
4. If any discrepancy is noticed in course of verifying the drawals made by local office with reference to concerned Treasury/Sub-Treasury records, as indicated in **paragraph 4.27** of this manual a statement of discrepancies so noticed is to be prepared in triplicate. One copy should be forwarded to the Treasury/ Sub-Treasury Officer concerned with the request for verification and to return the list to the headquarters of this office. The remaining two copies may be sent to Headquarters along with IR for taking up the matter with the A.G (A&E) and for verification and immediate return;

5. In cases where it is found that the Bill Register has not been maintained or maintained perfunctorily the paid vouchers or drawals listed from the records of the Treasury/Sub-Treasury should be traced directly in the Cash Book without the intermediary of the Bill Register;
6. Cash received from different persons and agencies through receipts should be traced in the Cash Book from the counterfoils of such receipts;
7. The amount appearing in the Register of valuables should be traced in the Cash Book on the dates of their encashment;
8. The amounts received from other DDOs by endorsement of bills, in Cash or otherwise should be traced in the Cash Book. It should also be seen that proper system of checking exists in the local office to ensure that all the sums received have been brought to accounts and proper accounts have been rendered to the relevant DDOs without undue delay;
9. The moneys received through Postal money orders are brought to accounts immediately and that proper system exists to ensure that all the sums received through money orders have been entered in the Cash Book;
10. The payments made through Postal money orders or payments made by cheques, if not received by the payees and returned are immediately brought to account and that no money is left out of account. The system by which the DDO is satisfied that all such amounts are brought to account should also be checked to ensure its adequacy.
11. The unspent amount returned by the Government Servant out of advance made to him for departmental purposes is taken in Cash Book on the date of its receipt.

7.3.3 Audit of Receipts:

1. The receipt side of the Cash Book should be checked with counterfoils of receipts, licenses etc. and the credits of remittances to the treasury entered on the payment side should be verified direct from the books of the treasury.

(HQs. confidential letter No.986-Admn I/425-52 dated 23.7.53)

2. When the number of payments made in a month is more than **ten** and /or the total amount involved in such payments exceeds Rs.1,000.00 the Officer in charge of cash should, as soon as possible, after the end of the month, obtain from the treasury a consolidated statement of receipts for all remittances made during the month which should be compared with the postings of the Cash Book.
3. The field party should make a list of remittances to Treasury/Sub-Treasury from the records of the office inspected and check the same with the records of the Treasury/Sub-Treasury concerned irrespective of the distance of the Treasury/Sub-Treasury from the office inspected.

Note 1: The quantum of checking of receipts as laid down by the CAG may be increased suitably where the standard of departmental control appears to be poor or the prescribed checks disclose any serious lapse, fraud or embezzlement.

(HQs. letter No. 4120 TA-I/656-68 dated 10.10.68)

Note 2: The instructions referred to in Note 1 above are intended to be applied in the local audit of Departmental offices where there is no internal check organization set up for the purpose. In the

case of an office where an effective internal check organization is functioning the checks may be confined to the quantum fixed by the CAG. (HQs. Letter No. 785-TA-I/656-68 dated 29.4.70)

4. Any return of receipts submitted by the head of the office to higher authorities should be checked with the Cash book or other subsidiary receipt registers.

7.3.4 Receipt Books (Duplicate Carbon Receipt/Money Receipt)

The stock account of “Duplicate Carbon Receipt” (DCR) or “Counter-foil Money Receipt” books should be examined to see that:

1. the stock entry of the number of blank Receipt Books received agrees with the indent or requisition sent to the Press, Forms Department, Treasury or other authorities through the Indent Register numbered serially and kept under lock and key in the personal custody of the Officer authorized to sign the receipt on behalf of the Government;
2. only one book is issued to an individual officer on return of the previous used book and the issues are in chronological order;
3. the issue of a Receipt book and the return of a used book are duly acknowledged, and recorded in the stock register;
4. for cancelled receipts, both the original and the duplicate are preserved;
5. counterfoils of used receipt books are kept in the personal custody of the Government Officer in charge of the books, and
6. the closing balance in the stock account is verified by the head of the office by actually counting the number of Receipt Books in hand at the end of each month and a certificate to that effect is recorded in the stock account.

7.3.5 Bill Register

The Bill Register is to be checked to see that:

1. it is maintained in the prescribed form and all the columns provided therein are properly filed in ;
2. all bills drawn are entered in the bill register date wise with the entries duly attested by the drawing officer in each case under his dated signature;
3. in case of bills endorsed to parties, that they are entered in the register and a note to this effect is made therein;
4. token number /voucher numbers of treasury and dates are noted in all cases;
5. in case of cancelled bills, a note to that effect is made in the register duly attested by the drawing officer under his dated signature. (Both the office copy and original copy of the cancelled bill should be checked in audit).
6. all bills shown as cashed are properly accounted for in the cash book as well as in other subsidiary registers :

7. bills are presented to the treasury through the Bill Transit Register and dated acknowledgement obtained against each bill; and
8. the register is reviewed monthly by the Supervising Officer in charge of the auditee unit and the result of the review recorded therein.

7.3.6 Register of valuables

In the case of Offices/Departments which receive a sufficient number of valuables such as bank drafts, cheques other than those issued by the Treasury in payment of bills presented at the treasury, postal orders, etc. it should be seen that all these valuables are noted in a valuable register maintained for the purpose. The register should be examined see that

1. each valuable received is entered in register on the day of its actual receipt and signed by the officer in charge as a token of check;
2. full particulars of each valuable i.e. nature of valuable, its number and date, the name of person and office from whom received, the name of the bankers, if any, on whom draft drawn, the amount, the purpose of deposit and the reference to the authority under which each valuable has been received are invariably recorded in this register;
3. proper and complete reference to remittance is shown against each valuable ; and
4. there has been no undue delay in remittances of valuables to Treasury for credit to Government Account.

7.3.7 Accounting of non-Government Money

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

It should, therefore, be seen in audit that the accounts of non-Government money have been maintained in a set of books separate from the Government Accounts and that the Government money has not been mixed with but kept separate from non-government money.

7.3.8 Scrutiny of the payment side of the Cash Book

In addition to the principle of audit of expenditure as envisaged in the **paragraph 7.4, 7.5, 7.6, 7.7** etc. of this manual (Audit of Expenditure, Audit of Establishment Expenditure, Audit of Contingent Expenditure, Audit of Grants-in-Aid Expenditure etc.) of this Manual, the following should also be taken into consideration for conducting detailed scrutiny of the payment side of the Cash Book:

1. Trace the disbursements in respect of establishment bills, travelling allowance bills, G.P. Fund bills, pension and gratuity payment bills and other payments made to Government servant in the cash book on which they have been shown as actually made.
2. Trace the remittances made as recorded in the cashbook from the dates shown by the banks or treasury on the challans.
3. Check the payments relating to contingent charges with the dates of disbursements recorded in the voucher and contingent register.

4. Check the advances made to Government servants for departmental purposes from the dates of disbursements shown in the register maintained for the purpose and also from the acquaintance of the Government servant.
5. Cash memoranda and value payable covers
 - (a) Cash memoranda will not be regarded as sub-voucher in audit unless they contain an acknowledgement of the receipt of money from the persons named therein with Revenue Stamp where necessary.
 - (b) Value payable covers may be accepted in audit as a voucher in lieu of receipts from actual payees for amount paid on account of articles received through the post office per value payable post. The fact of payment should, however, be supported by a bill or invoice of the payee (firm sending the articles) and payment endorsed on the covers by the disbursing officer.

7.3.9 Scrutiny of Treasury Challans

Treasury challans should be examined to see:

1. that they are presented to the Treasury in the prescribed form and are prepared in accordance with instructions contained in T.R. 3.06 of the W.B.T.R. indicating full particulars of remittances ;
2. that the authorized official of the treasury or the bank has given a legible receipt if the amount received over his official stamp and that it tallies with the amount both in words and figures for which the challan was prepared. It should also be seen that the Treasury Challans have been signed in full as required under Treasury rules;
3. that the challan by its appearance does not suggest any tampering in the entry of the amount deposited and that due precautions are taken in writing the amount both in words and figures to exclude the possibility of a fraudulent interpolation; and
4. that wherever practicable the signatures of the bank or treasury official signing the receipt on the challans should be compared with those on other challans to see that those are similar and in case of any doubt the genuineness thereof got confirmed from the bank or treasury.

7.3.10 Accounting of Permanent Advances

The accounts of permanent advances should be examined to see that

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

- v) the permanent advance is not utilized for purposes other than those mentioned in financial rules;
- vi) all bills shown as cashed are promptly accounted for in the cash book as well as other subsidiary registers;
- vii) all cashed bills and recoupment of permanent advances bear voucher numbers and dates;
- viii) in case of cancelled bills a note to the effect is made in the contingent register.

[HQs. letter No.4792-TA 1(OVN)/74365 dated 9.12.65]

- ix) the permanent advance is recouped whenever it is running short and in any case at the end of each month and that only petty contingent expenditure is met out of it ; and
- x) in April each year an acknowledgement of permanent advance held by each disbursing Officer is to be submitted to the AG (A& E) by the Officer concerned.

7.3.11 Rush of Expenditure

Extensive scrutiny of transaction for the month of March (without considering whether the month of March is selected for detailed check or not) of the DDO is to be conducted to ascertain the internal control of the Department/auditee unit, and possibilities of drawing fund for exhausting the budget are resorted to by the concern DDO. While conducting audit it should be seen that:

- i) the charges against the appropriation of the year as brought to account are regular;
- ii) the liabilities of one year are not brought to account in another year, and
- iii) irregular methods of dealing with assets and liabilities of the year have not been resorted to, which might either lead to or have caused actual loss or extra expenses or be otherwise not conducive of financial efficiency.
- iv) payments charged off in the accounts but not actually made to the parties concerned at the time.
- v) payments made before the work or service representing the payment is performed.

[HQ Circular No. 659-Rep(s) 112-99 dt. 8.5.2000 BO No. OA/IC/99-2000/3 dt. 28.6.2000]

7.3.12 Concrete cases of drawal of funds in advance in excess of requirements

Concrete cases of drawal of funds in excess of requirements or to prevent lapse of budget grants noticed during local audit are to be mentioned in the IR and an advance copy of the relevant paragraph is to be sent to headquarters. The following information should be collected from the records of the local office and incorporated in the Report along with the Comments of the head of the office.

- i) orders of the competent authority authorizing the expenditure and the amount sanctioned
- ii) purpose of the expenditure
- iii) number and date of the bill, amount drawn and date of encashment
- iv) amount spent up to the date of audit
- v) amount of unspent balance remaining in hand/bank/P.L. Accounts

- vi) number and dates of the orders of the competent authority authorizing to keep the unspent amount in bank or P.L. Accounts.
- vii) reasons for drawal of the amounts in advance of requirements.
- viii) the circumstances in which the amount drawn could not be expended.
- ix) the approximate date by which the expenditure is likely to be incurred.
- x) any other information in this connection which may be deemed necessary.

7.3.13 Money Order Acknowledgement

Money order acknowledgement may be accepted in audit as voucher in support of payment. The purpose of the money order must be stated on the acknowledgement portion of money order form in continuation of the entry 'Received the sum specified on the reverse on __ (date) __' thus made for the signature or thumb impression of the payee.

7.3.14 Accounts of Securities

It should be seen that:

- i) security is taken as required under the rules from persons entrusted with the custody of cash or stores (Rule 22 of WBFR Volume I and GO No. 2215(62)F dated 6.5.72) and from contractors (Rules 24 of WBFR, Volume I) for supplies and works and is in the form prescribed by the Government;
- ii) security deposits are covered by a properly executed bond or agreement setting forth the conditions under which the security is held;
- iii) a register in FR form No. 2A (Register of security deposits) is maintained in all institutions and offices to watch the receipt and disposal of security deposit including interest bearing securities;
- iv) the register and index are kept in the charge of the Head of the office or institution and certified by him each year in proper form that the register is complete and the name of every officer required to furnish security has been entered with the information, whether he has furnished security or not;
- v) when filling in the certificate the head of office of institution has initiated and dated the last entry in part I of the index;
- vi) that either securities or the acknowledgement of their authorized custodian (vide Government securities manual) are 'produced for inspection';
- vii) in the case of Post Office Saving Bank Pass Books, they are hypothecated to the head of the office for the full amount of security required and are kept in his custody;
- viii) in the case of recovery of security deposits from the subordinates in monthly instalments, the instalments are regularly recovered, correctly accounted for in Government accounts, promptly deposited in the Post Office Saving Bank and the prescribed registers are maintained correctly;
- ix) securities and security bonds are kept in safe custody according to the rules in this regard and are not released without specific orders of the competent authority.

7.3.15 Advances made to Government Servants for departmental purposes

It should be seen that:

- i) the advances made have been duly sanctioned by the competent authority;
- ii) the government servant has furnished an acknowledgement or proper acquittance for the receipt of the money;
- iii) the expenditure has been incurred by the government servant with due regard to financial rules and all documents in support have been submitted to the sanctioning authority against such advances;
- iv) the sanctioning authority has checked and accepted the vouchers and other formalities have been observed by him;
- v) the submission of detailed account supported by vouchers along with unspent balance, if any, has not been delayed unnecessarily;
- vi) the officer sanctioning the advances exercises check to see that the adjustments are received without any undue delay;
- vii) a second advance for the same purpose without obtaining the detailed accounts of the first advance has not been made;
- viii) the advance made and their adjustments are watched through a register with suitable columns provided therein and the entries of advances made and the adjustments received are initiated by the officer sanctioning the advances and receiving the adjustment vouchers;
- xi) the register is reviewed by the head of the office monthly to see that the adjustments of the advances are made regularly;

7.4 AUDIT OF EXPENDITURE

7.4.1 Audit Objectives: The primary objectives of audit of expenditure are to check whether:

- i) funds have been authorized by the competent authority prescribing the limits within which expenditure can be incurred;
- ii) the expenditure conforms to the relevant provisions of the act and the constitution and of the laws made there-under and is also in accordance with the financial rules and regulations framed by the competent authority;
- iii) either a special or general sanction of the competent authority authorizing the expenditure is available; and
- iv) all financial transactions have been correctly recorded in the accounts under examination and have been allocated to the appropriate heads of account.

This provision of the Act implies the condition that the expenditure should be incurred with due regard to the broad and general principles of financial propriety. Breach of these principles resulting in improper or waste of public money should be treated by Audit in the same manner as cases of irregular or unauthorised expenditure.

7.4.2 General Principles in audit of expenditure:

The general principles in the audit of expenditure are given below:

- i) It is to be seen that there is a proper voucher complete in all respects and in the proper form, (where the prescribed one exists), in support of every item of expenditure and bears evidence of due scrutiny of the claim;
- ii) Full detail of each item of expenditure is either recorded on the voucher itself or is available in a reliable and recognized subsidiary record;
- iii) The expenditure incurred does not contravene any financial rule and procedure laid down by the Government and all pre-requisites to the incurring of such expenditure have been complied with;
- iv) The sub-vouchers have been so defaced and mutilated after payment that they cannot be used again to prefer a second claim and that they have been stamped paid and filed and retained carefully in the office concerned as important documents;
- v) Payees receipts should be retained by the DDOs and not sent to the Accountant General. A test check may be carried out at the time of local inspection;
- vi) Bills, Sub-vouchers in respect of Detailed Contingent (DC) bills against adjustment of Abstract Contingent (AC) bills may be retained by the DDOs, and should be checked at the time of local audit.
- vii) The payment has actually been made to the proper person and properly acknowledged and recorded in connected records; the vouchers and sub-vouchers are stamped 'PAID and CANCELLED' to prevent a second claim being preferred against the Government on the same score and a doubled payment on the same account is rendered impossible;
- viii) The entries of payments are properly vouched;
- ix) All materials and stores billed for are brought on the respective stock register;
- x) The articles or materials billed for have been purchased on the tender system, as prescribed in the financial rules of the Government; and that in case of non-acceptance of the lowest tender, the reasons for such non-acceptance have been recorded in writing and contract agreements for the supply have been executed by the authorities competent to enter into contracts;
- xi) The quality and quantity of stores are certified before payment and that no payment is made to the supplies in anticipation of actual receipt of stores;
- xii) The rates paid for works done or supplies made are not in excess of the accepted and market rates and do not exceed any rates or scales fixed under the rules or orders issued by the competent authority;
- xiii) The details work up to the totals shown in the vouchers and the totals are in words as well as in figures;
- xiv) There are no erasures and that all alterations in the figures are attested by the drawing officer and the amount of the bills tally with the actual payee's receipts.
- xv) The expenditure has been incurred with due regard to financial rules and in conformity with the canons of financial propriety e.g., supplies in excess of at reasonable prices and that the expenditure has been incurred only on legitimate objects etc;

- xvi) Expenditure has been recorded under correct heads in the original accounts;
- xvii) The register of retrenchment is maintained;
- xviii) There is no case of wasteful expenditure;
- xix) The monthly expenditure statements and stores and stock accounts are dispatched in time wherever necessary;
- xx) Every voucher bears a pay order signed or initiated by the disbursing officer specifying the amounts payable both in words and in figures and that they have been duly cancelled or defaced in after payment;
- xxi) Revenue stamps are affixed to the payees' receipts on all vouchers and are defaced after payment;
- xxii) The payment of bills for telephone calls is according to the orders issued by the Government;
- xxiii) The expenditure sanctioned for a limited period is not incurred beyond that period;
- xxiv) The rules regularizing the method of payment have duly been observed by the disbursing officer;
- xxv) The charge has been correctly classified and that if a charge is debitable to the personal account of an employee, contractor or other individual or is recoverable from him under any rule or order, it is recorded as such in the prescribed account; and
- xxvi) The flow of expenditure is even and that if expenditure is unusually heavy in March, it does not lead to financial irregularities.

The proper discharge of duties by audit officials in this field is a very delicate matter and requires much discretion and tact. Audit observations against expenditure should not be expressed as based on "canons of financial propriety" but as transgressing a universally accepted standard of official conduct or financial administration.

[Chapter 2 of Section 2 of MSO (Audit) & old manual]

7.4.3 Audit against provision of funds:

- a) No moneys out of the Consolidated Fund of India or of the Consolidated Fund of a State shall be appropriated except in accordance with law and for the purposes and in the manner provided in the Constitution.
- b) Under the provisions of the Constitution no expenditure can be met from the respective Consolidated Fund on or after 1st April of a financial year unless an Annual Budget (Annual Financial Statement of Estimated Receipts and Expenditure) is prepared and an Appropriation Act authorizing withdrawal of funds from the Consolidated Fund to the extent of provisions in the Annual Budget is passed. All disbursements from the Consolidated Fund during a financial year, which are not within the sums authorized by an Appropriation Act., passed by the appropriate Legislature before the close of the year, will, therefore, be challenged by Audit as unauthorized expenditure under the provisions of the CAGs (DPC) Act. However, advances from Contingency Fund of India or of a State can be drawn for meeting unforeseen expenditure pending authorization of such expenditure by the Parliament/Legislature concerned. On such authorization the advances drawn will be recouped to the Contingency Fund.

- c) Systems in force for budget formulation and expenditure control are required to be audited so as to ensure that the estimates presented to the Parliament/Legislature are prepared in accordance with established procedure and to monitor expenditure vis-a-vis the budget to ensure that Grants and Appropriations are not exceeded. Audit scrutiny would be specially focused on the following aspects:
 - i) Existence of proper and adequate systems in the ministries and departments for budgetary control with duly defined accountability centres for securing the preparation of realistic estimates of both receipts and expenditure.
 - ii) Availability of a Budget Manual describing the rules and regulations governing budget formulation and the processes relating to preparation of receipts and expenditure estimates, their examination by the Heads of Departments and the controlling officers and provisions of all relevant and of essential information and explanations.
 - iii) Adherence to all procedures prescribed in the Budget Manuals of the respective governments.
 - iv) Extent of association and involvement of functionaries at all levels from the DDOs to the heads of the departments with the formulation of budget estimates.
 - v) Adequacy of monitoring mechanism to safeguard against excesses over allotments to DDOs and over the overall grants and appropriations.
- d) Audit should satisfy that the expenditure which is being audited falls within the scope of a Grant or an Appropriation Act and that it is within that Grant or Appropriation. Expenditure in excess of a Grant or Appropriation as well as expenditure not falling within its scope or intention as specified in the Schedule to an Appropriation Act, unless regularized by an Appropriation Act should be treated as unauthorized expenditure.

[Paragraph 2.2.13 of MSO (Audit)]

7.4.4 Audit against Propriety:

- a) It is an essential and inherent function of Audit to bring to light not only clear and obvious irregularities but also every matter which, in its judgment, appears to involve improper expenditure or waste of public moneys or stores even though the accounts themselves may be in order and no obvious irregularity has been committed.
- b) No precise rules can, however, be laid down for regulating the course of audit against propriety. Its objective is to support a reasonably high standard of public financial morality and sound financial administration and devotion to Government's financial interests. In any case, Sr.AOs /AOs in the performance of their duties should apply the following general principles that have long been recognized as standards of financial propriety:
 - i) The expenditure should not prima-facie be more than what the occasion demands. Every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.
 - ii) No authority should exercise its powers of sanctioning expenditure to pass an order that will be, directly or indirectly, to its own advantage.
 - iii) Public money should not be utilized for the benefit of a particular individual or section of the community unless:

- I) The expenditure involved is insignificant; or
 - II) A claim for the amount could be enforced in a court of law; or
 - III) The expenditure is in pursuance of a recognized policy custom.
- iv) The amount of allowances, such as travelling allowances granted meet expenditure of a particular type, should be so regulated that the allowances are not, on the whole, sources of profit to the recipients.

[Paragraph 2.2.2, 2.2.13 & 2.2.46 of MSO (Audit)]

7.5 AUDIT OF ESTABLISHMENTS

7.5.1 Introduction:

The system of establishment audit consists essentially of the following components:

- i) Audit of sanctions to establishment, classification of expenditure of such establishment (to be conducted by central audit).
- ii) Audit of expenditure towards Pay and Allowances, Leave Encashment, Leave Salary and Travelling Allowances, Overtime etc.
- iii) Audit of Service Books, checking of Sanctioned Strength of the establishment and
- iv) Conducting nominal check of correctness of pay and allowances drawn.

[Paragraph 3.3.1 to 12 of MSO (Audit)]

7.5.2 Source Documents:

The important source documents to be checked in audit are:

- i) Cash Books.
- ii) Office copies of establishment bills.
- iii) Acquittance Rolls.
- iv) Bill Register/Bill Transit Register.
- v) Service Books.
- vi) Leave Accounts.
- vii) Establishment vouchers.
- viii) Sanctions in respect of various allowances.
- ix) Employee module data contained in the VLC package.
- x) Government orders regarding sanction of Manpower.

[Paragraph 3.3.3 of MSO (Audit)]

7.5.3 Audit of Service Books:

(a) A Service Book in the form prescribed in the Service Rules is to be maintained by the Head of office for every government servant for whom it is prescribed under the orders of the Government concerned and kept in his custody. For this purpose, a Register of Service Books should be maintained in which every entry should be made when new Service Book is opened or the

Government servant is transferred from/to another office. Every event in the government servant's official life should be recorded in this book and the superior officer prescribed by the Government should attest each entry.

(b) The Service Books of government servants should be checked in local audit to ensure that they are maintained in a satisfactory manner. While checking the Service Books, it should be verified that:

- 1) they are complete in all respects;
- 2) a service book is maintained for every government servant from the date of his appointment and is kept up to date;
- 3) entries of all events in the official career of a government servant are made in the service book and attested by competent authority ;
- 4) no alteration is made in the date of birth recorded initially without the sanction of competent authority;
- 5) the date of birth has been written both in figures and in words with reference to the valid document and there is no evidence of interpolation or use of erasure in recording it;
- 6) entries in the first page are re-attested every five years;
- 7) the controlling authority has recorded the prescribed certificate relating to the periodical verification of the service rendered by the government servant with the pay bills or other documents;
- 8) by a comparison of a few entries of pay and allowances in the service book with those in the bills, they are found to agree with each other;
- 9) in all cases where special pay granted to a government servant is allowed to count for pension, a note to that effect is recorded in the service book of the employee concerned;
- 10) all leave sanctioned is recorded and wherever the period of leave is counted for purpose of increment in the officiating post of the government servant, the certificate as required under rule 48 (bb) of West Bengal Service Rules-Part I regarding the Government servant's continuity in office but for leave is recorded in the service book;
- 11) the fixation of pay and increments allowed to individual from time to time for the period to which the check of service book relates are correct since service book forms the basic document for verification of service for pensions;
(HQs confidential letter no. 417-tai/785-68 dated 21.3.69)
- 12) there are clear and unambiguous entries duly citing orders of competent authorities in the service book in respect of the government servant's date and nature of appointment/promotions, suspension/reinstatement, reduction to lower stage of the time scale/restoration, stoppage of increments with or without cumulative effect, commencement, extension and completion of probation, confirmation and that there are no mutual inconsistencies between one entry and another;
- 13) entries in respect of enjoying vacation fully or otherwise are recorded;
- 14) specific orders are found recorded regarding counting/not-counting of the period of suspension/extraordinary leave for pension;

- 15) entries regarding transfer from non-qualifying service to qualifying service are based on proper authority;
- 16) extinction of liability towards services rendered under local bodies etc. by payment of gratuity, bonus etc. to the government servant are clearly noted;
- 17) in respect of foreign service/deputations, entries regarding recovery of leave salary/pension contributions are recorded;
- 18) no pay and allowances have been paid to a government servant beyond the date of attaining the age of superannuation or the date of expiry of a term of extension of service sanctioned by the competent authority;
- 19) increments have been granted correctly after excluding periods not counted towards increment and where efficiency bar is prescribed in a time scale of pay the next increment is not granted without obtaining a certificate of fitness to cross the efficiency bar granted by a competent authority;
- 20) nominations in respect of death-cum-retirement gratuity, provident fund, etc. have been made and are available;
- 21) the official concerned has signed his name in the relevant column of the service book in token of scrutiny and acceptance of entries made in his service book.

(hqs letter no. 928-admnii/349-61 dated 26.6.62 and 1290-admnii/3/69-61 dated 20.8.62)

(c) Entries relating to the following should also be checked:

- 1) Relaxation, if any, of age and/or educational qualifications.
- 2) Declaration in regard to marital status.
- 3) Declaration of home town and acceptance thereof.
- 4) Nominations for death-cum-retirement gratuity and provident fund.
- 5) Details of family.
- 6) Options exercised in respect of service matters.
- 7) Condonation of breaks in service, if any.
- 8) Orders, if any, in regard to change in date of birth.
- 9) Collateral evidence in respect of past service.
- 10) Change in name.

7.5.3(A) HUMAN RESOURCE DEVELOPMENT (HRD)

In corporate office HRD Department is headed by Director (HRD)/Manager. The main functions of HRD Department are as under:-

- (i) To deal with recruitment, transfer and posting of all employees.
- (ii) To deal with confidential and disciplinary issues.
- (iii) Assessing the requirement of fund for welfare activities.

The following may be examined in audit:-

- (i) Scrutiny of records relating to appointment-whether procedure adopted for recruitment is as per Corporation's/Company's directives and whether the appointment is within the sanctioned strength.
- (ii) Detailed examination regarding justification for appointment of casual labourers.
- (iii) Confidential/Disciplinary matters should be verified. Whether any disciplinary action, recommended against any employee by competent authority, has been strictly adhered to; if not, the fact should be highlighted.

7.5.4 Extent of Audit:

The service books and leave accounts selected for check should include cases of all those Government servants who are likely to retire before the next five years/ before the next inspection or who are likely to complete 30 years of qualifying service before the next five years. The list of retiring government servants should be checked with the Register of service books maintained in the office locally audited.

7.5.5 Quantum of Check:

The check of service books of all members of staff of an office should be completed in a cycle of four years, as far as possible. If any of the offices are not audited annually but once in two or three years only, the percentage of check in their cases may be suitably increased to attain the objective. With the object in view, the following quantum of check is prescribed for conducting test check of service books in local audit:

Periodicity of audit	Quantum of check to be done
Offices which are audited annually	25 per cent
Offices which are audited biennially	50 per cent
Offices which are audited triennially or quadrennially	100 per cent

The total number of employees in the office under local audit should be ascertained with reference to the gradation list, establishment bills or other records.

(HQs. letter. No.2056-TA II/349-61 dated 7.10.65)

Note: The selection of 25% or 50 % should be made judiciously so as to cover all cases of Government servants who are due to retire within five years and as many cases, as possible, of Government servants who have put in more than twenty years of service.

7.5.6 Leave Accounts:

a) The office in which the leave accounts of Government servants are to be kept, the form in which they are to be maintained and the persons by whom the entries therein are to be attested are prescribed by Government. Before leave is sanctioned to a Government servant, the authority sanctioning the leave should consult the leave account and satisfy himself that the leave is admissible.

[Paragraph 3.3.8 of MSO (Audit)]

- b)** A minimum of 25 per cent of the leave accounts should be checked in each office and should include Government servants who are likely to retire before the next inspection and if the number of the latter class of leave accounts exceeds 25 per cent, all such leave accounts should be checked.
- c)** the check of leave accounts should be conducted so as to see that;
- i) leave accounts are opened in all cases, wherever necessary;
 - ii) each and every leave as sanctioned are recorded in the service book and entered in the leave accounts and are worked out correctly;
 - iii) the subsidiary leave accounts are opened wherever necessary and correctly maintained;
 - iv) leave is granted according to rules and the period of leave duly noted in the service book and attested by the competent authority;
 - v) excess leave granted or excess leave salary drawn, if any, is regularized early, especially in the case of persons who are likely to retire from service before the next local audit; and
 - vi) leave accounts have been revised with reference to orders regarding completion of probation, confirmation etc.

***Note:** The leave account should be checked in the presence of the establishment clerk so that he may pick up useful knowledge of leave accounts and also explain any entries in them which appear to be irregular and ambiguous. Each leave account should be signed in full and dated (giving the year) by the person checking it.*

7.5.7 Payment of Cash equivalent of Leave Salary:

The vouchers, relating to months selected for test audit towards payment of cash equivalent of leave salary to the Government servant at the time of retirement or to the family of the Government servant who dies in harness may be checked in local audit. In addition, 20 per cent of the cases of drawal and disbursement of leave encashment during the period covered by local audit may also be checked. For this purpose the local audit parties may obtain a list of cases of leave encashment made during the period covered by local audit from the departmental authorities.

(HQs letter No. 102-O&C/I45.79 II dated 20.3.80 and 867-TAI/126-80 dated 4.9.80 and d1647-TAI/226-80 dated 5.1.81)

In the audit of leave salary payments, it should be verified whether:

- i) The leave salary of the Government servant is drawn over the signature of the head of his office, who is responsible for any over charge; and
- ii) The drawing officer has recorded, a certificate on the leave salary bill to the effect that he/she was not re-employed under Government, any local fund or a private employer during the period for which leave salary is drawn, such certificate being furnished after obtaining a declaration from the concerned Government servant.
- iii) Payment of Leave salary was in corroboration to the Leave account and the calculation was correct.

7.5.8 Payment of advance Pay & allowance, TA on tour & transfer and Leave Salary:

All advances mentioned above which remain outstanding for over two years should be segregated during local audit and specifically commented upon in the IRs as distinct item so that these items could be pursued through the objection books and their recoveries watched till finality.

(HQs letter No. 2063-TAI/26 O&M 179 dated 20.12.79)

7.5.9 List of Service Books and Leave Account Checked:

On completion of the check of service books and leave accounts the AAO/Supervisor should prepare a list of service books and leave accounts checked keep it in the **IR** file indicating the following:-

- a) Name, designation and Basic Pay of the month on which payment was made taking the month selected for detailed checking into consideration.
- b) Category-wise total strength of the office
- c) Number of persons who are likely to retire before the next inspection.
- d) Name of the government servant attached with the establishment.
- e) The number of service books and leave accounts to be checked.
- f) The number of service books and leave accounts actually checked.
- g) Remarks.
- h) Signature with date of the Senior Auditor who has actually conducted the check countersigned by AAO/Supervisor.

7.5.10 Pay Roll Audit:

While conducting the audit of the establishment pay bill, the following points are to be looked into:

1.
 - a) Total number of employees' category- wise.
 - b) Total amount of expenditure on each category of staff.
 - c) Number of pay scales in each category.
 - d) Number of employees in the starting of pay scales in each category.
2. Men-in-position in each category with reference to the sanctioned strength of the establishment.
3. Whether any approved staffing pattern was in existence and if so, whether there is any inconformity with approved staffing pattern.
4. Vouchers for pay, over-timer etc. with reference to approved sampling method may be seen.
5. Comparison of non-salary components with reference to salary to elicit comments like abnormal expenditure on non-salary components.
6. Absence/ laxity of control in personnel policy or its weakness may be examined and suitably commented upon.
7. Whether any work study/work measurement was carried out for the staff.
8. Whether any name of the employee was repeatedly appearing in the pay bills of one DDO or of other DDO(s) from the analysis of such instances will lead to detecting double payments due to existence of ghost employees.

9. Whether over time allowance was paid and if so, whether it was as per budget provisions made.
10. Pay drawn for large number of employees by any DDO may be subjected to detailed scrutiny to see the requirement of staff, surplus staff, non-existent staff etc.
11. Pay drawn in excess of maximum of time scale or not as per the slab of the scale, if any, may be suitably analysed to see whether the same was admissible, whether there was any over payment and whether there was any irregularity in pay fixation etc.
12. It may be seen whether the employees who were due to retire but continued beyond retirement and, if so, the same may be analyzed for possible comments, if any.
13. The totalling of pay bills may be checked to ascertain the correctness and for detecting any totalling mistakes/fraud.
14. The details in the Absentee statement were correctly shown with reference to the Service Books, Leave Account and other records.
15. An account of undisbursed pay and allowances is kept in a register and amount remaining undisbursed for three months are refunded either in cash or by short drawal from subsequent bills.
16. Arrear of pay & allowances and leave salary are not drawn through regular monthly pay bills but are drawn in separate bills and a note of arrears in the office copies of the bills for the period to which the claim pertains is being made.
17. There is a proper and legally valid acquaintance from the actual payee on the revenue stamp for each amount disbursed where necessary and the revenue stamp duly defaced.
18. In addition to above, there should also be receipt of the person drawing the amount on the basis of letter of authority from the actual payee duly certified by any of the employee of the auditee unit as “Known to me” and “PAY” order was given by the Head of the Office/DDO.
19. Disbursement was recorded in the Cash Book on the date on which they are actually made.

(Manual & B.O OA/IC-1/1997-98/15 dt 10.03.98)

7.5.11 Nominal Audit:

The nominal should be conducted during local audit in the manner and to the extent indicated below:

- a) The nominal audit during local inspection will be conducted in respect of pay bills of establishment for the month/months selected for test audit.
- b) Nominal audit of pay and allowances drawn for individuals should be conducted with reference to the service rules and general and special orders of Government governing appointments, transfers, joining time, suspension, retirement, pay scales, different types of special pay and compensatory allowances and also with reference to the initial and primary records such as service books, increment certificates, orders of appointment/promotion/ reversion, sanction of leave, orders of suspension and the subsistence allowance admissible, etc. Apart from comparing the pay and allowances drawn by each government servant in the pay bills of the month(s) selected for test audit with the corresponding entries in the service books, and checking the acquittance rolls to ensure that the pay and allowances drawn have been disbursed to the proper person and proper acquittance obtained, the admissibility of Pay & allowances drawn for each individual government servant in these pay bills should be checked completely.

- i) The above checks should be integrated with the check of service books and when service books are not made available they should be checked independently with reference to the initial and primary records available.
- ii) In addition to the audit of pay and allowances drawn in the pay bills of the months selected for detailed check in the manner prescribed above, 20 per cent of (i) cases of increments sanctioned to the members of the establishment of the office under inspection and (ii) cases of fixation of pay on promotion or reversion during the period covered by local audit should also be checked.
- iii) The supplementary and arrear claims should be generally reviewed during local inspection to ensure that the cases are not pending unnecessarily and there are valid reasons for claiming them in arrears or in supplementary claims these should be subjected to detailed check in respect of claims arising in the months selected for detailed check.
- iv) The inspecting officer should include in a separate para of the IR either in part II (A) or (B) or in Test Audit Note (TAN) as the case may be, the results of local audit of establishment, service books and leave accounts. The covering memo (title sheet) to the IR should indicate clearly the checks exercised and include a certificate to that effect, in respect of nominal audit, audit of increment certificates, pay fixation on promotion/reversion, check of service books and leave accounts, check of office copies of bills and acquittance rolls.
- v) The nominal checks of vouchers wherein pay and allowances of gazetted officers are drawn on establishment pay bills will have to be done locally.

(HQs letter No. 538-TAI/45-82 dated 24.4.82)

Note:- While conducting nominal audit, names of officials and their details should be cross-checked between the service book and the original appointment letter on a sample basis, particularly if the names appear to be similar. All cases of transferred officials should be scrutinized in detail with reference to the transfer order issued by the controlling officer as the service book of these officers should also come to the new office from the old office once a person is transferred.

(B.O. No. OA/IC-I/98-99/6 dated 6.7.98)

7.5.12 Check of fixation of pay on revision of pay scales:

When there is a general revision of pay, the administrative department should arrange for fixing the initial pay by an officer appointed for the purpose or by any other suitable means as may be deemed expedient. Fixation of pay in such circumstances should be test checked during local audit by the PAG with reference to service books. In addition to normal checking of the Service Books, the field parties are requested to check $8\frac{1}{3}$ per cent of pay fixation cases in respect of Group 'A' & officers attached to the auditee units concerned, and over payment and other irregularities, if any, should be incorporated in the IR.

A list showing total number of officers in the cadre of Group 'A' & 'B' (mentioning their names and designation) in the auditee unit and number of pay fixation cases checked should be kept in the IR duly signed by Supervising Officer or AAO/Supervisor in absence of Supervising Officer.

(B.O. No. OA/IC-I/2004-05/1 dated 22.4.2004 HQs Circular No. 01-2003 No. 352-Audit/M&C/227-2003 dated 31.12.2003)

7.5.13 Travelling Allowance Bills:

The following should be looked into by Audit in the audit of travelling allowance bills:

- i) The journey was necessary and authorized by general or special orders of the competent authority and in the interest of the public service;
- ii) The journey was actually performed and was done as expeditiously as possible;
- iii) No claim in respect of the journey had been submitted previously;
- iv) The amount had been correctly drawn with reference to the rates and general conditions in force;
- v) TA bill not preferred within one year from the date on which they become due are not entertained and TA advance granted for the journey are recovered in full;
- vi) Legally valid acquaintance of the person entitled to receive the payment, with revenue stamp, where necessary, has been obtained;
- vii) Tour Diary has been submitted and the bill claimed is in conformity with the Diary;
- viii) Disbursement certificate was furnished by DDO on payment to the actual payee, indicating the amount paid and date of payment;
- ix) Payment was recorded in the Cash book on the date of payment;
- x) Whether the advance drawn has been adjusted and excess amount, if any, has been deposited in Government A/c or recovered from the person concerned;
- xi) Where the mode of travel, class of accommodation, rates of daily allowance, etc. are determined on the basis of the pay of the government servant, particulars thereof shown in the bill should be checked, during audit, with reference to the pay bills. The daily allowance, mileage allowance, etc. claimed in the bill should be admitted based on the rates prescribed in the rules; fares claimed in respect of different modes of travel should be similarly checked with reference to the applicable fare tables of the agencies concerned.

The responsibilities for the scrutiny of travelling allowance bills are shared between the Controlling Officers and the Sr. AO/AO because some of the checks prescribed above cannot be independently exercised by the Audit officials. Audit should ensure that the Controlling Officer had properly exercised the scrutiny entrusted to them under the rules of the Government in relation to these bills.

7.5.14 Travelling Allowance Bills for the Journey Abroad:

While checking the travelling allowance Bills for the Journey conducted by any Government official, abroad, following checking should be exercised:

1. Whether the journey was conducted for official purpose and for the interest of the State;
2. Whether any administrative approval and financial sanction for the journey was accorded by Government;
3. Whether the foreign tour and the period of stay in the foreign country including the transit period was approved by the Ministry of External Affairs. Government of India (GOI) and approval for overstay, if any, was accorded by GOI.
4. Whether advance for the journey was drawn and, if so, whether the same was adjusted within the period as per rules.

5. Whether GOI, Ministry of Finance has agreed to release foreign exchange for the tour.
6. Whether GOI, Ministry of Home Affairs has granted permission for acceptance of foreign hospitality and if so, to what extent;
7. Whether the journey to foreign country was sponsored by Government/Institution/Agency/National or International organization/ authority etc. If so, reasons and term and conditions for such sponsorship are to be looked into;
8. Whether the journey was conducted in the entitled class and through the shortest route;
9. Whether any Hotel accommodation charges/Travelling Allowance/Daily Allowance/Contingencies were drawn by the official from/or paid by the Indian Embassy concerned, as per prescribed scale, and approval of the Ministry of External Affairs;
10. Detailed Tour diary submitted;
11. Detailed TA bill submitted in adjustment of Advance and adjustment of TA/DA etc. drawn from/paid by the concerned Indian Embassy.

7.6 AUDIT OF CONTINGENT CHARGES

7.6.1 Introduction:

There are five categories of contingencies viz., (i) Contract contingencies; (ii) Scale regulated contingencies, (iii) Countersigned contingencies, (iv) Fully vouched contingencies and (v) Special contingencies. The responsibility for the effective control of contingent expenditure rests primarily upon the heads of Offices/ 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.

7.6.2 General checks:

In addition to points mentioned in **paragraph 7.4** (Audit of Expenditure) of this manual the following further checks are to be exercised in respect of audit of all contingent bills. It is to be seen

- i) that each class of expenditure:
 - a) is properly charged against the Grant or Appropriation concerned;
 - b) has received such sanction as is necessary and
 - c) is incurred by a Government servant competent to incur it;
- ii) every payment is supported by a payment order signed by the head of the office or disbursing officer serving under him, and duly authorised. The payment order should specify the amount payable both in words and figures and that all pay orders are signed by hand and in ink. Every payment should be acknowledged by the payee and dated. When the acknowledgement on a voucher is given by a mark or seal or thumb impression it should be seen that it has been attested by, a responsible officer;
- iii) the vouchers as are required by audit have been submitted;
- iv) the details given in the sub-vouchers agree with the entries in other supporting registers or records maintained in the office,

- v) that any certificates required under the financial rules of the Government concerned have been provided;
- vi) that the rates are apparently not extravagant and that standards of financial propriety have been properly observed;
- vii) that the bill is in proper form and the classification is correctly recorded thereon;
- viii) that stores not immediately required or in excess of requirement have not been procured merely to avoid lapse of budget grant and remain unutilized;
- ix) where acknowledgements of payments are received in advance and the actual payments are made subsequently, separate acknowledgements of payees are obtained at the time of payment. Such subsequent acknowledgements need not be stamped, if the acknowledgements obtained in advance are already stamped, where necessary;
- x) where a single stamped receipt is obtained from a payee in acknowledgement of payment against more than one voucher at a time, a reference is given on all concerned vouchers and the total amount of such vouchers agrees with the amount for which acquittance is obtained;
- xi) all vouchers for purchase of stores bear certificate by the competent officer regarding entry of stores in the relevant stock register indicating the Page number of the stock register and that such vouchers also bear certificate of competent authority to the effect that the quantities of stores received are correct, their quality is good and they are according to the approved specifications, where prescribed;
- xii) where sales tax has been paid, it was payable on the stores purchased under the specific provision of sales tax act and the amount paid was correct;
- xiii) if any sub-vouchers or vouchers, which under the rules, should have been sent to the AG (A&E) WB are found to have been retained, the reasons for their retention should be enquired and their submission insisted upon;
- xiv) all charges incurred are paid and drawn at once and under no circumstances they have been allowed to stand over to be paid from the grant of another year;
- xv) the charges which are inadmissible or in excess of the sanctioned scale have not been sought to be concealed by showing them under contract contingencies or by splitting them into two or more different bills or classes;
- xvi)** the under-mentioned items of contingent expenditure have been incurred in accordance with the rules, orders, conditions scales and any other restrictions laid down by the State Government.
 - a. Conveyance hire charges
 - b. Hire of office furniture, electric fans, etc.
 - c. Rent for accommodation for office or residential purposes.
 - d. Staff paid from contingencies.
 - e. Purchase of Stationery articles.
 - f. Entertainment/light refreshment.

- g. Purchase of petrol/diesel.
- h. Movement of vehicles outside the district.
- i. Printing of standard/non-standard forms.
- j. Electricity charges for residences.

Further, Audit is to see that

1. Whether in case of Contract contingencies, the expenditure was in excess of the contract grant and the excess is regularized by sanction of the competent authority.
2. In case of Scale regulated contingencies the charges incurred are in accordance with the scale governing them.
3. In case of audit of Special Contingencies the arrangements exist in the drawing and countersigning offices to watch the progressive outlay against the sanction of fund for the contingent expenditure of special nature.
4. In the case of countersigned contingency bills the 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 contain no extraordinary or unusual features.
5. Where payments of Fully Vouched Contingencies are made the amounts drawn on bills are countersigned before payment. Further, the test check of the paid muster rolls, acquittance rolls and payees' receipts should be undertaken where coolies on daily or monthly wages are employed regularly.

[Paragraph 3.4.7 of MSO (Audit)]

7.6.3 Audit of Contingent Register:

The entries in the contingent register should be checked with sub-vouchers and propriety of expenditure scrutinized with reference to T.R. 4.123 to 4.128 of WBTR-2005. It should further be seen that:

- i) the register is maintained in the prescribed form;
- ii) entries are invariably made on the date of payment, indicating the name of payee and the number of sub-vouchers, the amount in the proper column duly authenticated by the Head of the Office or Gazetted officer-in-charge;
- iii) monthly as well as progressive total was worked out by the drawing officer to watch the progress of expenditure under each detailed head;
- iv) the entries are correctly entered in the column having as heading the classification under which the expenditure falls;
- v) the total of the entries of the sub-vouchers agrees with the total of the contingent bills drawn;
- vi) the total expenditure during the year under each head of classification does not exceed the total allotment/sanction which is to be noted at the top of the respective column;
- vii) appropriation for each head of contingent charges has been noted at the top of the column allotted to it;

- viii) the details of stores and other articles purchased, as entered in the register, for which no sub-voucher are available, agree with these shown in the stock books or other registers or records in the local office and the total of the bills drawn in the contingent register are also checked.
- ix) regarding audit of special charges and periodical charges incurred by the departmental offices it should be seen in local audit that the existing control system in the drawing and countersigning offices is adequate to ensure prevention of more than one drawal against a single sanction or a double payment of a recurring charge.

[HQs. letter No.542-TAI/45-82 dated 24.4.82 & 180-Rep (s) 20-96 dt. 23.2.96]

Note: While generally reviewing the contingent register particular attention should be paid to bills of heavy amounts which should be intelligently and carefully examined in detail after linking with other bills for similar items of expenditure.

7.7 AUDIT OF GRANTS IN AID

7.7.1 Audit objective:

The main aim of audit of grants-in-aid is to ensure that the grants are utilized for the purposes for which these are given and that sound economical financial management practices are duly followed while incurring expenditure out of such grants.

7.7.2 Issues for audit scrutiny:

- a)** The audit of the grants itself is to be conducted according to the general principles and rules laid down for the audit of expenditure from the Consolidated Fund with particular emphasis on the following aspects.
 - i) the expenditure is covered by a sanction, either general or special;
 - ii) the authority sanctioning it is competent to do so by virtue of the powers vested in it by the provisions of the Constitution and of the laws, rules or orders made there-under or by the rules of delegation of financial authority framed by the competent authority;
 - iii) the sanction conforms to the pattern of assistance or rules governing such grants-in-aid as approved by the Finance Ministry;
 - iv) the suitability of the institutions seeking the grant has been assessed by the sanctioning authority;
 - v) every order sanctioning a grant indicates whether it is recurring or nonrecurring in nature and clearly specifies the general and special conditions, if any, attached to the grant; and
 - vi) a provision to the effect that the accounts of the grantee institutions shall be open to inspection by the sanctioning authority/Audit.
- b)** On the question of regulation of the quantum of the grants-in-aid to State Governments for developmental schemes after taking into account the miscellaneous receipts accruing from such schemes, the GOI has decided as follows:
 - i) Where recurring grants-in-aid are given, the quantum of such grants should be based on the net expenditure arrived at by deducting the estimated receipts from the gross expenditure.

- ii) In respect of grant-in-aid of a capital nature (e.g. non-recurring grant for the construction of building or acquisition of a machinery), not only the elements of possible receipts that would accrue to the State Government, it should be taken into account in determining the quantum of the grants, but any receipts from the disposal of property constructed or acquired by utilizing the grant relating to schemes which were closed or abandoned should also be reckoned proportionately.
- iii) Governments often stipulate that before a grant is paid, the sanctioning authorities under its control should as far as possible, obtain audited statements of the accounts of the grantee institutions in order to establish that the grant is justified by their financial position and also to ensure that any previous grant was spent for the purpose for which it was intended. Audit should verify that the sanctioning authorities duly adhere to the stipulation.
- iv) Audit should ordinarily accept statements made by the responsible technical officers on purely technical matters.
- c) It should be watched that, except in special circumstances, grants are not paid in excess of actual requirements of the grantee for the financial year.
- d) When recurring grants-in-aid are made to an institution, Audit will verify, as far as possible, that the institution continues to function as intended and that the circumstances in recognition of which the grant was sanctioned still continue to exist.
- e) The extent of audit of the expenditure incurred from a grant by the grantee depends on whether the grant is conditional or unconditional. Where no condition was attached to a grant, audit is in no way concerned with the manner in which the grant is utilized by the grantee. But where conditions are attached to the grant, audit must see that:
 - i) The sanctioning authority is required to furnish to the AG (A&E), WB a formal certificate confirming the proper utilization of the grant from the administrative, technical and financial points of view. Audit should watch the compliance of this requirement.
 - ii) Where the audit of local authorities and public or quasi-public bodies is conducted by an officer not subordinate to the CAG, a certificate, based on that Sr. AO/AO, to the effect that the grants have been utilized for the purpose for which they were sanctioned and in accordance with the conditions attached to them, may be accepted from the administrative authority concerned.
 - iii) In cases not falling under any of the above, the utilization certificates furnished by the authorities of the administrative Government to the AG (A&E), WB may be accepted in audit. However, a test check should be applied, where possible.

7.7.3 Submission of Utilization Certificate:

- a) Ministries and Departments of the GOI are not required to furnish utilization certificates.
- b) State Government directly incurring expenditure out of Central grants are also not required to furnish utilization certificates. If, however, such expenditure is incurred through local bodies or private institutions, the State Governments concerned should furnish the necessary utilization certificates.
- c) In view of large amounts disbursed as grants-in-aid in connection with developmental schemes by the Central as well as State Governments to Co-operative Societies, private institutions etc., it has become an important function of Audit to watch

- i) that there is no tendency on the part of Government to continue disbursing fresh grants to a grantee when substantial amounts out of the earlier grants remain unutilized.
- ii) that an adequate machinery is available with the executive authorities to maintain a constant watch over the progress of expenditure from the grant, the continued solvency of the grantee and the safety of the funds provided,
- iii) whether the intended developmental schemes are being implemented economically and efficiently and producing the results expected of them,
- iv) the extent to which the agency or authority being audited is discharging its financial responsibilities in relation to the schemes being implemented and
- v) whether there are instances of overpayment, loss, extravagance, avoidable excess or infructuous expenditure attributable to improper planning, incorrect sequencing of activities, delays in completion, etc.;
- vi) whether the grants were spent on the specific object within the prescribed period or within the reasonable time normally a period of one year from the date of issue of sanction.

7.7.4 Grants to non-government or quasi-government bodies or institutions:

The GOI has decided that where assets are to be acquired wholly or substantially out of Government grants paid to non-government or quasi-government bodies or institutions, it should be laid down that the assets should not, without the Government's prior sanction, be disposed or utilized for purposes other than those for which the grants were sanctioned. Audit has to watch compliance with this requirement or any other similar stipulation made by the State Government in this behalf.

7.7.5 Grants to Autonomous bodies, non-government organizations etc.:

Grants provided by the department to various autonomous institutions, non-government organizations, etc. should be examined with a view to ascertaining whether:

- i) the department has evolved systems and procedures to regulate the release of funds and to monitor their utilisation and these are adequate to safeguard against misutilisation and other irregularities and
- ii) the systems and procedures are appropriate and adequate for the achievement of the department's objectives.

[Paragraph 3.9.14 of MSO (Audit)]

7.7.6 Audit of grants towards scholarships:

Scholarship and stipend vouchers should be test checked during local audit of the concerned offices. It should be ensured that a proper system exists in these offices for maintaining a continuous record of all such payment and the acquaintances have been received and filed.

7.7.7 Overseas scholarships:

In any other category of scholarship/stipend for which nominal audit is considered necessary by the Pr. AG on any special considerations, audit should be conducted to ensure that

- i) the sanctioned scale is not exceeded,
- ii) the total amount sanctioned for the scholarship/stipend had not exceeded,
- iii) scholarship/stipend are drawn only for the period for which they are admissible in terms of the sanction,
- iv) the bills for educational scholarships and stipends have been drawn in accordance with the procedures prescribed in the relevant rules, and
- v) necessary certificates vouchsafing fulfilment of the prescribed conditions have been furnished.
- vi) the accuracy and veracity of these certificates should be verified by a test check of the detailed records maintained by the executive authorities.

[Paragraph 3.5.25 of MSO (Audit)]

7.8 AUDIT OF STORES AND STOCKS

7.8.1 Introduction:

Audit of stores and stock accounts kept by the offices or Departments, is conducted in pursuance of provision contained in Section 17 of the CAG's (DPC) Act, 1971, and is directed to ascertaining that the departmental regulations governing purchases, receipts, issue, custody, condemnation, sale and stock taking of stores are well devised and properly carried out. Important deficiencies in quantities of stores held or any grave defects in the system of control, if any, is detected in audit are brought to the notice of the Government through IR.

7.8.2 Audit of purchase of stores:

The following aspects relating to purchases of stores should be examined in audit:

1. Purchase should have been properly sanctioned and made in the most economical manner in accordance with the rules, regulations and orders issued by the Government.
2. Audit must see that the requirements have been assessed on a realistic basis and funds are available for the procurement.
3. The stores procured are of approved quality and specifications. Stores of the required specifications should have been purchased only under rate contracts entered into by the Directorate General of Supplies and Disposals (DGS&D) or any other approved rate contract.
4. The rates paid should correspond to those agreed to in the relevant contracts or agreements.
5. The Government servants responsible for approving and receiving purchase should furnish certificates of quality and quantity before payments are made, except where the contrary is permitted by the rules of Government regulating purchase of stores.
6. Purchase orders should not have been split up so as to avoid the necessity for obtaining the requisite sanction of higher authorities.
7. The stipulated terms and conditions should conform to various codal provisions and orders issued from time to time by the Government.
8. Necessary precautions should have been taken to safeguard Governments' interests in cases involving advance payments for supply of stores in terms of the contract

provisions or Government orders. The stores should also have been received within the stipulated period and the advance payments adjusted.

9. Where scales of consumption or limits of stores had been laid down by competent authority, the officer ordering the supply had certified on the purchase order that the prescribed scales or limits were not exceeded.
10. All materials received have been examined, counted, measured or weighed, as the case may be, when delivery was taken and they had been taken charge of by a responsible Government officer who had seen that the quantities were correct, the qualities were good and recorded a certificate to that effect. The officer receiving the steles had certified that he had actually received the materials and recorded them in appropriate stock register.
11. In selecting the tender to be accepted the financial status of the individuals and firms tendering were taken into consideration in addition to all relevant factors.
12. Widest possible publicity had been given for calling tenders and due period of notice allowed consistent with the magnitude of the purchase.
13. All tenders had the dated initials of the officer opening them.
14. The tenders were received on the prescribed forms in sealed covers.
15. The rates quoted by the tenderers were not over written or changed without attestation by the tenderers and were correctly transcribed into the comparative statement.
16. The lowest tenderer was determined by working out the cost of all items of work or supplies on the basis of an estimated quantity of work to be done or supplies to be made and not merely by visual comparison of the tendered rates without reference to the cost of work or supplies involved.
17. The comparative statements were duly checked and approved by the head of the office and contained his orders about the tender accepted.
18. In case purchases had been made by single tender or negotiation whether sanction of the competent authority had been obtained and reasons recorded for resorting to the method of purchase.
19. The successful tenderer had not indirectly derived an advantage over other tenderers by the insertion of special conditions which had the effect of raising the rate quoted by him.
20. Suitable security as also sanction of the competent authority had been obtained.
21. The specifications indicated in the quotations agreed with those shown in the notice inviting tenders/quotations.
22. No stores of defective and inferior nature were accepted and certified to be satisfactory in quality.
23. A complete and regular stock account of receipt and consumption of blank tender forms had been kept.
24. The sale proceeds of tender forms had been correctly accounted for in the books and promptly credited to Government Account.

7.8.3 Audit of store records relating to custody and issue:

As regards custody and issue of stores, it has to be seen in audit whether:

1. a particular official has been responsible for the custody of stores for prolonged periods and if so, whether the stores have been physically verified regularly to guard against any loss, pilferage, etc.;
2. discrepancies, if any, between the book balances and the ground balances have been reconciled promptly;
3. appropriate and effective follow-up action has been taken on reports of physical verification of stores to make good, any losses, shortage., etc. and to fix responsibility therefor;
4. adequate precautionary measures have been taken to prevent misuse of materials issued to contractors for use in works;
5. adequate storage facilities are available and precautionary measures have been taken to protect stores from damage and undue deterioration;
6. efforts have been made to transfer surplus stores where these could be utilized;
7. a report on surplus stores that could not be so transferred as well as on obsolete and unserviceable stores, specifying the reasons for so declaring them, has been promptly sent to the competent authority for facilitating their disposal;
8. all issues of stores are supported by proper indents and have been approved by the competent authority and acknowledged by the intended recipients;
9. Officers entrusted with custody of stores or holding charge of stores have furnished the security prescribed in terms of the instructions issued from time to time by the competent authority.
10. that entries of all receipts of stores purchased or otherwise obtained and of their issues are made in them as transactions actually occur;
11. that an accurate and detailed account of consumption of consumable stores is maintained by the indentors to whom these stores are issued;
12. that some official is held responsible for checking and ensuring that this is done properly and for seeing that balances are worked out correctly;
13. that the accounts of balances which were audited in the previous inspection have been produced in all respects and that no entries in them have been tampered with;
14. that all transactions and balances in the stock registers, ledgers have been attested by a responsible officer;
15. Whether the consumption of stores in a particular year shows that the requirement of the year could have been met from the existing balances of stores. If so, the reasons for making fresh purchases, if any, have to be ascertained in details;
16. all stores were examined, on receipt and while accepting delivery, to determine their condition and to ensure that they were of the approved quality, make and specifications and the quantities conformed to those agreed upon;
17. the stores have been taken on stock and entered in the Goods Received Sheets/Bin Cards;

18. the previous stock balances have been correctly worked out, carried forward and authenticated by a responsible officer;
19. bin cards have been maintained chronologically based on receipts and issues; and
20. Price Stores Ledgers containing the value account of stores have been maintained.

7.8.4 Audit of write-off/disposal of stores:

Irregularities in the disposal of public stores are equivalent to illegal appropriation of public funds, and an audit of moneys expended on purchase of stores cannot, by itself, be complete unless the disposal of the stores is also audited in order to ascertain the final application of the moneys. In auditing the disposal or write-off of stores, the following should be kept in view:

- i) The competent authority should have accorded sanctions for write-off of stores. Any deficiencies in the systems requiring attention should be brought to Government's notice.
- ii) Stores are generally procured by departments/divisions for their own use and not for sale. However, when it becomes necessary to sell some surplus stores, this is generally done on receipt of payments in advance against proforma invoices, though sales on credit may be, occasionally, unavoidable. In such cases, the sale proceeds should have been promptly realized. Instances of proceeds against credit sales remaining unrealized for considerable periods should, therefore, be analyzed and commented upon.
- iii) The damages/destruction shown in the store accounts have to be investigated in details i.e, **(a)** how did the damage, etc., occur? **(b)** has the department taken any steps to write off the value of the damaged stores **(c)** who is responsible for such damages?
- iv) Whether unserviceable condemned articles are included in the closing balances. If excluded, whether each of these items was written off under orders of the Competent Authority?
- v) That amounts written off by way of depreciation, shortages, etc. during the year are not abnormally high or within the depreciation rate fixed/approved by Government;
- vi) That the closing balances as disclosed are not excessive.

7.8.5 Audit of stores management:

Stores in many cases result in capital remaining locked up for long periods; this may not be justified unless essential. In order to ensure this and effect economics, appropriate stock limits for different categories of stores should have been fixed by Government. Audit may, therefore, see that

- i) The balances in stock do not exceed the prescribed limits.
- ii) Whether purchase was made without actual need or in excess of requirement, resulting in accumulation of idle stock and consequential loss to the Government. Similarly, it may also be seen whether purchases were made less than the actual requirement and have affected adversely the progress of works and resulted in subsequent procurement at additional cost.
- iii) Whether there has been rush of expenditure on procurement at the close of the financial year or fictitious booking merely with a view to utilizing the budget grants.

- iv) Whether the stores were purchased long ago but could not be consumed with period from which these are lying in stock. The reasons for non-utilization of such stores have to be ascertained.
- v) If the reserve limit of stock was not fixed-what were the reasons thereof? The basis of assessment of requirement leading to accumulation of excess stores needs to be highlighted.
- vi) Has any reserve stock limit been prescribed by the Government? If so, whether the closing balances were within that limit. If not, what are the reasons for excess accumulation of stores?

7.8.6 Audit of priced stores records:

Where priced accounts are maintained, Audit will see that:

- i) stores are priced with reasonable accuracy and the rates initially fixed are reviewed periodically, correlated with market prices and revised where necessary;
- ii) the value accounts tally with the accounts of works and departments connected with stores transactions, their total also tallies with the amount outstanding in the general accounts;
- iii) the numerical balances of stock materials are reconcilable with the total of the value balances in the accounts at the rates applicable to different classes of stores; and
- iv) steps have been taken for the adjustment of profit or loss due to revaluation, stock verification or other causes not indicative of any serious disregard of rules.
- v) the value of all materials obtained from different sources, either by cash payment or by book adjustment, has been entered on the payment side;
- vi) receipt side has shown the value of materials issued from time to time at rates fixed by competent authorities after taking into account in addition to the original price, the cost of carriage and other incidental charges, if any, actually incurred on acquisition of stores;
- vii) the difference between the totals of the two columns has been worked out to show profit or loss in the operation of different classes of materials.

7.8.7 Audit of Dead Stock, Plant & Machinery, Furniture, Fixture, Equipment etc.:

The principal points to be looked into in auditing the inventories are:

- i) that they are maintained in prescribed form;
- ii) that the inventory is priced wherever the value of the items is necessary;
- iii) that the inventory has been checked at least once in every year by the competent authority or such other officer as may be specially authorized by him in this behalf and that a certificate of physical verification has been recorded over his own signature;
- iv) that a distribution of list of all items of dead stock has been maintained to show their distribution amongst the various officers and sections in the office/institution.

7.8.8 Purchase of Stationery and Rubber Stamps:

Local purchase of articles of stationery including rubber stamps and ink usually supplied by the stationery office are not admissible, unless specially sanctioned by Government.

Note 1. The Government may delegate to any of their subordinate government servants whom they may select, the power to sanction petty purchases of stationery and rubber stamps, up to a limit of the amount fixed by Government from time to time in each case.

Note 2. In cases where the Stationery Officer will fail to supply stationery articles as per indents, the same may be purchased from the Co-operative Societies mentioned hereinafter without obtaining quotations or inviting tenders. In Calcutta, the stationery articles can be purchased from the Calcutta Wholesale Consumers' Co-operative Society Ltd. and from the Samabayika run by that organization. In the Districts and Sub-Divisions cash purchase of stationery articles may also be made from the Wholesale Co-operative Societies and their subsidiary organizations. Such purchase will be made within the delegated powers of the respective Heads of Officers/Depts. and other authorities as per provisions of delegation of financial powers rules 1977 as amended from time to time. Advance drawal of funds for cash payment may also be made by the respective authorities and the power in this regard has been delegated to them subject to the condition that sufficient balance in the permanent advance is not available to meet the charge and that not more than two advances will remain outstanding at any time (e.g. every third advance will be admissible for drawal after adjusting the first advance). The sanctioning authorities while exercising financial powers under this order will record a certificate to the effect that indent for the relative stationery articles was sent to the Stationery Office but the same had not been supplied from the Stationery Office.

(Government of West Bengal, Finance Department, Audit Branch Memo No. 228-F dated 11.1.1982)

7.8.9 Stationery Stock Register:

It should be seen that:

- i) All purchases of stationery and stationery articles received from the Stationery office during the period of audit have duly been accounted for;
- ii) Issue of stationery articles are regulated by the sanctioned scale and all issues are bona-fide;
- iii) Periodical inspections and verifications are made in accordance with the rules and executive instructions;
- iv) Totals and closing balances are properly arrived at.

7.8.10 Articles manufactured in Jail:

All articles manufactured in jails as mentioned in the catalogue due to be issued annually must ordinarily be obtained from the Jails and may be purchased from private firms, if the cost of articles in this way is materially less than that of obtaining them from the Jails after taking cost of transport into account.

7.8.11 Registers of Immovable Property (Assets Register):

Inspection Parties should also give adequate attention to the audit of property accounts which include accounts of immovable properties like land, buildings, and other assets with a view to safeguarding the financial interests of Government. Specific comments should be included in the IR regarding the maintenance of property accounts in respect of each Government Institution inspected by them.

(HQs. confidential letter No. 83-Admn I/152-61 dated 11.1.62)

It should also be seen whether the permanent Assets Register prescribed by Government showing assets of immovable properties and buildings in the custody of the auditee units/departments is being maintained indicating the following information:

- a) Name /Type of assets.
- b) Date of creation/procurement/acquisition.
- c) Value on procurement/acquisition/creation.
- d) Date of taking possession.
- e) Source of fund.
- f) Whether proper plan, estimates were vetted by the competent authority before procurement/acquisition/creation.
- g) Measurement/area/quantity.
- h) Date of inspection of site, if any and the landed property duly demarcated.
- i) Year-wise expenditure on procurement/acquisition/creation.
- j) Whether completion was duly certified by the competent authority.
- k) Additional investment, if any.
- l) Expected annual revenue, if any.
- m) Year-wise revenue earned, if any.
- n) Particulars of deposit of revenue in Government account.
- o) Whether proper identification mark given.
- p) Remarks, if any.

Further, the auditee unit may be requested to conduct a physical verification of the assets, preferably in presence of audit, during the course of audit and intimate the result of inspection to audit. If refused, the facts of refusal should also be mentioned and included in the IR. In interesting cases, some photocopies may be collected by the audit and should be authenticated/ confirmed through audit query.

(BO No. OA/IC-I/ 98-99/5 and 2000-01/17 dt. 6.7.98 and 13.01.01)

7.8.12 Register of Forms:

Special care has to be taken in the scrutiny of stock account of saleable forms, licence forms or the receipt forms to ensure that no such forms are issued without the realization of cost thereof which should be traceable in the cash book.

7.8.13 Physical verification of stocks:

It is an important function of Audit to ascertain that stores materials are counted periodically and otherwise examined to verify the accuracy of the quantity of balances reflected in the books. Audit shall not except when specifically authorized to do so, assume responsibility for physical verification of stores; it however, has the right to investigate stores balances and highlight discrepancies. Audit has to see that

- (a) A certificate of verification of stores is recorded periodically by a responsible authority,
- (b) System adopted by the executive for verification is adequate and proper;
- (c) Discrepancies found on stock verification are properly investigated and reconciled and the reasons fully explained and
- (d) Staff responsible for stock verification are, wherever possible, independent of those responsible for the physical custody of stores or for maintaining the accounts and
- (e) The stock verifiers, wherever practicable, works directly under the control of the Government and not under the heads of the individual departments concerned.

[Paragraph 2.4.10 of MSO (Audit)]

7.8.14 Audit of accounts of furniture in residences of High Officials:

In respect of the accounts of furniture in the residences of High Officials, Audit may require, where necessary, the furnishing by the executive authority nominated for the purpose, of an annual certificate of verification to the effect that:

- (a) The furniture has been inspected and checked with the stock lists maintained;
- (b) All new supplies have been correctly brought on the stock lists so that they are current and up to date;
- (c) The stock lists are correct and complete in all respects;
- (d) The articles actually in stock agree with the stock lists;
- (e) Sale proceeds, if any, have been properly accounted for; and
- (f) Sanction of the competent authority exists for all articles written off or struck off the stock lists.

[Paragraph 2.4.11 of MSO (Audit)]

7.8.15 Audit of Materials Management:

A. Organization and functions of the Central Purchase Organization (CPO):

The Central Purchase Organization of Companies/Corporations functions under the Chief Materials Manager/Material Manager. The functions of the CPO include tender related works, preparation of list of vendor base for various items for limited tender enquiry, guiding/ coordinating field/indenting offices with regard to purchases, processing and issuing of purchase orders and post-purchase order coordination with indenting officers and suppliers. In addition to the CPO, purchases are also being made at field level as per the delegation of financial powers.

In Government Companies/Departmental Undertakings, purchases are generally made through tenders, which are of following types: -

B. Critical records to be seen during Audit:

- i. Registers of Sale of Tender Documents.
- ii. Register of Earnest Money Deposits.
- iii. Tender Opening Register & Comparative Statements.

- iv. Individual Purchase Order files.
- v. Files relating to Tender Committee meetings.
- vi. Register of Security Deposit.
- vii. Register of Bank Guarantees.
- viii. Register of Advance to Suppliers.
- ix. Register of penalties imposed / recovered.
- x. Suppliers' bills register.

7.9 AUDIT OF PRINTING:

Officers subordinate to Government, the cost of whose printing (other than the printing of standard or non-standard forms and demi-official note paper and envelopes which should be obtained duly embossed and printed from the Press and forms Department) does not ordinarily exceed the amount fixed by Government should have such work done locally at private presses and charge it to their appropriation for contingencies provided that expenditure on any single item does not exceed the amount fixed by Government from time to time and that the total expenditure for the whole year does not exceed amount fixed by Government and or the expenditure was within the financial power delegated by government.

7.10 AUDIT OF LIVERIES:

In the case of supply of liveries to the Government servant, it should be seen whether;

- i) the supply of livery is according to the prescribed scale and periodicity;
- ii) that the stitching of garment is arranged after calling for tenders and satisfying themselves about the reasonableness of the rates;
- iii) there are proper checks for the issue of cloth and for the receipt of the required number of garments;
- iv) payments are made after satisfying as to the quality of work.

7.11 STOCK ACCOUNT OF LIBRARY BOOKS:

It should be seen that:

- i) Purchases of Books were made as per requirement/demand and latest edition from the publisher or his authorized agent;
- ii) the entries are made in the stock book (accession register) as soon as purchases are made ;
- iii) the rules and regulations for issue of books are followed;
- iv) no book remains due from Government servants beyond the period allowed;
- v) value of books lost from the custody of the Government servant has been recovered;
- vi) no book remains in the custody of a Government servant who has been transferred or retired.
- vii) physical verification is conducted every year.

7.12 AUDIT OF TENDER /CONTRACT /AGREEMENTS:

(a) Important points to be verified while auditing of tenders, contracts or agreements are

1. Standard form of contract has been adopted wherever possible, the terms are subjected to adequate prior scrutiny.
2. The contract should not have been entered into by or on behalf of a minor.
3. All the conditions and requirements printed on the Contract form should have been complied with.
4. Complete particulars of quantities and rates/prices should have been furnished, the rates/prices stipulated being firm.

Note: Particulars of contracts containing a price variation clause or provisional rates should be sent to local audit for further examination.

5. Important and material clauses relating to delivery schedule, place of delivery, inspection of stores, despatch instructions, particulars of consignee, mode of payment etc. should have been clearly specified and not omitted.
6. Normally, the purchase order should have been signed by an authority competent to enter into contracts. If, however, this has been signed by an authority not competent to enter into the contract, it should be verified that a certificate to the effect that the competent authority has approved the purchase is recorded thereon, mentioning also the designation.

Note: The Purchase Officer concerned should sign in ink all copies of the Acceptance of Tender, Supply Order, etc. including all attachments containing details of the rates/prices and other important conditions.

7. If the tender/agreement/contract provides for payment to a party other than the contracting firm, a power of attorney should already have been registered in the books of the office.
8. Provisions relating to payment of VAT (sales tax), excise duty, etc. should be checked with reference to the instructions issued by the Government from time to time. Vague provisions such as “sales tax will be paid, if legally leviable” should be objected to and the contracting officers asked to state in definite terms whether sales tax, excise duty, etc. are payable and, if so, the rates, basis of payment, etc.
9. Acceptance of tender issued in the latter part of a financial year should be specially scrutinized and any tendency on the part of the department to resort to rush of expenditure brought to notice.
10. If the accepted tender provides that the supplier should furnish a solvency certificate for the contractual amount, Audit should verify that no facts have been suppressed in the documents connected with the solvency certificate and that the financial interests of Government have been adequately protected.
11. The contract should have been sanctioned by a competent authority and signed for and on behalf of the President of India, Governor of a State, Administrator of a Union Territory or the Chairman or any other authorized official of a quasi-public body, as the case may be.
12. In respect of contracts entered into with a firm, each one of the partners, or the duly constituted attorneys in the case of absent partners, should have signed all the documents

constituting the contract. In the latter case, the original powers of attorney duly registered in a court of law will be verified and an attested copy obtained for audit purposes.

13. Security deposit, if any, should have been furnished in the appropriate form and of the correct amount and within the period stipulated in the contract.
14. Penalties leviable under the terms of the contract should have been enforced in the event of any default or breach of the conditions.
15. Requests for dispatch of heavy goods by passenger train involving payment of freight charges disproportionate to the value of the materials should be reported to the local audit party for detailed examination. In such cases, the party should examine whether higher rates of freight charges were also agreed to on earlier occasions on grounds of urgency and whether the circumstances really justified the additional expenditure.
16. The terms of contract are precise and definite and there is no room for ambiguity or misconstruction therein.
17. As far as possible legal and financial advice has been taken in the drafting of contract and before they are finally entered into.
18. Standard form of contract has been adopted wherever possible; the terms are subjected to adequate prior scrutiny.
19. The terms of contract once entered into have not been materially varied without the previous consent of the authority to enter into the contract and the reasons for the variation have been recorded. No payments to contractors, by way of compensation or otherwise, outside the strict terms of contract or in excess of the contract rates have been authorized without the previous approval of the Finance Department.
20. Provision has been made in the contract for safeguarding Government property entrusted to a contractor.
21. In long term agreements and contracts enduring or likely to endure for a period more than five years, provision has been made for an unconditional power of revocation or cancellation of such contracts by Government at any time on the expiry of six months' notice to that effect. In agreements for the execution of a work as a contract work which should invariably be in writing there should generally be a stipulation as to the quantity of work to be done and the time within which it is to be completed.
22. In works of great magnitude the contract deeds are specially prepared by the Government Law Officers.
23. Security is invariably taken for the due fulfilment of a contract.
24. Heads of Offices and their subordinates are responsible for ensuring that the terms of contracts are strictly adhered to and that no act is done tending to nullify or vitiate a contract.
25. Even in cases where a formal written contract is not made, no orders for supplies etc. are placed without at least a written agreement as to price.
26. There is no omission of any important clause e.g. inspection of stores, date and place of delivery despatch instructions, name of consignee, penalty for delay etc.

- (b) If considered necessary, cases of the following type may be scrutinized in audit:
- i) Inclusion of any new item not originally contemplated in the contract.
 - ii) Cases involving extension of the stipulated delivery schedule when payment of higher prices had been agreed to initially on grounds of urgency of requirements and early delivery.
 - iii) Cases involving payment of compensation to contractors/ suppliers' firms.
 - iv) Contracts, even if sanctioned by the competent authority including the Government, containing any extraordinary or unusual stipulations.
 - v) Cases involving adoption of any special and apparently objectionable procedures of purchase, inspection and payment.
 - vi) All contracts concluded on cost plus profit basis.
 - vii) All contracts entered into with private firms for functioning as Government stockists.
 - viii) Sanctions to ex-gratia payments.

[Paragraph 3.7.13 & 14 of MSO (Audit)]

7.13 **CHECK OF POSTAGE STAMP ACCOUNTS:**

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

- i) Balances of stock of postage stamps have been correctly carried over from previous month and that the total and closing balance has been correctly worked out during the months selected for detailed check;
- ii) All purchases of stamps made during the selected months are traceable in the stock register;
- iii) Balance of postage stamps in hand at the end of each fortnight is physically verified by the competent authority and a certificate to that effect is recorded in the stock register;
- iv) All issues of stamps relating to registered letters are supported by postal receipts;
- v) Where stamps are issued in bulk to branches/sub-offices of the same office for use, proper accounts therefore are rendered by such branches/sub-offices;
- vi) Postage stamps have been used only for strictly official purposes.

7.14 **CHECK OF LOG BOOKS OF GOVERNMENT VEHICLES:**

(a) Extensive check should be exercised by the audit team on records of hired vehicles in addition to government vehicles and comments, if any, should be incorporated in the IR. While conducting audit on vehicles following points should be called for and submitted with the report:

- i) In case of hiring of vehicle it would be seen that the same has been effected only after inviting quotations and the rate fixed within the limit prescribed by the State Government.
(West Bengal Government's notification No. 2711-EB, September 2002)
- ii) Total number of Hired vehicles.
- iii) Whether approval was accorded from the competent authority for hiring the vehicles.
- iv) Period of hire and terms and conditions.

- v) Rate of hire charges.
- vi) Total amount of Hire charges paid indicating the period of hire.
- vii) Cost of fuel paid, if any, indicating the period.
- viii) Additional expenditure viz., Honorarium, Over Time etc. paid with period.
- ix) Total Km run, POL consumed indicating average consumption of POL per KM.
- x) Name of official frequently uses the vehicle.
- xi) Whether the vehicle used/plied outside the jurisdiction of the auditee unit or outside of the State, if so, the details (viz., purpose of visit, place of visit, KM covered, Name and designation of the personnel used the vehicle, time taken and the permission of the competent authority etc.) to be obtained.
- xii) No vehicle can be used on holiday except in emergency with prior permission of the competent authority.

(BO No. OA/IC/99-2000/10 dt. 28.7.99)

(b) A list of Government vehicles including staff cars, jeeps, station wagons and trucks, etc. should be called for in local audit from the office inspected. Inspection party should invariably check a sizeable number of log books and frame a separate audit comments if any, with reference to log books. In all such cases, care should be taken to collect a portion of the log book by either photo copy or by manual writing as key evidence and necessary audit tick/cross may be put in the original log books so that they cannot be tampered with later. It should be ascertained whether rules and regulations regarding their use and maintenance as framed by the Government or departmental authorities are being followed in actual practice. It should further be seen whether the following essential records are maintained:

- i. Separate Log Book for each Government vehicle is maintained in the prescribed form.
- ii. A records of repair and replacement indicating the cost and the dates on which carried out and details of spare parts.
- iii. A record of cost of petrol etc. consumed and all incidental receipts and expenditure.
- iv. that the vehicle is used only for bonafide public purposes permissible under the rules and orders of Government and not for any private purposes without the orders of the competent authority ;
- v. that full details of all journeys undertaken are recorded covering the distance (in KM) run, places visited.
- vi. that in the case of authorized private or non-official journeys the charges recoverable, at the prescribed rates, have been recovered and credited to Government.
- vii. that all issues of Petrol, Mobil oil and other lubricants and consumable stores are duly recorded in log books.
- viii. that the log books are closed after the prescribed periodical intervals and average kilometre run per litre of fuel (petrol or diesel oil or CNG etc.) is worked out;
- ix. that yield of kilometre per litre is not unduly low and where it is so, the causes leading thereto have been investigated and the needful done;

- x. that the petrol in tank of the vehicle is periodically verified by different stick measurements or by any other standard method of estimation and a certificate recorded in log book;
- xi. that a list of equipment and tools kept with the driver of the vehicle is entered in the log book;
- xii. that full details of all repairs to vehicle and replacement of part are duly recorded in the log book;
- xiii. that in cases where frequent repairs to vehicles, engines or replacement of some parts have been carried out, they are not indicative of any foul play;
- xiv. that a stock account of the condemned and replaced parts and accessories is maintained and their final disposal has been made to the best advantage of Government;
- xv. that entries of meter reading at the start of journey as also at the completion of trips as well as the purpose and place of the visit are noted by the officers using the vehicle in their own handwriting and these entries have been signed by such officers;
- xvi. that all official journeys, outside the headquarters or jurisdiction of the vehicle are supported by written sanctions of competent authority;
- xvii. that the restriction on the monthly consumption of fuel per vehicle has been observed strictly and in cases of non-observance of the restriction, orders of competent authority have been obtained
- (c) The records of repairs and replacements kept in the log books or separately should be examined to see :
 - i) that the cost of repairs and replacements is not on the high side;
 - ii) that the replacement of spare part/parts is/are not repeated in quick succession;
 - iii) that the reasons for frequent repairs/breakdown of Government vehicles are not such as to indicate the negligence of the drivers or laxity of control;
 - iv) that such repairs and replacements have been executed either by Government Workshops or by authorized dealers or garages in accordance with the orders of the competent authority;
 - v) Cost of the spare are as per rate fixed by the competent authority as per the schedule of rates of the manufacturer/ dealer.
 - vi) that the replacements of parts for which a life has been prescribed i.e. engine, tyres, etc., have been made only after completion of the prescribed life;
 - vii) that the vehicles have been periodically tested and inspected;
 - viii) POL consumption during repair/test run was not abnormally high,
 - ix) The inventory of equipment is scrutinized to see that it is checked by the Controlling officer periodically and losses, if any due to negligence or fault are promptly recovered.

(d) Recovery of Vehicle charges:

If in any case the Government vehicles or the hired vehicle under the control of the auditee organization was utilized for unofficial purposes, the cost towards the vehicles are to be recovered from the concerned official at the rate fixed by the government from time to time. Non-recovery or short recovery, if any, should be commented upon. In any cases where amount towards vehicle charges for exclusive use of staff car by the personal guests etc., of the high dignitaries like Governor were

recoverable from him, the matter should be discussed first by the Group officer/Pr. AG with the high dignitaries for remedial action. The question of further processing the objection would arise only if no remedial action is taken and that should be done through confidential letter.

[HQs circular No. 1 Audit/MOM/217-95 No. 146 Audit (MOM)/217-95 dt. 24.3.95]

7.15 **WORKS EXECUTED BY G&SS OFFICES:**

- (a) While scrutinizing the works executed by G&SS offices it should be seen that:-
 - i) expenditure on construction (residential or otherwise) and repairs executed by G&SS offices is treated as contingent expenditure of the department, when it does not exceed Rs 2500/- **present ceiling** in amount;
 - ii) when the amount exceeds the sum and the work (residential or otherwise) is still executed by G&SS offices, the expenditure is treated as 'works' expenditure of the department vested with the administrative control of the expenditure;

Note: The monetary limit is inclusive of the cost of land.

- iii) no expenditure on construction and repair of residential buildings borne on the books of the works and Buildings department is incurred by G&SS officers;
- iv) so far as non-residential buildings borne on the books of the works and buildings department are concerned, G&SS offices in occupation of them do not execute works of construction and repairs not more than Rs 2500/- **present ceiling** in each case in respect of such buildings, excluding all works and repairs in connection with sanitary water, supply and electric installation and provision of fire appliances which should invariably be executed through the agency of the works and buildings department;
- v) the Executive Engineer has been allowed to inspect the plans and estimates prepared by the agency employed by the G&SS officers;
- vi) on completion of a work carried out departmentally, the G&SS officer concerned has to send to the Executive Engineer the detailed completion plans after endorsing thereon the actual cost of the work;
- vii) in case, the work is carried out departmentally the advances drawn for the purpose are adjusted without delay;
- viii) in case the work is carried out through contractors, advances are not drawn and paid;
- ix) the contractor has not been paid for materials before they are actually utilized in the construction work;
- x) the completion certificate has been furnished by the disbursing officer, after satisfying himself, by measurement or otherwise, that the actual work done corresponds with the estimates and is covered by the total payments made.
- xi) no money is retained in hand after the close of the year and all that has been drawn and remaining unexpended on the 31st March have been refunded to the treasury;
- xii) in no case bills for work have been submitted before the work billed for is complete;
- xiii) no money sanctioned for one work has been spent on another work.
- xiv) work orders should not have been split up so as to avoid the necessity for obtaining the requisite sanction of higher authorities.

Note: The above procedure is intended for smaller works costing not more than Rs 5000/- present ceiling. For larger works including the works executed by the Development Authorities in respect of World Bank Assisted projects, the procedure should be on the lines of the procedure prescribed in Vol-II of this Manual.

7.16 MEASUREMENT BOOKS:

It should be seen as per Vol-II of this Manual.

7.17 MUSTER ROLL:

It should be seen as per Vol-II of this Manual.

7.18 CHECK OF DETAILED ACCOUNTS OF FESTIVAL AND OTHER ADVANCES GRANTED TO GOVERNMENT SERVANTS:

The accounts should be subjected to check by the field parties. It should be seen that a register wherein the payments made to an individual Government servant has been **recorded along with the date** of payment and the instalment of recoveries also are posted in that register.

7.19 AUDIT OF GENERAL PROVIDENT FUND ACCOUNTS OF GROUP “D” EMPLOYEES:

The following records are checked in local audit:

a) Index Register:

- i) the general index register is maintained in the prescribed form and is kept up to date ;
- ii) the account number has been allotted to a subscriber after obtaining the application for admission duly supported by a nomination in the prescribed form;
- iii) the number allotted has been noted in the index register as well as in the ledger;

b) Nomination of the subscribers:

the subscriber having a family, the nomination is not in favour of any person or persons other than the members of his family as defined in the GPF rules.

c) Subscriptions:

- i) the subscribers are contributing at the rate of not less than 6 per cent of the basic pay (Pay in band Pay + Grade Pay);
- ii) the amount of subscription fixed by the subscriber is not enhanced or reduced more than once at any time during the course of a year;

d) Withdrawals:

- (i) the temporary advances and non-refundable advances are sanctioned by the competent authority only for the purposes laid down in the rules or orders on the subject;
- (ii) purpose of Advances from the GPF accounts was as per rules, and supporting documents where necessary was submitted by the subscriber before sanction;

- (iii) withdrawal amount was deducted from Individual's GPF account on the date of issue of Cheque;
- (iv) the temporary advances are refunded in the number of instalments as laid down in the rules;
- (v) the advances are regularly recovered from the monthly pay bills;

e) Interest:

- i) the interest on subscriptions is allowed at the rate prescribed from year to year;
- ii) the interest in fraction of a rupee exceeding 50 paise is rounded off to the next higher rupee.

f) Provident fund ledger:

- i) the ledger accounts are maintained in proper form;
- ii) the name and designation of the subscriber, his account number and the fact of nomination having been accepted are neatly recorded in the ledger folio assigned to each subscriber;
- iii) the pay of the subscriber as on the 31st March is noted in the column prescribed in the ledger;
- iv) the head of the office or any other responsible officer nominated by him initials the Provident Fund Account monthly in token of having verified that the amount of subscription deducted, refund of advances and temporary and final withdrawals are posted correctly;
- v) Withdrawal from the General Provident Fund is recorded in the ledger and initiated by the DDO immediately on payment.
- vi) cent per cent cases of subscriptions and refunds of advances as shown in the GPF schedules are duly signed by competent authority and the payment of advances and withdrawals are correctly posted in the ledger accounts;
- vii) where balances at the credit of subscribers have been, received from other offices, complete details thereof are recorded in the ledger under the attestation of the competent authority;
- viii) ledger accounts are closed regularly every year and correct amount of interest has been credited to the ledger accounts of the subscribers;
- ix) accounts statements are issued regularly to the subscribers every year and their acceptance of the balance noted in their respective ledger accounts;
- x) if it was found that double debit of identical amounts of the same subscribers was recorded in the accounts, such debit/ entries should not be treated as a routine error or data entry mistake. In such case proper verification should be made with reference to the sanction order, and irregularities, if any, detected may be reported to appropriate authority of the State Government for further investigation.

(HQs. letter No. 727-AC-II/323-99 dt. 4.1.2002)

(g) Broad Sheet:

- i) it is maintained in the prescribed form;
- ii) it is closed regularly every month;
- iii) the total amount of credit booked every month in the broadsheet agrees with the total of GPF deductions made in the pay bills for that month and the total of the debits booked in the broadsheet agrees with the total of payment made out of the provident fund in that month as abstracted separately;

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

(h) Statement of totals of Debit and Credits:

The statements of totals of debits and credits as worked out in the Broadsheet each month are correctly prepared in the prescribed form and sent to the Head of the Department regularly every month, for onward transmission to AG (A&E), WB duly consolidated.

(Government of West Bengal, Finance Department order No.4576-F dated 27.10.69)

7.20 AUDIT OF LOAN GIVEN TO AGRICULTURISTS, LOAN SANCTIONED UNDER B.S.A.I. ACT ETC.:

Detailed individual accounts of loans payments and repayments of which are required to be maintained by the Departmental officers are subjected to check by the field parties. The local audit is normally conducted along with other transactions of the said offices. The main object of local audit is to ensure that the drawings and disbursement of loans are intra-vires the instructions issued by Government from time to time and the records prescribed for the purpose are maintained properly by the authorities concerned.

Local audit consists in seeing that:

- i) applications are in proper form and they set forth all the required details essential for sanction of loan;
- ii) the loan ordered is within the amount admissible under the rules and within the powers of the sanctioning authority;
- iii) amounts are drawn and disbursed only up to the required extent and not to avoid lapse of funds;
- iv) receipts and disbursement of money are properly and promptly recorded in the cash book;
- v) the fact of payment is clearly recorded and acknowledgement obtained from loanees;
- vi) security bond is kept in safe custody;
- vii) recovery of principal and interest is prompt and that in case of default, action is taken to recover the instalments with penal interest at prescribed rate;
- viii) in cases where recovery of instalments of loan and interest is vested in the revenue department, necessary advice or intimation in the prescribed forms is sent to them promptly and certificates or acknowledgements obtained wherever necessary;
- ix) loan ledgers and other subsidiary registers prescribed are maintained in the proper form observing the instruction issued from time to time and kept up to date;
- x) the demand, collection and balances statement shows the position correctly on any fixed date;
- xi) the periodical returns prescribed have been prepared and sent on the due dates to the authorities concerned;
- xii) loans are utilized for the purpose for which they were granted and there are no cases of diversion of funds and there are proper methods of ascertaining the same;

- xiii) the details of loans work up correctly to the lump sum total for the month and there is proper reconciliation of figures of the treasury with those of the departments concerned;
- xiv) a loan is not granted to a loanee who is already a defaulter in respect of another loan.

7.21 CHECK OF LICENCE FEE DEMAND STATEMENT OF GOVERNMENT RESIDENTIAL BUILDINGS :

The public works divisional officers are responsible for the recovery of the full rent of all residential buildings allotted to the Government officials. The PWD officers are required to send monthly, before the close of each month, the demand in duplicate/triplicate to the disbursing officers who will make necessary recoveries and return one copy of the statement duly completed to the PWD officers noting the amounts recovered from the occupants and other particular e.g. changes in emoluments of the tenant officers and arrears, etc., if any paid to them during the preceding month to determine, by the PW Divisional officers, actual rent recoverable from the official concerned. The field parties during local inspection of the offices are required to test check the records to ensure that the recovery of the dues from the concerned allottees are made by DDOs properly. In order to facilitate this check the DDOs are required to maintain a register showing the details of residences allotted, names and designations of the officers concerned, monthly emoluments of the allottees, details of demands raised by the PWD officers, details of recoveries made, bill number and TV number with dates etc.

Similar procedure is to be followed in respect of the residential buildings under the control of the departments.

The quanta of licence fee statements to be checked have been fixed as below:

i.	Gazetted Officer	10% of the statements of demands made and recoveries effected.
ii.	Non-Gazetted Officer	Recoveries effected during the months selected for detailed check in local audit

(HQs. letter No. 824-RAI/74-72 dated 1 7.9.79)

7.22 CHECK RELATING TO SUBMISSION OF POSTAL LIFE INSURANCE SCHEDULES:

The field parties while conducting audit of an office should specially examine and report whether the prescribed registers showing the recoveries of Postal Life Insurance premia are being maintained properly by the local office and the exact reasons contributing the delay in the submission of the schedules. It is the duty of the field parties to see that the schedules for Postal Life Insurance premia have been prepared and transmitted to the AG (A&E), WB along with the accounts or vouchers.

(BO No. OA-IC/81-82/1 dated 13.4.81)

7.23 PERFORMANCE AUDIT:

7.23.1 Introduction:

Performance auditing, hitherto variously termed as ‘Review’ or ‘Efficiency-Cum-Performance Audit’ or ‘Value for Money Audit’ have been further fine-tuned in the context of the ASOSAI Performance Auditing Guidelines and INTOSAI as well as INCOSAI Exposure Draft Implementation Guidelines for Performance Auditing Standards and contemporary best practices. Performance auditing is an independent assessment or examination of the extent to which auditee unit, programme or organization operates efficiently and effectively, with due regard to economy.

“Performance audit is concerned with the audit of economy, efficiency and effectiveness and embraces:

- audit of the economy of administrative activities in accordance with sound administrative principles and practices and management policies;
- audit of the efficiency of utilisation of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements and procedures followed by audited entities for remedying identified deficiencies; and
- audit of the effectiveness of performance in relation to the achievement of the objectives of the audited entity and audit of the actual impact of activities compared with the intended impact”.

7.23.2 Objectives of performance audit

Performance auditing has the objective of improving public sector administration and accountability by adding value through an effective programme of performance audits. One of the main objectives of performance auditing is to assist the people’s representatives in exercising effective legislative control and oversight over the policy objectives and their implementation. In summary, the performance audits may examine and report on:

- the quality of information and advice available to government for the formulation of policy;
- the existence and effectiveness of administrative machinery in place to inform the Government whether programme objectives and targets have been determined with a view to fulfilling policy objectives;
- whether, and to what extent, stated programme objectives have been met;
- the economy, efficiency, effectiveness, equity and ethics of the means used to implement a programme/activity;
- the intended and unintended direct and indirect other impacts of programmes/activities; for example, the environmental impact of Government activity, etc.; and
- Compliance to applicable laws and regulations in the context of the performance audit objectives.

7.23.3 Expected outcome of performance audits:

Performance audits have a dual role. It may 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.

7.23.4 Performance auditing and financial audit:

The performance auditor should be clear that the objectives, scope, nature of evidence and reporting in performance audits are different from those in the financial audits. Some of the major distinguishing features of regularity audits and performance audits are as under:

Features	Regularity audit	Performance audit
Scope	Generally covers a financial period (annual, biennium, etc.); Coverage is for the whole of the entity for the period; and Time bound - audit to be completed by a stipulated time.	Covers the subject/ programme over a period of time; Coverage is selective; and Focused only on a part of the entity's activities/programme.
Objectives	Attestation (opinion on) of financial accountability; Existence and control for safeguarding of assets; Evaluation of financial records; Audit of financial systems; Audit of internal control for safeguarding assets and completeness and accuracy of accounts; Audit of propriety of administrative decisions; Limited to financial matters; and Test for assuring compliance to law, regulations and rules.	Audit of economy, efficiency and effectiveness; Assessment of compliance applicable laws and regulations required in the context of audit objectives; Audit of internal controls that ensures economy, efficiency and effectiveness, ensuring adherence to management policies and timely and reliable financial and management information; Extends to non-financial/ governance subjects also; and Conclusions related to audit objectives.
Evidence	Financial statement per se, accounting documents, etc.; Transaction document; Conclusive nature of evidence; Materiality by amount; and Budgetary assumptions and appropriation, authorizations, etc.	Variety of forms of evidence; Quite often qualitative in nature; Persuasive rather than conclusive; Evidence related to pre-determined audit objectives; and Materiality guided more by the nature or by context rather than amount alone, etc.
Academic base	Generally accounting knowledge;	Always knowledge, based on laws social sciences, economics, development studies, public affairs, science and technology, etc.
Approach and methodology	More or less standardized, manual generally forms the entire basis.	Varies widely from subject to subject, Manual generally serves as basis framework.
Assessment criteria	Standardized (suitable to all audits) with little scope for subjectivity.	Widely varying and subjective with ample scope for interpretations; assessment criteria support the audit objectives, which are unique to the subject of performance

		audit.
Report	Opinion on the financial statement; Generally opinion on financial statements in standardized format; Opinion on compliance to laws, regulations and rules; Related to specific financial periods there is a periodicity of reporting; and Specific requirement and expectations.	Report/conclusions on economy and efficiency with which the resources are acquired and used and the effectiveness with which the objectives are met; Generally separate publications of each subject of performance audits. Wide-ranging in nature, open to interpretations and subjective judgment.
Overlap	Financial audits do not generally include the elements of performance audits.	There can be overlap in the sense that the performance audit may encompass techniques/methodologies applied to financial audit.

7.23.5 Mandate for performance audit:

Performance audits relating to receipt and expenditure of the Union and State Government, Government supported autonomous bodies and other public sector undertakings on a variety of subjects are being carried out by the CAG over the past 40 years, the reports on all of them having been presented to the Parliament and State Legislature under the constitution and under section 13, 14, 15, 16, 17, 19 and 20, as the case may be read with section 23 of CAG's (DPC) Act. 1971. The crucial issues of performance Audit are presented in two sections, the first section contains the important considerations in the context of management of the performance audit and consists of steps that must be traversed and documented to provide assurance of consistent high quality of audit. The second section consists of the most crucial issues in relation to techniques and documentation that should be applied to performance audit.

7.23.6 (A) Section - I – Audit Management Issues:

7.23.6 (A) (1) Strategic planning for performance audit

Strategic planning is the process of determining a long term goal of the institution and the best approach for attaining them. The salient points of the strategic planning for performance audit are as follows:

- Strategic planning for performance audit is not the same as the strategic planning of SAI India, but should be consistent with it;
- Set strategic goals and strategic plan to fulfil the strategic goals and objectives and document how the selected performance audits will accomplish them;
- **ENTRY CONFERENCE:** Active co-operation of the Departments concerned and their proper appreciation of the purpose of reviews by Audit are essential for them to be meaningful. Therefore, it should be mandatory for pre-review discussions or an entry conference to be held between the Group Officer and the Head of the Department/Secretary to Government concerned when suggestions could be sought or views exchanged on areas and aspects to be taken up for study. These discussions could also be utilized for ensuring that all assistance would be forthcoming from the Departmental officers in making available all necessary data and records;

- Prepare comprehensive directory of data sources, collect and update all possible data assist the strategic planning;
- Ensure that the strategic goals and objectives are set in the context of perceived risks and materiality of issues of financial, non-financial or governance nature;
- Be alive to the major policy shifts affecting the governance and large sections of public and select cutting-edge and sunrise subjects for performance audit,
- Pre-sense of the policy shifts and anticipation of the risks associated with the policy shifts and emerging national or international environment demonstrate the cerebral capability of the institution;
- Plan performance audits in time to ensure value addition to the management of the programmes and

7.23.6 (A) (2) Annual operational plan for performance audit:

- Consists of the subjects, including the subjects brought forward from the previous years that are to be implemented during the year;
- Provides an opportunity to review the plan in the light of new developments and risk assessment since the approval of strategic plan; and
- Provides a basis of for assessment of the performance of the Audit Offices on annual basis; and affords an opportunity to assess and reassess the skill and knowledge required and those available in-house, which forms a basis for training programmes, engagement of consultants/experts and outsourcing.

7.23.6 (A) (3) Performance audit implementation plan

- Gather all relevant data and documents to understand the entity and the programme;
- Intimate the entity about the intent to carry out the performance audit;
- Facilitate/persuade formal presentation by the entity to explain the various aspects of the programme;
- Invite representatives of other departments/agencies who have a stake in the programme by way of provision of funds, evaluation etc.
- State the reasons for conducting the performance audit by setting out audit objectives and sub-audit objectives;
- Set audit objectives in the form of complete statement of questions, the answer to which will satisfy the reasons for conducting the performance audit;
- Set audit objectives under distinct themes and sub-themes with reference to programme objectives, further developed in the context of audit concerns;
- Specify the audit concerns of economy, efficiency and effectiveness that the audit objectives and sub-audit objectives address individually or severally as also the equity and ethics aspects, in so far as they affect one or more of the primary concerns of economy, efficiency and effectiveness;
- Set quantitative and qualitative audit criteria against which the performance will be tested to develop audit findings;

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- Set one or more criteria for each audit objective or sub-objective;
 - Identify tentatively the evidence/data required to be collected for testing each criteria;
 - Identify sources of data and determine the methods of data collection;
 - Plan for procurement of expert advice or the services of consultant;
 - Assign duties and responsibilities; and
 - Make a formal presentation to the entity of the audit plan, including the audit objectives, criteria, evidence required and tentative location of audits and invite the representatives of other concerned departments also.

7.23.6 (A) (4) Use of expert, consultant and outsourcing

- Document transparently the assessment of knowledge and skill required for each performance audit;
- Examine and document how the required skill can be fully met in - house, without compromising the audit quality; and
- Follow the procedure in vogue within the SAI in the matter of procedure for procurement of services of expert/consultants.

7.23.6. (A) (5) Entity consultation, cooperation and response

- ◆ Entity cooperation and response being the hallmark of the success of performance audits, the PAG will be called upon to adopt a persuasive approach to attain goal-matching;
- ◆ Rather than quitting in the face of inadequate response, the objective will be continued making efforts with a view to making such cooperation a routine in time to come;
- ◆ The method of persuading the entity for full cooperation is left to the judgment of the PAG .
- ◆ The cooperation of the entity is not to be confused with agreement on all issues. Recognition of possibility of difference in opinion and its resolution is inherent in cooperation;
- ◆ Entity cooperation and response should be obtained throughout the performance audit process from the intimation of the intent to the recommendation and finally to the implementation of the recommendations; and
- ◆ Entity cooperation is to be secured through a series of transparent measures:
- ◆ Sharing of the subject selected for performance audit in the strategic plan with the Principal Secretary/Secretary/Head of the Department;
- ◆ Intimation to the Principal Secretary/Secretary/ Head of the Department when the subject is taken up for performance audit;
- ◆ Presentation by the entity for understanding the subject;
- ◆ Presentation by the PAG on audit implementation plan containing audit objectives, and audit criteria,
- ◆ Request for agreement with the criteria;
- ◆ Entry and exit conference;

- ◆ Discussion papers and audit observations,
- ◆ Formal presentation of audit findings, conclusions and recommendations; and
- ◆ Follow-up procedures involving implementation of the recommendations.

7.23.6. (A) (6) Supervision and review

- Supervisory responsibilities should be delineated in the audit plan;
- Supervision trail, as far as possible, must be maintained for subsequent review; and
- The performance audit work and documentation should be reviewed as per the plan as well as at random intervals.

7.23.6. (A) (7) Monitoring progress and periodic reports

- The frequency of monitoring by various levels of officers should be built into the audit plan;
- Progress report on various stages of performance audit cycle should be built into the plan and should be submitted with appropriate explanatory note and
- PAG to submit quarterly 'work-in-progress' report to the SAI top management with explanatory notes.

7.23.6. (A) (8) Quality assurance and quality control

- The members of audit team and supervisory officer will be made aware of the quality control system within the offices of the PAG and in SAI headquarters;
- All audit personnel ought to be aware of the quality assurance system established in SAI India and ensure compliance to the quality standards;
- Assurance memo in the prescribed format will be enclosed with (i) strategic plan, (ii) annual operational plan, (iii) audit implementation guidelines and (iv) draft performance audit report;
- SAI may draw up a quality assurance programme for each office; and
- A summary of the results of quality assurance reviews should be published highlighting good practices for emulating and deficient practices and procedures to be addressed for improvement

7.23.6(A) (9) Duties and responsibilities and accountability

The duties and responsibilities of each member of the audit team, Supervising officer shall be stated clearly with reference to compliance to the prescribed procedures, professional conduct, field audit, evidence/data gathering, quality of data and documents, documentation, dialogue with entity, audit test, audit findings, recommendations, guidance to the team members, monitoring, supervision and reporting and preparation of reports etc.

- A review may be made during the course of audit and upon conclusion of the performance audit on the quality of fulfillment of the responsibility by the performance audit team members and supervisors;

- PAG may prescribe assurance memo to be furnished by the Group Officer and the supervising officer for each performance audit and on completion of the audit of each unit or stage in the performance audit;
- Assessment of the quality of audit and the performance of audit personnel for each procedure, data collection, data analysis, documentation and output of the performance audit cycle enhances the quality of performance audit.

7.23.6 (A) (10) Process documentation

- Process documentation of all management actions and judgments may be retained throughout the audit to provide a trail for review of management actions;
- The process document should contain all considerations that do not form part of the working papers for the performance audits in support of the audit findings, conclusions and recommendations; and
- The more important among the process documentation should be sent to SAI top management, which demonstrates management action, and an assurance memo in the format prescribed by SAI top management along with the draft performance audit report.

7.23.6 (A) (11) Impact evaluation of performance audits

- All performance audits will be conducted keeping the expected impact on the programme in mind. The expected value addition- qualitatively and quantitatively- will be estimated before taking up the performance audits;
- Impact evaluation against the expected impact of each performance audit and collectively for all performance audits conducted by PAG shall be carried out annually; and
- The impact evaluation will be carried out with reference to the recommendations accepted and implemented.

7.23.6(B) Section — II — Critical Technical Issues

7.23.6 (B) (1) Fundamental principles

- Performance audit is an assessment of efficiency and effectiveness of the programmes, with due regard to economy;
- Addresses the issues of inputs, processes, outputs (products) and outcomes (impacts);
- Apart from the question whether the things are being done in the right way, it also addresses the question of whether the right things are being done, in other words, it also focuses on what is not being done rather than only on what is being done;
- Performance audits also address the issues of equity and ethics, which impacts one or more of the core concerns of economy, efficiency and effectiveness, which include, apart from others, integrity in preparation of performance reports;
- Distinction between regularity and performance audit should always be kept in mind;
- Performance audits are undertaken with the objective of improving performance of public sector programmes and therefore, an assessment of the expected impact- qualitative and quantitative on the programme must be made before undertaking the audit;

- The subjects selected for performance audits could be a programme, segments of a programme — including the processes, procedures and systems, an entity itself or parts of an entity etc.
- The subjects of performance audits could be financial, non-financial or public interest and governance issues;
- The subjects selected for performance audits should include cutting edge issues that form the core of governance and sunrise issues in the light of policy shifts;
- Pre-sense of the risks to programmes or public interest demonstrates the competence of the institutions;
- Performance audits can be carried out posterior or concurrently;
- Performance audits use many techniques used in programme evaluation;
- While the performance audit may and should assess the implementation of the policy through one or more programmes, the scope of audit should be limited to assessing and impact of the implementation of policy, and the policy per se should not be questioned;
- Performance audit conducted in time, when there is scope for remedial measures is encouraged; and
- Performance audits being knowledge-based exercise, in which conclusions emerge from interpretations, call for special skills, knowledge and competence of the audit personnel.

7.23.6.(B).(2) Audit plan for programme-guidelines for conducting audit

- The detailed audit implementation guidelines will consist of all relevant information and document required for complete understanding of the entity, besides the audit objective, criteria, types and sources of evidence to be gathered, audit test programme, delineation of duties and responsibilities among team members and supervisors, progress reports etc;
- The implementation guidelines should be such as to address all issues designed in the prescribed structure;
- Unless authorized by general or special order, the performance audit guidelines will be approved by SAI top management.

7.23.6.(B).(3) Audit objectives

- Audit objectives will be the focus of field audit and data collection;
- All audit objectives and sub-objectives will address one or more of the core audit concerns of economy, efficiency and effectiveness and the concerns addressed by each audit objective and sub-objective will be identified against each of them;
- The evidence testing will also revolve around the audit objectives; and
- Audit objectives need not be limited to testing of the programme objectives. The audit objectives go much beyond the programme objectives to test the programme for economy, efficiency and effectiveness.

7.23.6. (B). (4) Audit criteria

- The audit criteria are performance measures against which the evidence is tested for arriving at the audit findings and conclusions;
- For each audit objective or sub-objective there must be at least one criterion and testing on more than one criteria against the same audit objective enhances the acceptability of audit findings and makes them convincing;
- The audit criteria should be acceptable to the entity;
- In the event of disagreement in a few cases, it may be a good practice to request the entity to suggest alternative criteria;
- All possible sources of criteria should be consulted to arrive at the best fit;
- Criteria developed by or in consultation with the experts of repute assume enhanced credibility and are easily acceptable;
- Institutional consultancy for criteria and for other consultancy or advice in the performance audits have better credibility and acceptance;
- Performance criteria prescribed in the programme or later developed by the entity should be tested for appropriateness and unless otherwise established that they may hide underperformance or over-pitch the performance, these should be adopted in performance audits;
- The performance audit need not confine to the entity established criteria, but should go beyond to establish more criteria to provide tests for all audit objectives and sub-objectives; and
- The ultimate objective should be to persuade the entity to include performance criteria within each programme.

7.23.6.(B).(5) Audit evidence for testing against criteria

- All data and evidence to be gathered will, as far as possible, be pre-determined with reference to each criterion, which are intrinsically linked to each audit objective or the sub-objective;
- The sources and location of data/audit evidence and method of gathering them shall be determined in the audit implementation plan.
- Evidence in support of each audit finding will be transparently tested on the standards of relevance, competence and sufficiency (reasonableness) in the working papers;
- The secondary evidence viz. surveys, photographs, physical inspection etc. should be corroborative and should not form the only basis of audit finding, unless accepted by the entity;
- PAG are encouraged to identify secondary/corroborative sources of evidence and establish means for gathering them with the approval of the SAI's top management; and
- They may also determine approach and methodology for physical verification in programmes in which asset verification and beneficiary survey are crucial inputs to establish the actual delivery or the output and the quality of output/delivery. While nothing prevents physical verification by audit team, the question of credibility and acceptance should also be taken into account, since physical verification by audit team may sometimes be contested later as incorrect. Some of the methods that could be considered are joint physical inspection with

attestation from both sides, survey by reputed agencies, etc.

7.23.6(B).(6) Sampling

- The audit findings should be based on objective sampling and the sampling techniques use should be disclosed;
- As far as possible, statistical sampling techniques should be used;
- Assistance of statistical adviser in the SAI headquarters may be obtained for statistical sampling; and
- Adequate sample size should be selected to be able to generalize the audit findings and be able to meet the standard of sufficiency.

7.23.6 (B). (7) Audit findings

- Audit findings should be developed on the basis of audit tests carried out on the sample;
- Audit findings should be in the context of audit objectives and criteria;
- The causes of underperformance should be determined to be able to recommend remedial measures; and
- All evidence used for audit findings should be tested transparently on the standards of relevance, competence and sufficiency and the basis, on which the satisfaction of fulfilling the standards is established, should be documented in the working papers.

7.23.7 Reporting Process

SAI India's Auditing Standards stipulate inter alia 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 audit, the report should include a description of the scope and coverage of audit, objective of audit, main findings in respect of efficiency, economy and effectiveness (including impact) aspects of the subject matter which was audited and recommendations suggesting the improvements that are needed’.

7.23.8 Characteristics of good report

The following points need to be emphasized 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 obligation for the audit report to be accurate implies that the evidence prescribed is true and the conclusions are correctly portrayed;
- The objectivity of audit report is ensured through fair conclusions and balanced content and tone;
- The audit report is convincing if the results of audit are presented persuasively and the conclusions and recommendations followed logically from the facts presented;

- The report should be clear, which signifies that it should be easy to read and understand;
- The report should be concise, which requires that the report should be of optimum size, no longer than necessary to convey the audit opinion and conclusions;
- 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;
- Consistence 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; and
- The acquiescence to the report, including of the audit conclusions and recommendations grows with display of entity cooperation, entity responses, audit methodology, audit criteria and evidence, etc. within the performance audit reports.

7.23.9 Focused reporting

At various stages, during the performance audit, the audit team and Accountants General will be required to issue different forms of reports. While writing the various reports, it is important to keep the final report in mind. It will be expected that the entity response by way of confirmation of the facts and figures and acceptance of audit findings and conclusions are sought/obtained at each stage to minimize the unresolved issues at the stage of development of the draft performance audit report. This modular approach, apart from facilitating the development of the final performance audit report, would also provide assurance of high quality of audit throughout.

7.23.10 Discussion papers

Discussion papers serve to confirm the facts with the entity and assist the performance auditor to detect at an early stage possible mistakes in understanding the subject, possible weakness in audit findings and the supporting evidence or the logic rather than when the entity points out on receipt of the draft report.

A discussion paper containing suggestion duly approved by PAG is designed to bring together findings and conclusions for a specific segment or area of audit, which may not be formatted with the precision, expected in the final report but should be self-contained (including the sources and types of evidence used) and logical. The discussion papers could be prepared for internal use or for discussion or response of the entity.

7.23.11 Risk involved with discussion papers

The PAG should be aware of the possible risks to performance audit associated with issue of discussion papers. It is not uncommon for the entities to overreact or tend to be uncooperative with the issue of the discussion papers. Desirable response may be available from the auditee if it is made clear that these are preliminary findings and are intended for facilitating a dialogue to sort out any weakness in development of the audit findings and for obtaining entity response at an early stage and may be discussed with the entity with a request for a written response.

7.23.12 Audit observation:

Audit observations are developed keeping the field audit report and the final report in mind. These may be developed from the discussion papers and the response of the entity to them or directly as a result of audit test programme if the audit team is confident that convincing and logical audit findings and conclusions can be developed straightway as audit observation. 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 field audit report and finally in the draft performance audit report. It is a measure of skill and competence of the supervising Sr. AO/AO if audit findings, conclusions and recommendations (where applicable) on one segment or theme are included in a single audit observation rather than dispersing them in many audit observations.

7.23.13 Exit conference/interview

Audit observations form the basis of the formal exit conference/interview with the entity chief at the conclusion of the audit of each field unit. It assists the entity in providing its comments for consideration in preparing the field audit report or the draft performance audit report, as the case may be. Ideally the audit observations should contain the bulk of the information, findings, conclusions and recommendations and they may differ from the field audit report or draft performance audit report, only to the extent warranted by the entity response.

7.23.14 Draft performance audit report

Draft performance audit report is to be prepared by the PAG upon conclusion of the field audit of the controlling unit of the entity and all field units selected for audit. This draft audit report should be prepared exactly similar in form and content as the final report to seek formal response of the entity.

It is important that the draft report describes the objectives and scope of the audit to enable any 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.

7.23.15 Level of details in the report

Emphasis on quality of performance audit report implies inter alia that it should be self-contained in the sense that a reader is able to understand the scope, audit objectives, audit criteria and evidence used, audit findings and conclusions in a logical manner. At the same time, the standard of conciseness of the report entails that it should be brief.

7.23.16.1 Content of the report

The content of the report should be consistent with the provisions of SAT's Auditing Standards, and should:

- contain title, signature and date, objective and scope of audit, addressee (not necessary when formal procedures exist for its delivery);
- be complete;
- identify the subject matter viz. areas of performance audit and the legal basis of audit;
- provide assurance that audit has been carried out in accordance with generally accepted procedures in compliance with the standards; and
- be timely.

7.23.17 Data in the report:

Excessive statistical data diminish the readability of the report. However, quite often inclusion of statistical data in the report is either inescapable or necessary to explain the findings. Where inescapable, the explanatory data may be included in the form of annexes or appendices, as the case may be; keeping in mind that too many annexes or appendices may make the report appear longer.

7.23.18 Adherence to style guides:

The presentation and language of the performance audit report should abide by the ‘style guide’, as detailed in **paragraph 6.3** of this manual.

7.23.19 Structure of Performance Audit Report:

The performance audit report should be presented as per the following structure:

- **Title:** The subject of the performance audit,
- **Highlights:** Major audit findings either in the sequence of their materiality or in the same sequence as the audit objectives and sub-objectives;
- **Recommendations:** Recommendation may be included at various places in the report in different contexts. All major recommendations should be presented together, immediately after the highlights, preferably, in a box or highlighted print. Ideally all matters of facts/figures/evidence, audit findings and conclusions included in the report should have been accepted by the entity by the time the final report is prepared.
- **Introduction:** It consists of a brief description of the subject of study, information on programme/ activity/ 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;
- **Scope of audit:** Scope of performance audit in terms of the period of the programme covered in audit and segments of the programme audited should be set out precisely;
- **Audit objectives:** These should 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;
- **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 Methodology:** Audit Methodology 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 findings:** In respect of economy, efficiency and effectiveness the audit findings should be presented in a logical manner, preferably in the same order as the statement of the audit objectives.
- **Conclusions, recommendations and impact (outcome) analysis:** With reference to each audit objective it should be stated, preferably immediately following the audit findings. The completeness of the report enhances if recommendation(s) with respect to each conclusion is/are kept together with the conclusions.
- **Lessons learnt and sensitivity to error signals:** Significant audit findings on sensitivity and effectiveness of the internal control system to ensure that the management recognized major causes of underperformance brought out in internal or external studies/reports, including past audit reports and the remedial measures may be included. Also the audit findings on the sensitivity of the management to various error signals generated through internal inspections, evaluations, media reports, complaints, study by interest groups etc. and effectiveness of the action taken may also be included. In both cases, the audit findings that could have been avoided with effective lessons learnt and error signal response system may be highlighted.
- **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 PAG to seek cooperation or response. Care should be taken to state them as a matter of fact rather than giving an impression to convey any accusation;
- **Graph, charts, diagrams, photographs, etc.:** The audit findings may be illustrated with the use of graphs and charts to improve the visibility of the analysis and findings. Photographs can be used as evidence where they are able to corroborate evidence.
- **Glossary of terms:** Explaining all technical and uncommon terms used in the report that need to be explained.
- **References or bibliography:** Containing reference to all published material utilized in developing the report.
- **Forwarding of the draft report:**
The draft performance audit report to be forwarded to the Government with a demi-official forwarding letter to the Secretary /Principal Secretary of the concerned department, 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;
 - ❖ attention to the orders of the Government issued on the recommendations of the Parliamentary/ Legislature Committee, setting 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.

The Pr. AG may forward simultaneously a copy of each of the draft performance audit report and the forwarding letter to the Principal Secretary/Secretary of the department and to the CAG's office along with the following:

- ❖ evidence for each audit findings and conclusions along with test of evidence against the standards of relevance, competence and reasonableness, sources of evidence, evidence analysis along with cross-references to the findings and conclusions;
- ❖ copies of basic documents referred to in the report viz. rules, orders, acts, correspondence etc., with cross-references;
- ❖ details of all correspondences, meetings, presentations, etc. with the entity with cross-reference, where applicable;
- ❖ complete audit management process documentation from the stage of audit planning (implementation guidelines) to the processing of the draft report, which demonstrates conscious application of thought on all major issues involved with the management of the audit;
- ❖ an assurance memo in the prescribed form;
- ❖ period during which audits were conducted in the field along with break up for each stage/unit; and
- ❖ names and designation of the members of the audit team and supervisory officer.

7.23.20 Response of the entity

It is important that the entity is persuaded to provide written response to the draft performance audit report. This may be achieved through correspondence, personal meetings and presentation of the draft audit report. On receipt of the response of the entity and observations of the Head Quarter (CAG's office), the modifications of the report as required are made and the draft report is forwarded to the CAG's office for approval.

7.23.21 Final report

On approval of the report by CAG, the report stands cleared for printing of the prescribed numbers of copies. The signed copies of the report should be forwarded to the government for placing it on the table of the State legislatures. Simultaneously, intimation on forwarding of the report along with a copy of the report is to be sent to the secretary to the Governor in respect of the reports relating to the state government. The remaining copies of the printed reports are forwarded to the Legislature Secretariat generally on the day the report is presented.

7.23.22 Quality assurance of reporting:

Quality assurance of reporting process and the final output is assured by:

- adherence to the auditing standards and the guidelines;
- transparent audit and audit management process documentation of entire reporting process;
- securing entity response at all stages of performance audit process;
- concurrent supervision and control by the Pr. AG;

- quality control assessment and review by SAI top management before approval of the report; and
- technical inspection by SAI and peer review of the performance audit process.

7.23.23 Recommendations and follow-up procedure

- All audit reports must contain recommendations arising out of audit finding and the cause of audit findings;
- As the performance audit revolves around the audit objectives, the follow-up procedure is built around the recommendations and the impact of performance audit is measured on the basis of implementation of the recommendations; and
- The follow-up procedure is conducted with reference to the nominal information on the implementation of the recommendations and the quality of implementation of recommendations through a more detailed follow-up audit.

(Performance Auditing Guidelines)

7.24 AUDIT OF PROFORMA ACCOUNT OF DEPARTMENTAL UNIT ACTIVITIES WHICH ARE OF COMMERCIAL / QUASI-COMMERCIAL CHARACTER:

7.24.1 General Introduction

There are certain concerns which are run departmentally and commercially. These are subject to Government rules and procedures (sometimes with minor modification). It may be necessary that the financial results of the undertakings are expressed in normal commercial form so that the cost of the service or of the undertaking may be accurately known. This implies the maintenance of suitable Capital, Manufacturing, Trading and Profit and Loss Accounts as the Government system of accounts, being on a purely cash basis is unsuitable for commercial accounts. The commercial accounts are kept on a proforma basis. The actual transactions entering into these proforma accounts except those adjusted on a purely liability basis, find a place primarily in the regular accounts and commercial accounts are additional as well as separate.

7.24.2 Scope of Audit

The general principles of commercial audit are applicable in relation to audit of a Departmental Commercial (or quasi-commercial) Undertaking.

7.24.3 Preparation of Proforma Accounts

The GOI with the approval of the CAG has introduced the following procedure for preparation of Proforma Accounts of Departmental Undertakings.

- i. All Undertakings would operate both the Revenue and Capital Heads. In order to operate these Heads for the first time in the Proforma Accounts to be prepared under the revised system, the existing Government capital may be divided into two parts, viz., **(a)** Government capital and **(b)** Government current account. The Government capital account will be equivalent to the cost of fixed assets (net) and other expenditure on capital account, if any, including advances on capital head. The balance of the existing Government capital less amount on Government Capital Account will represent Government current account on the same date.

The O.M. No. FI 135-13/71 dated 9.6.1975 of the Ministry of Finance (circulated vide HQs. Circular No. 466-CA IV/57/69 dated 27.6.1975) clarifies that in actual implementation of the foregoing principle, difficulties may arise in arriving at net value of fixed assets in undertakings where Depreciation Reserve is maintained and gross value of fixed assets is exhibited on the assets side of the Balance Sheet and the depreciation reserve fund does not exactly represent cumulative depreciation. In view of this, it has been clarified that the Government capital account will be equivalent to the cost of fixed assets (net) where gross value is not known as on 1st April 1973 and in cases where the gross value of the fixed assets is known, that (gross value) should be adopted for the purpose of computing Government Capital Account as on 1st April 1973.

- ii. All capital expenditure should be financed out of the capital Head while revenue expenditure should be met out of revenue head. Capital expenditure financed out of capital should be treated as Government capital.
- iii. All withdrawals and remittances of Revenue Account should be debited/credited to a current account. All remittances on capital account should be adjusted against Government capital account, which includes the withdrawals.
- iv. All adjustments, whether for withdrawals or remittances, will be made in the Government capital or current account, as the case may be, depending upon whether such transactions are in connection with capital acquisition or for working capital purpose.
- v. The profit or loss should not be merged with the Government capital but should be shown separately on the liability side or the assets side of the Balance Sheet as the case may be.

Interest on capital should be calculated on the total capital (both Government capital and current accounts). As interest will be revenue expenditure, its adjustments will be made in the Government current account for exhibition in Proforma Accounts.

The above procedure has been given effect to in the Balance Sheet and Profit and Loss Account from the accounting year 1973-74.

7.24.4 Capital for calculation of Interest

The Interest on Capital to be adjusted in the Proforma Accounts of commercial concerns maintained outside the Government accounts is to be calculated on the amount of total capital outlay made up of net funds drawn under both capital and revenue heads. For charging interest in Government accounts, capital outlay may be arrived at as follows:

(i)	Government capital as per last account	X
(ii)	Add withdrawals during the year	Y
(iii)	Less remittances during the year	Z
(iv)	Add net adjustments during the year	P

The capital for the purpose of Interest = 1 (2X+Y-Z+P)

For the purpose of calculating Interest on Capital for a particular year, the profit or loss for that year should be excluded.

It is possible that the balance of the Government current account appearing on the liabilities side of the Balance sheet is a minus figure. This signifies more remittances into Government treasury by the department. According to commercial accounting principles, a debit balance should more appropriately appear on the assets side instead of being shown as minus balance on the liabilities side of the Balance sheet.

It has been decided that provident fund, festival, cycle and other advances paid to the employees in the Departmental Undertakings should be excluded from the proforma accounts in view of the fact that these advances do not form part of the expenditure or income of the Undertakings and consequently, of the cost of operation or service.

7.24.5 Checking of Proforma Accounts

- (i) The opening balances of stocks given in the Profit and Loss Account, Manufacturing Account and Stores Accounts should be compared with the closing balances of the previous year and differences, if any, should be reconciled and corrected or explained in a foot note below the accounts.
- (ii) The amount of depreciation charged in the Profit and Loss Account, Manufacturing Account, Workshop Account, etc. should be tallied with that shown credited to depreciation reserve in the Balance sheet or deduction from the accounts.
- (iii) The fixed assets in the Balance sheet should be shown with their opening balance, additions during the year, depreciation charged (if not credited to Depreciation Reserve) and sales or transfers working to the net closing balance of each asset.
- (iv) The capital account in the Balance Sheet should incorporate the particulars under the following headings:-
 - (a) Opening balance.
 - (b) Add/withdrawals during the year.
 - (c) Total.
 - (d) Less remittance during the year.
 - (e) Add/Less adjustments during the year.
 - (f) Net total.
- (v) Store Accounts should bear the certificates of physical verification. Cases where physical verification was not done during the year should be mentioned in a foot note below the Accounts.
- (vi) In the Accounts, the comparative figures of the previous year should be given on the left hand side and the details and the figures for the year on the right hand side.
- (vii) Audit comments should include remarks or observations which help the reader to understand and appreciate the significant points brought out in the proforma accounts. Important irregularities in respect of the Government Commercial concerns should invariably be given in the form of Draft Paragraphs for incorporation in the conventional Audit Report (General & Social Sector).

AUDIT CERTIFICATE

I have examined the Balance Sheet of as atand Profit and Loss Accounts for the year ended as on that date along-with the schedules annexed thereto and report that:

Subject to observations in the separate audit comments

- (i) I have obtained all information and explanations which were necessary for the purpose of our audit.
- (ii) In my opinion proper books of accounts as required by Act, Regulations guiding the undertaking have been kept so far as it appears from the examination of these books.
- (iii) Balance Sheet and Profit and Loss Accounts dealt with in this report are in agreement with the books of accounts.

In my opinion and to the best of my information and according to the explanations given to us, the said accounts with notes thereon give a true and fair view.

- a) in the case of Balance sheet of the state of affairs as at
- b) in the case of Profit and Loss Accounts, the loss profit of the Undertaking for the year ending

Sd/=

Sr. Audit Officer /Dy. Accountant General (GSS-I)

7.25 (A) AUDIT OF NON-COMMERCIAL AUTONOMOUS BODIES AND NON-GOVERNMENT INSTITUTIONS:

7.25.1 Statutory provisions:

By virtue of the provisions under Articles 149 of the Constitution of India, the CAG is empowered to conduct audit of all Government transactions as well as accounts of autonomous bodies formed either by or under any law made by parliament or under any State Act, (enacted by the State Legislature). The duties and powers of the CAG in relation to the audit of the autonomous bodies are regulated by Sections 14, 15, 19 and 20 of the CAG's DPC Act, 1971. In addition, there are several other enactments of Parliament, which provide for duties and powers of the CAG in relation to the audit of the accounts of corporations, companies and other autonomous bodies and the comprehensive enactment of 1971, given in Section 19(1) & 19(2) thereof.

Note: The "Body" or "Authority" as interpreted by the Attorney General of India is an aggregate of persons or body whether incorporated or unincorporated exercising power or command vested in it by virtue of provisions in the Constitutions or Acts passed by Parliament or the State legislature.

(Paragraph 1.03 of the Manual of audit of Autonomous Bodies)

Note: As regards to the question whether a body or authority established by a State/Union territory Government would constitute a corporation within the meaning of Section 19(3), it has been held in consultation with the Ministry of Law and Justice that a body corporate established by a State or Union Territory Legislature having perpetual succession with a common seal, with power to acquire and dispose property, contracting obligations and of suing and being sued in its corporate name would be treated as a corporation.

(Joint Director TAI letter No.762-TAI/37-74 Vol-II dated 10.9.74)

(i) Audit under Section 14 of the DPC Act, 1971:

Audit under Section 14 is taken up only after the annual accounts are audited and certified by the auditors appointed for the purpose by the autonomous body/Government, in accordance with legal provisions relating to the body. Where, however, no regular auditor have been appointed and or annual audit has been in arrears for a considerably long period, there is no objection for audit u/s 14 to be taken up first but in such cases, audit should be so conducted as to see that in case the CAG required to certify the accounts also, the accounts can be duly certified.

(Paragraph 3.01.05 of the Manual of audit of Autonomous Bodies)

Audit under section 14 should be construed as intended to go beyond the financial audit already conducted by other auditors and hence is akin to operational or management audit. Audit under this section is hence a second audit for an objective entirely different from the one which the organization/government had appointed auditor for annual certification of accounts.

(Paragraph 7.04 of the Manual of audit of Autonomous Bodies)

Certification of accounts is not obligatory under this section and such certification will be undertaken only where CAG is to act as sole auditor under other provisions of the Audit Act, (Section 19 or 20 as the case may be).

(Paragraph 2.04.09 of the Manual of audit of Autonomous Bodies)

Under Section 14 (1) it is obligatory for the CAG to audit all receipts and expenditure of anybody or authority and to report thereon, if the body or authority has been substantially financed by grants or loans from the Consolidated Fund of India, or of any State or Union Territory having a Legislative Assembly. A body or authority is deemed to be so financed, if the amount of grant or/and loan to it in a financial year is not less than Rs 25 Lakhs and is also not less than 75 per cent of its total expenditure in that year. **Section 14(2)** empowers the CAG to audit all its receipts and expenditure with the previous approval of the President or the Governor of the State or the Administrator of the Union Territory, as the case may be, if the amount of such grants and/or loans is not less than Rs 1 Crore. If amount of grants and or loans is not less than Rs 1 Crore and also forms not less than 75 per cent of the total expenditure of the institution, it will attract audit by the CAG under Section 14(1). Only when the later part of this condition is not satisfied, audit under Section 14(2) will arise. Once an institution comes under the audit of CAG by virtue of the provisions of Section 14(1) or 14(2), such audit will continue for two more years following under **Section 14(3)**, even if the conditions prescribed in Sections 14(1) or 14(2) are not fulfilled in those years.

[Paragraph 2.6.4 of MSO (Audit), 2002]**(ii) Audit under Section 15 of the DPC Act, 1971:**

Section 15 of the Act describes the functions of the CAG in the case of a grant or loan given for any specific purpose to any authority or body from the Consolidated Fund of India or of a State or Union Territory, having a Legislative Assembly. Under **Section 15(1)**, the CAG is responsible for scrutinizing the procedures by which the authority sanctioning such grants or loans satisfies itself as to the fulfilment of the conditions subject to which such grants or loans were given. In terms of **Section 15(2)**, if the beneficiary is a corporation and provides for audit of its accounts by some other agency, the CAG can have the right of access to its books and accounts if authorized so to do by the Governor of the State. However, these aspects are part of the scope of our audit even under **Section 13** of the Act.

Section 15(1) has two parts. The **first part of Section 15(1)** imposes a statutory responsibility on our department to scrutinize the procedures by which the authority sanctioning a grant or loan for any specific purpose to any authority or body from the consolidated fund of India or of any State satisfied itself as to the fulfilment of the conditions subject to which such grants or loans are given. The **second part of section 15(1)** subject to the provision there-under and subject to what is stated in Section 15(2) gives the CAG the right of access to the books and accounts of the authority or body in receipt of such grants or loans, where the CAG has this right in terms of section 15, it can be exercised by him at his discretion, in other words, it is not obligatory that the books and accounts of the which are open to audit, by the Audit Department, must necessarily be scrutinized.

(HQs. letter No. 214-TA/36-74 dated 25.3.74)

(iii) Audit under Section 19 and 20 of the DPC Act, 1971.

The audit of the accounts of the Government companies shall be performed under **Section 19 (1)**. **Section 19(2)** empowered the CAG to conduct the audit of the accounts of the corporations (not being companies) established by or under law made by parliament. Under **Section 19(3)**, the CAG is required to audit the accounts of any such body or authority established by the legislature of the State or of the Union Territory, as the case may be, if requested so to do by the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be such a request can, however, be made only after consultation with the CAG. For conducting the audit, the CAG will have right of access to the books and accounts of the body or authority concerned. All bodies and authorities, not covered by Section 19 are covered under **Section 20(1)**. The essential requirements for audit under Sections 19(3) and 20(1) are (i) the audit can be entrusted to the CAG only in public interest; (ii) no audit can be entrusted to the CAG except after giving a reasonable opportunity to the body to make representations with regard to the proposal for such audit; (iii) the request of the government is made only after consultation with the CAG; and (iv) the audit was entrusted on such terms and conditions as may be agreed upon between the Government and CAG. Under **Section 20(2)**, where the audit of accounts of a body or authority has not been entrusted to the CAG by law and he is of the opinion that such audit is necessary because a substantial amount has been invested in or advanced to the body or authority by the Central or State Government or by the Government of a Union Territory he may propose to the President or the Governor of the State or the Administrator of the Union Territory, as the case may be, that he may be authorised to undertake the audit. On such proposal, he may be empowered to undertake the audit by the authority concerned.

7.25.2 Audit Objectives and Scope:

The objectives of audit of accounts of autonomous institutions under Sections 14, 19 and 20 of the Act are two-fold: the first is aimed at watching utilisation of the financial assistance provided by Government and the second is concerned with the certification of annual accounts. Though the scope of audit under all these sections can cover both these objectives depending on the facts of each case, in practice however, the certification of annual accounts is undertaken only under the provisions of Sections 19 and 20, while the audit of utilisation of Government assistance can be undertaken under all the Sections. In the case of autonomous bodies which depend on Government to a considerable extent for financial assistance for execution of their schemes or to tide over ways and means difficulties, mere certification that the accounts present a true and fair picture of the body on a particular day cannot be considered adequate for the purpose of audit. It is essential in all such cases

to go beyond the requirement of certification of annual accounts and to probe into aspects relating to efficiency, performance, propriety, etc. in relation to the utilization of the resources made available to them by Government. For all practical purposes, no distinction need be drawn between “audit of receipts and expenditure” referred to in Section 14 of the Act and “audit of accounts” referred to in Section 19 and 20.

The adequacy of the existing audit arrangements in respect of an institution is to be judged by (i) the regularity with which it is audited; (ii) the coverage of such audit; (iii) the qualifications and expertise of the audit personnel; (iv) the quality of independence; (v) the promptness in reporting the audit findings; (vi) the quality of reporting; and (vii) the action taken by the authorities to whom the audit findings are reported. Attention of the appropriate authorities should be drawn where the audit arrangements are not adequate and, if need be and permissible, the audit should be taken up by the CAG. It is not essential for him to take up detailed audit in cases where the audit arrangements are found to be adequate.

7.25.3 Procedure of audit:

a) Before taking up the audit of the Autonomous bodies the Supervising Officer or in his absence AAO/Supervisor of the field party should chalk out an audit plan/strategy and accordingly distribute the work as per the plan and obtain work done statement in respect of each member of the field party and submit in the SAR file.

b) Audit under section 14 covers both the receipts and expenditure of the Institutions concerned. The act under which the body is constituted, the rules framed under the Act are required to be studied by the field parties and it may be generally reviewed whether the body is functioning in accordance with the provisions thereof. The validity of membership of the governing body, disqualification if any, and deliberative actions of the body should be examined to see whether they are ultra-vires of the Act and Rules and commented upon in the IR. Schemes executed by the bodies should also be reviewed to see whether the schemes are successfully implemented and the socio-economic efficacy of such schemes is to be evaluated in the Audit Report. Cases of infructuous or avoidable or unproductive expenditure should be commented upon comprehensively, supported by copies and extracts of relevant orders, etc. to facilitate their examination for inclusion in the Audit Report. The expenditure from grants/loans should be audited to examine whether unspent amounts were refunded to Government or adjusted against subsequent grants, etc. and whether the certificates of utilisation were sent to the Government authorities within the prescribed time.

c) When the audit of the institution under Section 14 is held for the first time, it should be ensured that in additions to the report on results of audit conducted on the lines mentioned above, a special note is sent by the Supervising Officer or by the AAO/Supervisor of the field party on the following points to GSS-I (HQ). (i) Sources of income, (ii) Pattern of financial assistance from government (both Central and State) and from other bodies, (iii) Machinery available for assessment, collection, etc. of various revenues, (iv) Whether internal audit exists and its effectiveness, (v) Arrangements for external/statutory audit, (vi) Whether time allowed is sufficient, (vii) Whether cent per cent supervision by Supervising Officer is necessary (viii) Any other points to be brought to the notice of Group Officer/Pr.AG/C&AG.

d) Audit under the first part i.e. with reference to the records of the sanctioning authority is exercised in two stages. In the first instance the system evolved for sanction of grants and loans has to be scrutinized to verify whether it is adequate. The system has to be comprehensive with reference to the financial rules and regulations of the Government or special orders issued from time to time in this regard. The procedure evolved to ensure proper utilisation of grants/loans is not to be deficient in any respect. The internal audit system, if any, framed with this objective should therefore be studied in details and lacuna, if any, brought to notice. The second stage of examination of the records of the sanctioning authorities comprises the following checks.

- i) Whether the financial rules and other standing orders of Government are duly observed in sanctioning the grants/loans.
- ii) Whether the authority sanctioning the grant/loan is competent to do so.
- iii) Whether audited statements of accounts for grants/loans are promptly received and scrutinized by the sanctioning authority.
- iv) Whether there is a proper accountal of unutilized balances of loans/grants and a proper watch of their refund or adjustment, and
- v) Whether the reports thereon reveal defective maintenance of accounts and improper or irregular utilisation of the financial assistance.

(HQs. letter No. 214-TAI/361-74 dated 25.3.74)

e) To ascertain the adequacy of the procedure laid down by the sanctioning authorities for satisfying itself that the grants and loans sanctioned are being utilized for the purpose for which they have been given and whether all the conditions of such grants and loans are being fulfilled, the following points besides any other points as may be prescribed by the PAG from time to time to be seen to verify whether the procedure provided for:

- i) Submission of periodic progress reports.
- ii) Submission of audited statement of accounts.
- iii) Inspection of the grantee institution, if so, are these reports being received/inspection done.
- iv) Are the reports reviewed when received and by whom and what action is taken thereon?
- v) Has any irregularity been noticed during inspection and what action is taken on such irregularities?
- vi) A register of grants in aid is to be maintained to watch the receipt of utilisation certificates. Is the register being maintained correctly and is it being reviewed and at what level?
- vii) Is a register of assets created out of grants (equipment and buildings) being maintained how is it ensured that these assets are being put to intended use?
- viii) What action, if any is being taken in regard to obtaining utilisation certificates where not received, or by adjustment from other grants.
- ix) Has any legal action been taken against the defaulting grantees? Are subsequent grants also being paid despite such defaults?

- x) In regard to loans what is the position regarding repayment. Is there any arrangement by which it could be ensured that even after repayment of the loans the asset is utilized for the purpose for which it is given?
- xi) Are all conditions stipulated in the sanction to grant in aid, fulfilled? How is it being ascertained that the general objective of 'a scheme of grant in aid' is being fulfilled? For instance a scheme of grants in aid may be intended to promote adult literacy or Sanskrit. Is there any report or assessment by the authorities reviewing from time to time the actual achievements? Is such an achievement reasonably proportionate to the effort and expenditure involved?
- xii) Such a review could be usefully made over a period of years. For instance, if a scheme of grants in aid for promotion of sports has operated for 10 years at the end of which there has been very little achievement, this could be commented upon though it may not exclusively be related to procedure.
- xiii) There may also be defects in the sanction or in the scheme itself which may militate against an effective procedure to check the purposes for which the grant is utilized. Such deficiencies in the sanction or the scheme should also be examined.

(HQs. letter No.1090-TAI/13GL-76-75 II dated 22.12.76)

- f) Copies of all sanctions releasing grants and loans to the Institution should be collected and the purposes, conditions etc., stipulated therein or in the general instructions of Government regarding the grant/loan should be studied and borne in mind before commencement of audit. This should be correlated with the study of the proposals sent by the institution requisitioning the financial requirements given in the proposals such as, estimated costs, resources available with the Institution, method of execution, availability of Technical know-how and how the assets acquired out of the assistance would be utilized, can be advantageous in pointing out deviations, if any in actual implementation of the programme as put up before the Government by the institution.
- g) Scrutiny of rules, regulations governing the institution: The orders sanctioning assistance should be examined with reference to the memorandum/articles of association. Rules, Regulations, Bye-laws, etc. concerning the institutions to ensure that the purpose of the assistance falls within the objectives for which the institution is set up.
- h) It should be seen whether the expenditure met out of the assistance is based on order accorded by the governing council or by any authority to whom powers are delegated in the bye-laws.
- i) It should be verified whether rules parallel to those of Government or orders adopting Government rules exist to ensure wisdom, faithfulness and economy in expending moneys, in matters such as calling for tenders' execution of agreements, records of measurements, inspection of supplies payments to suppliers and contractors, maintenance of stores, etc. In the absence of such a frame work as above, a mere comment about the inadequacy of the procedure followed would not suffice unless consequent financial irregularity or wasteful expenditure can

be established. However the autonomy and flexibility enjoyed by the institution as distinct from that of a Government office should be borne in mind while making the comments.

j) In respect of grants and loans given by the institution to other bodies/authorities, out of the specific purpose grants/loans received by it from Government, it should be examined whether there is a proper system to ensure its effective utilisation and whether it is followed. Procedure followed in assessing the requirements, obtaining utilisation certificates, audited accounts, reports of periodical inspection of the bodies by the institution should be looked into and suitable comment made whenever necessary.

k) It should be seen whether the assets acquired out of Government assistance are properly accounted for in a register as required in the financial rules of the Government and the register is properly maintained and kept up to date. Case of disposal of the assets, if any, should be examined with reference to the instructions issued by Government in this regard. Proper utilisation and maintenance of these assets should be looked into in details with particular reference to realization of the estimated income, if any, out of these assets. The annual administration reports detailing achievements etc. would make a useful study.

l) Arrangements for departmental inspection by Government, reports thereon, compliance with instructions issued by Government as a sequel thereto may be looked into and comments made wherever necessary.

m) Arrangements for external audit in the bye-laws etc. its link up with the release of assistance by Government, as one of the terms and conditions, lacuna in this regard and shortfall in the extent of compliance with such arrangement, if any, may be commented upon. In case, there is no provision for external audit either in bye-laws, etc. governing the institution or specific provision in the orders issued by the Government it should critically be examined whether such an audit is necessary keeping in view the quantum of financial assistance to the institution from Government, nature and complexity of transactions met out of Government grants and loans arrangements existing for departmental audit or inspection system of internal scrutiny followed by the institution and nature of irregularities noticed during our audit and suitably commented upon, if such an arrangement is considered necessary.

n) Audit as understood in common parlance, is an examination of the books of accounts to ensure that the final accounts prepared for publication or presentation, are the true reflection of the books. The Auditor must, therefore, conduct, as far as possible an independent investigation into the affairs of the organization and satisfy himself that the state of affairs as shown in final accounts at a given date reflects the true state of affairs of the organization according to the facts available to him. A considerable time has to be spent on the routine work of checking the book entries, otherwise known in Commercial line as vouching. But in any organization, it will hardly be possible to do such checking in any great detail without engaging an unmanageably large number of persons on the work. So the Audit official has to rely largely on the system of internal check obtaining in a particular organization before deciding the extent of check to be exercised by him. It is only after scrutinizing the nature and extent of internal check existing in an organization that the Auditor official will be in a position to decide the direction in which his further studies must proceed and he should make a special note of such weaknesses in the internal check and bear such defects in mind throughout the audit.

- o) Certain detailed instructions for the procedure relating to audit of certain specified records and transactions are given in the Manual of Commercial Audit published by Director of Commercial Audit. These instructions can be adopted with advantage for audit of non-Commercial Autonomous Bodies as well. These instructions are not exhaustive by themselves and can be varied/supplemented with due regard to the requirements of audit of each organization.
- p) Since audit of autonomous bodies is entrusted to the CAG in public interest, it is necessary that the audit of their accounts is directed to see that the objective of the organizations is achieved, that the expenditure incurred to achieve the objective is reasonable, that there has not been wastage of funds placed at their disposal, etc.
- q) The accounts maintained by the institution should be examined and it should be seen that the receipt and expenditure in respect of loans and grants received from Government for specific purpose are separately exhibited therein.
- r) The method of auditing of annual accounts will be broadly as follows:
- i. Entries in the cash book and other books of original entries should be vouched and the castings tested;
 - ii. The postings from the books of prime entry to the ledger accounts to be checked;
 - iii. Justification and authority for each journal entry should be examined;
 - iv. The ledger balances should be checked and agreed with schedules like debtors' schedule creditors' schedule;
 - v. The receipt and payment accounts should be checked with ref. to Cash book;
 - vi. To check the opening balance with ref. to closing balance of previous year;
 - vii. Exceptional transactions which have resulted in charges or credits of a materials amount to the accounting period to be looked;
 - viii. Vouch all capital expenditure;
 - ix. Verify existence and ownership of assets and check basis of valuation and provision for depreciation;
 - x. Ascertain the system of stock taking, test check, stock sheets and valuation and obtain certificate from responsible officials;
 - xi. To check the Bank reconciliation statement with reference to the cash book, cheque books, bank statement etc.;

Bank Reconciliation

A Bank reconciliation statement is required to be prepared monthly and the position of the differences should be clearly explained month wise separately in the monthly abstract. In case of Corporation/Company/AB, the BRS should be shown in monthly accounts.

It should be seen: -

- a. That the balance in the bank column of the cash book is reconciled with the balance reported by the bank in the pass book or in the bank scroll.
- b. That every old items remaining un-reconciled are brought to the notice of higher authorities for investigation.

- c. That prompt action is taken with bank authorities for early settlement of all differences.
 - d. That the closing balances at the end of the financial year as incorporated in the Annual accounts are fully reconciled with the balance reported by the bank where applicable.
 - e. One month's bank reconciliation should be carried out by the party from the original records where applicable.
 - i. To ascertain the correctness of the Sundry Debtors/Sundry Creditors and ensure that those did not represents fictitious balances;
 - ii. To see that all income has been brought to account and all expenditure, discounts etc. are authorised and admissible;
 - iii. Compare important items in Income and Expenditure account with corresponding items of the previous year and ascertain the reasons for material variation;
 - iv. Examine the schedules showing the composition of each item in the Balance Sheet and compare such items with corresponding figures for the previous period;
 - v. Look for assets created or expenditure incurred which have not been productive;
 - vi. Look for charges/transactions falling beyond the scope of authorised activities of the organisation;
 - vii. Examine particularly the bookings against items which qualify for grants/assistance to prevent attempts at securing inflated assistance from Government.
- (Paragraph 5.09 and 5.14 of the Manual of audit of Autonomous Bodies)**
- viii. The additional points which are to be examined during audit on the accounts of ABs and comments to be drawn up in IR/SAR are detailed in **Annexure 'K'** of this Manual.

(B.O. No. OA/IC-IV/Accts./2007-08/268 dated 22-11-2007)

7.25.4 Report on results of audit:

The findings of audit as a result of the examination in depth should be communicated in a form of a draft Separate Audit Report (SAR) (as per the format detailed in **paragraph 7.25.7** of this manual) to the organization and Government concerned, their replies/comments obtained and thereafter the final conclusion should be drawn through SAR along with the audit certificate as on the accounts of the organization as representing a true and fair picture of the affairs in the form as per **Annexure 'L'** of this Manual.

7.25.5 Separate Audit Report (SAR):

While audit on accounts of the Autonomous Bodies under these section for more than one year are conducted at a time, the SAR and audit certificate for each and every financial year are required to be issued separately by the Pr. AG. In such case field parties should issue Audit query separately for each year and prepare separate files containing **(i)** the Accounts along with Schedules thereon, **(ii)** Trial Balance, Stock Statements, Physical Verification Reports, **(iii)** Certificate of Cash/Bank Balances, **(iv)** Bank Reconciliation Statements, **(v)** Debtors' and Creditors' List **(vi)** Audit queries with key documents, **(vii)** Replies of the management and **(viii)** Draft SAR on the particular year's accounts. The SAR should only contain comments which have the necessary attributes of materiality and significance. However, it has to include the followings:

- Non-compliance of accounting standard/instructions contained in common Format of Accounts;
- Correction/rectifications/revisions carried out of the instance of audit;
- Cases where assurances for rectification are not fulfilled after a couple of years;
- Where corrective measures have been taken by the management in relation of matters brought to their attention, it may still be necessary to report certain cases to the governing body, for example cases relating to any fraud/embezzlement committed but compensated by officials;
- Deficiencies in the system of financial control and maintenance of financial record.

However, for inclusion of comments in the SAR, the principle of materiality should invariably be followed and comments of minor/insignificant nature should not feature therein. Every effort should be made to bring out comments on accounts with a clear impact i.e. understatement/overstatement under respective head of accounts as appearing in Balance Sheet or Income & Expenditure Account/Receipt and Payment Account.

7.25.6 Preparation of SAR

Following aspects may be specifically kept in view at the time of preparation of SAR on the annual accounts of State Autonomous Bodies:

- 1) **Accounting policies:** - Significant “Accounting Policies” and “Notes to Accounts” should have been appended with the annual accounts of an ABs. Items, if any accounted for on cash basis, fixed assets and inventory valuation, etc. should have been indicated in the accounting policies whereas the non-applicability of Income Tax on the surplus fund, exemption from statutory enactments, treatment of contingent liabilities etc., should have been disclosed in the Notes on Accounts. The accounts are read and certified only on the basis and parameter of such disclosures and form part of the account that certified by the Pr. AG. Therefore, any shortcoming in these aspects may however be commented in the SAR.
- 2) **Transaction under Plan & Non-Plan:-** It should be ensured in audit that there is no mixing up of Plan and Non-Plan in any inflow or out flow and if there be, suitable comments should be made in SAR. If plan and non-plan are not separately depicted in the accounts a separate schedule for the bifurcation for revenue and capital and plan and non-plan items may be insisted upon. In case of non-submission of the same should be commented upon in the SAR of the AB.
- 3) **Minus Balances:-** If minus balances shown in the accounts it should be thoroughly probed and reasons for such minus balances should be examined and commented upon in the SAR.
- 4) **Fund Accounts:-** If fund for different purposes are found in the AB then the relevant transactions of each fund being accounted in the respective fund should be checked and mixing up of each fund should be done specifically to assess the accuracy of each fund.
- 5) **Suspense head:-** The extent of amount in suspense heads and their relevance to the accuracy in accounts may be examined and commented in the SARs.
- 6) **Depreciation on the capital assets:** To mention the status of the assets in the context of

depreciation due to usage, obsolescence etc, and to provide a true and fair view of the assets of the AB it is essential and desirable that in all such cases where the accounts indicates value on original cost, suitable comments should be made in the SAR, wherever applicable, on the following line:

Note: *The assets depict book value of acquisition and do not exclude obsolescent, unusable, irreparable and condemned assets and also do not take into account depreciation with corresponding reduction of Capital Account. Therefore, the capital and asset accounts are overstated accordingly thereby not giving the correct picture.*

If however, the facts of not providing depreciation were mentioned in the “Notes on accounts” no comment need be made by audit on this point. However, it may be ensured that the ABs are not holding any obsolete or unusable assets which should be cross checked with reference to corroborating records during the audit and comments included where necessary.

- 7) **Accountal of transactions on accrual/cash basis and exhibition in the Balance Sheet:-** The system of accounting is required to be on accrual basis so that Income and Expenditure Account and Balance Sheet make a meaningful depiction of the true and fair view of financial position of the organization. Deviation, if any, made from the basic principle, unless it is properly spelt out in the Accounting policies, or Notes to Accounts, SAR should always have clear comment on this aspect.
- 8) **Cross checking of accounts with schedules:-** As schedules form a part of the accounts certified by audit, it is to be ensured that all the schedules referred to in the accounts are correctly drawn up and figures shown therein tally with the accounts figures.
- 9) **Bank reconciliation:-** Comments about arrears in Bank Reconciliation highlighting the possibilities of misappropriation and fraud and the risk involved due to non-reconciliation/delay in reconciliation and the procedural deficiencies and lapses are to be highlighted in the SAR. Wherever warranted SAR should contain a clear comment that the Bank/cash balances as revealed in the books of account could not be verified in audit due to such non-reconciliation.
- 10) **Register of assets:-** These should be carefully checked in the context of earlier comments on this subject and certification on physical verification of assets insisted upon so that non-availability of such certificates is commented upon in SAR.
- 11) **Unspent grants:-** There should have clear distinction between maintenance/revenue grants and grants for specific/capital purposes. The unspent grants refundable/repayable to Government/other agencies, as required under the conditions stipulated in the grants, are to be shown as “Returnable” in the Liability side of the Balance Sheet of the ABs. Non-depiction of such unspent balances in the Balance Sheet should be commented upon in the SAR.
- 12) **Realisation of Income:-** It is necessary that the income realized by the AB is accounted for as income in the Receipts and Payments Account/Income and Expenditure Account and are not allowed to be kept in a separate fund/account.
- 13) **Completeness in accounts:-** To ensure completeness and meaningful exhibition, all the three accounts, namely Receipts and Payments Account, Income and Expenditure Account

and Balance Sheet with supporting schedules, Significant Accounting Policies and Note on Accounts should come as a set to enable the audit to check and certify these accounts so that possibility of any accounts remaining out of the purview of audit is avoided. Incidentally, figures should be reduced to a maximum of 5 digits for easy comprehension.

- 14) **Utilisation certificate of Grants/loans:** - A distinct comment should be exhibited in the SAR (in case the assets created or expenditure incurred out of the grants sanction, as exhibited in the accounts are not supported by utilization certificates) for the specific amounts for which certificates are yet to be furnished to the Government. A detailed list of “utilization certificates submitted to the government” against the grants received should be attached or to be mentioned in the notes on accounts.
- 15) **Revision of accounts:** - In all cases where accounts are revised at the instance of audit, suitable comments about the impact of such revision may be made in the SAR.
- 16) **Concise and brief comments:** - It should be ensured that the comments in the SAR are concise and brief with clear statement about the impact on accounts of each comment as a result of deficient procedure or accounting followed and should always mention the resultant under/over statement of head concerned and impact on surplus/deficit/assets/liabilities in exact amount.
[HQs. Circular letter no. 111-Rep (AB)/49-99 dt. 31.5.1999 and 39/Rep (AB) 91-2003 dt. 3.4.2006]
- 17) A separate paragraph elucidating the Physical performance of the ABs with reference to their objectives vis-à-vis the target and achievement in respect of the performance during last three years along with audit comments thereon should be included in the SAR under heading “Physical performance” after the paragraph “Source of Fund”.
(HQ Circular No. 165-Rep (AB)/91-2003 dated 23.5.2003 & B.O. No. OA/IC-IV/B0/Acctts/ 2002-03/27 dated 19.3.2003)

7.25.7 FORMAT OF THE SAR

A. INTRODUCTION

(Setting up of Autonomous Body, Audit mandate and Grants/Loans received during the year).

Comments to be included need not be comparative statements but should be concise and brief with a clear statement about impact on accounts of each comment as a result of deficient procedure/accounting practice followed. Comments should be pointed and indicate in exact amounts the resultant under/overstatement of head concerned and the impact on Income/Expenditure/Excess of Income/Expenditure over Expenditure/ Income as well as on assets/liabilities.

Audit comments on accounts can be included as Sub-paras at one place under this para depending upon defects noticed and the sub-paras may be arranged suitably one after another in the order of Form of Annual Accounts being certified under the heads Balance Sheet (Liabilities and Assets), Income and Expenditure Account, Receipts and Payments Account as illustrate below:

B. BALANCE SHEET

- 2.1 LIABILITIES: Deficiencies noticed against various heads may be commented in short sub-
paras

- 2.2 ASSETS: Deficiencies noticed against various heads may be commented in short sub-paras

C. INCOME & EXPENDITURE ACCOUNT

- 3.1 EXPENDITURE: Deficiencies noticed against various heads may be commented in short sub-paras
- 3.2 INCOME: Deficiencies noticed against various heads may be commented in short sub-paras
- 3.3 Excess of Income/Expenditure over Expenditure/Income

D. RECEIPTS & PAYMENTS ACCOUNT

- 4.1 RECEIPTS: Deficiencies noticed against various heads may be commented in short sub-paras
- 4.2 PAYMENTS: Deficiencies noticed against various heads may be commented in short sub-paras

E. EFFECT OF AUDIT COMMENTS ON ACCOUNTS

The net impact of the comments given in proceeding paras is that assets as onwere understated/overstated by Rs.____ Lakh, liabilities understated/ overstated by Rs.____ Lakh, and Excess of Income/Expenditure over Expenditure /Income for the year was understated/overstated by Rs.____ Lakh

F. GENERAL:

ACCOUNTING POLICIES, NOTES TO ACCOUNTS AND INTERNAL CONTROL SYSTEM

Brief comments about deficiencies noticed in accounting policies, Lack of Internal control system and notes on accounts suitable disclosures not given on matters concerning accounts may be included

G. LACK OF RESPONSE: (If replies to draft SAR are not received within the stipulated period)

Sd/-

Principal Accountant General (G&SSA), WB

[HQ letter No. 40 Rep (AB)/91-2003 dated 25.04.2004]

Note: A comment to be included by conducting a review to satisfy about the adherence with all the requirements of the Statutes or laws under which the autonomous bodies/organisation were formed and guidelines from the concerned Ministry having a significant impact on the preparation and presentation of the financial statements.

Note: In the case of World Bank assisted projects executed by Corporation and Bodies under the audit control of this office [whether under Section 19 or 20 of the CAG's (DPC) Act 1971], it is the duty of the Pr. AG to furnish audit certificates to the World Bank authorities as detailed in Paragraph 7.37 of this manual.

7.25.8 Comments on Internal Control:

The extent of checks to be exercised in audit will depend upon the system of internal control operating in the organization. Internal control is an arrangement which provides for proper division and definition of tasks and responsibilities, introduction of an appropriate accounting system and the institution of forms of internal check. By internal check is meant the checks on day to day transactions which operate continuously as part of the routine system whereby the work of one person is proved independently or is complimentary to work or another, the objective being the prevention or early detection of errors of fraud. Another essential characteristic of the system of internal control is the existence of skilled managerial supervision and reviews including internal audit. It is the responsibility of the supervising officer of the audit team to examine the system of Internal Control in order to assess its efficacy before determining the extent or quantum of checks and planning the audit. In particular, the system of internal control required to be noted by the audit and suitable comments to be incorporated in the SAR.

7.25.9 Laying of SAR to the State Legislature:

There is no guiding provision in the DPC Act, regarding laying of audit report before the legislature. It is the prerogative of the State Government to decide whether to place the SAR of any autonomous body before the State Legislature. However, right of the CAG to report to legislature as contained in usual terms and conditions for entrustment of audit under Section 19/20 of the DPC Act., is exercised through the medium of conventional Audit Report (submitted to Governor), whereas the SAR is submitted to Government. Hence, reporting to legislature through SAR need not be treated as compliance to our terms and conditions.

[DG (Audit) note no. 171-Audit (AB)/5-2001 of EAP&AB Section]

7.25.10 Finalization of SAR

The procedure to be adopted in finalization of SAR is detailed in **Annexure 'M'** of this Manual.

7.25.11 Issue of letter to Management

In addition to the SAR/Audit Certificate, a letter to the management regarding the procedures, system weakness in the internal control, to be issued, to enable the management to exercise a greater degree of control over the operation of the AB. The observations of following nature may be in the "Management Letter".

- ❖ Errors of a minor nature that are not considered material;
- ❖ Deficiencies in the accounting records, systems and controls with recommendations for their improvement;
- ❖ Non-compliance with the financial control/internal control procedures as detailed in the concerned accounting/financial manual being followed in the AB;
- ❖ Classification errors within the accounting head, where management has assured rectification in next year's accounts;

- ❖ Recovery of advances, steps to be taken for recovery/adjustment of long outstanding balances on personal account;
- ❖ Reconciliation between the balances as per broad sheet and as reflected in the accounts;
- ❖ Typing/Printing errors which can be rectified at the time of printing the annual accounts/annual reports;
- ❖ Failure to obtain confirmation of balances or to watch over receipt of utilization certificates from grantee/beneficiaries etc.

[HQs Circular No. 39/Rep (AB) 91-2003 dated 3.4.2006, 108-Rep (AB)/91-2003 dated 04.7.2006 & 87-Rep (AB)/91-2003 dated 20.4.2007]

7.26 AUDIT OF FINANCIAL INVESTMENT OF THE AUTONOMOUS BODIES:

Central/State ABs are subject to audit under the provisions of the CAG's (DPC) Act, 1971. Substantial funds/investment are handled by the management(s) of autonomous bodies themselves, for which the management/officials responsible for handling these funds are expected to exercise due care and financial prudence to avoid loss of funds. Certain checks to be exercised in audit in respect of funds and investments by the autonomous body so as to ensure verification of continued ownership of assets and that the investment is in accordance with the prescribed pattern, procedure for investment is duly authorized and it does not result in avoidable loss to the autonomous body.

During audit of autonomous bodies, specific emphasis may be placed on the financial investments of autonomous bodies and in addition to other provisions contained in the Manual and other instructions issued from time to time, it is essential that following aspects are invariably kept in view:-

- i. That the amount of investment (s) shown in the balance sheet under all the funds can be linked with investment registers maintained in the Body;
- ii. That the amount of investment shown in the accounts is invariably supported with a detailed schedule of investments exhibiting date/amount/bank-financial institutions where invested/rate of interest/period of investment, date of maturity, etc;
- iii. That the details of investments exhibiting the opening balance, encashment, renewals and additions during the year are annexed to the balance sheet as a schedule;
- iv. That the significant policy in regard to investments is disclosed in the annual accounts;
- v. That in making investments in different kinds of securities, the ratios prescribed by the Government are adhered to;
- vi. That the investments are as per Government guidelines/instructions and there are no violations and the investments are in no way inherently risky or unauthorised;
- vii. That the investments are not in unauthorised institutions violating the statutory provisions/instructions/guidelines issued by Government and those contained in statutes governing the Body;
- viii. That wherever government/statutes/orders impose restrictions, embargo, ceiling and prohibit investments in any particular mode/institution, these are strictly adhered to;

- ix. That wherever Government/Board of Management have issued instructions for phasing out earlier/existing investments in a specific period, these are strictly followed to avoid the risk of capital loss.
- x. That the investment decision has been based on sound commercial judgment and the organization has evolved a suitable/sound investment policy;
- xi. That there should be no element of speculation on the yield from the investment;
- xii. That the investment of the fund is strictly in accordance with the provisions of statute, rules & regulations governing the fund;
- xiii. That the method of investment adopted is in accordance with the prescribed policy directives of the organization and government concerned;
- xiv. That the management has a system to ensure that investment scrips are physically verified as at the end of year of accounting and a certificate thereof is furnished to Audit on their availability in safe custody. Verification certificate of securities/deposit receipts, etc. relating to all investments of funds held by the organization(s) should be insisted upon in audit from the management.
- xv. Any deficiency, omission or irregularity in the investments pointed out by internal auditors should also be taken note of for detailed examination and results included in the reports.

It may be ensured that any deviation/discrepancy/violation noticed in such investments during audit is invariably commented upon in the inspection/audit report.

(HQs. letter No. 58-Rep (A B)/47-2003 dt 14.02.2003)

7.27 INTEGRATED AUDIT OF DEPARTMENTS:

7.27.1 Objective

- a) Comprehensive or an integrated audit of a department is a combination of the traditional financial audit and efficiency-cum-performance audit. It will involve on the one hand examination of the quality of financial management, including the soundness and appropriateness of internal control systems in its key areas of activity, and on the other, Value For Money (VFM) or 3E (Economy, Efficiency and Effectiveness) issues covering management and delivery of programmes and services. The broad end-objectives are to identify the weaknesses and failures in financial and programme management and to formulate recommendation aimed at improvements in the department's functioning.
- b) In order to achieve the desired results within a given time frame, detailed examination based on a clear understanding of its organizational structure and characteristics is necessary.

7.27.2 Approach to Integrated Audit

- a) This audit is also required to adopt of newer audit methodologies and techniques including the use of electronic database and even use of computerized auditing techniques (CAT) wherever computerized systems are in use on a large scale. Integrated Audit of a department may ideally begin at the level of the Government and the concerned Directorate and to be preceded by a detailed study of the following to obtain an integrated view of the department:

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- i. Objectives of the department.
 - ii. Rules of Business.
 - iii. Annual Administrative Reports.
 - iv. Annual Action Plans.
 - v. Budget documents.
 - vi. Performance Budgets.
 - vii. Plan documents.
 - viii. Schemes - Central as well as State - implemented by the department.
 - ix. Policy initiatives taken by the department.
 - x. Reports, if any, of Parliamentary Committees and other external agencies.
 - xi. Internal manuals.
- b) In addition, information gathered from an analysis of the accounts of the department concerned and from audit findings pertaining to the department should be carefully studied and issues identified for further examination. The database of the contingent vouchers of the Departments prepared by the Central Audit Section may also be analyzed. Inputs available in the A&E office, such as the monthly Civil Accounts, appropriation accounts, appreciation notes sent to Government, lists of unadjusted abstract Contingent bills and 'nil' payment vouchers, lacunae noticed in the paid vouchers, accounting errors, etc., should be made use of for the identification of issues to be examined by the audit teams entrusted with integrated audit. For this purpose, the Pr. AG should interact extensively with the AG (A&E) WB.
- c) Before taking up the field inspection for integrated audit, the Pr. AG should meet the Secretary and explain to him/her about the scope and purpose of the integrated audit and the objectives sought to be achieved. The Secretary may be requested to arrange a presentation of the department's main activities to facilitate better understanding of its mandate, objectives and functions.
- d) Audit of the selected DDOs may be taken up simultaneously thereafter by deputing the requisite number of audit teams. Each of these teams or parties may be provided with all the leads and information that had emerged from the central audit as well as audit at the levels of the Government and the Directorate. Results of these audits may be summarized and, if necessary, another spell of audit may be arranged at the Government and Directorate levels.
- e) On conclusion of the audit, the Pr. AG should write demi-officially to the Secretary of the Department briefing him/her about the main findings of audit and the suggestions proposed and requesting a discussion thereon. Any suggestions or recommendations should be included in the Audit Report only after discussion with the Secretary.

7.27.3 Issues for audit Scrutiny

7.27.3(A) Financial Management:

- (I) Budget Formulation:-** Apart from examining the current practices and procedures relating to Budget formulation and adherence to the relevant rules and instructions issued in this regard by the Finance Department, the following aspects could also be examined for possible comment:

- i. Adequacy of the rules and instructions relating to the formulation of budget and revised estimates, responsibilities of different functionaries and shortcomings, if any.
- ii. Adherence by the DDOs to the time schedules prescribed for submission of estimates.
- iii. Extent of scrutiny exercised by the Directorate and the Department of the estimates furnished by the DDOs and the justification furnished in support of original estimates and estimates of additional requirements.
- iv. Adequacy and effectiveness of the role played by and the involvement of the administrative Secretary and Head of the Department in formulating the departmental budget and the extent to which designated responsibilities are discharged by them.
- v. Besides, the quality and reliability of the budget estimates could be assessed by an in depth scrutiny of a few estimates with a reference to the actual expenditure.

(II) Expenditure Control:- Financial rules provide that the Head of the Administrative Department should exercise effective control over expenditure. The following aspects could be looked into by Audit in this context:

- i. Systems and arrangements available for determination of allotment of funds to various DDOs and their timely release and the adequacy of these arrangements.
- ii. Arrangements for communication of allotments to the DDOs concerned the AG and the Treasury Officers.
- iii. Machinery for exercising expenditure control and monitoring expenditure incurred by field units and its adequacy.
- iv. Timely receipt of monthly expenditure statements from the DDOs, arrangements for their documentation and analysis and the extent to which these are utilized for the purpose of exercising effective control over expenditure. Statistical information may also be compiled for inclusion in the Review on (a) the number of DDOs and others from whom the monthly statements were to be received; (b) the total number of expenditure statements due in a year; and (c) the number of statements actually received. The reasons for their non-receipt or belated receipt may also be analysed and deficiencies in the relevant systems and procedures highlighted.
- v. Review of as many Plan and Non-Plan schemes implemented by the department as possible to focus attention on the following:
 - a) Unconscionable or persistent delays in release of funds to the DDOs for implementation of the schemes.
 - b) Instances of drawal of funds in anticipation of requirements.
 - c) Irregular diversion of funds and arrangements available centrally for control over utilisation and prevention of diversions.
 - d) Arrangements for monitoring expenditure on schemes and their adequacy.

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- e) Rush of expenditure towards the close of the financial year.
 - f) Instance of drawal of funds to avoid lapse of grants and their irregular retention outside government accounts.
 - vi. Unusual or extraordinary items of expenditure.
 - vii. Outstanding loans and advances to departmental personnel and outside parties and adequacy of arrangements for their pursuance and settlement.
 - viii. Aspects relating to Appropriation Audit and analysis of reasons for excesses over voted grants and charged appropriations, savings in grants and appropriations and surrenders.
 - ix. Reconciliation of departmental expenditure with that accounted for by the PAG and its impact. Non-adherence to the procedures prescribed in this regard and its adverse consequences may also be highlighted.

7.27.4 (B) Programme Management:-

Audit may examine the arrangements and machinery in place for the formulation, planning, implementation, monitoring and evaluation of various schemes and projects and frame appropriate comments from the perspective of 3Es or VFM Audit. For this purpose a few major schemes may have to be examined in detail at the micro level.

7.27.4 (C) Personnel Management:-

Audit may examine the arrangements for manpower planning, assessment of requirements and utilisation of manpower; procedures for creation of posts; transfer and rotation policies; overstaffing; delays in provisioning; assessment of training needs, expenditure on training and utilisation of trained manpower; etc. The detailed principles and guidelines on Manpower Audit **Paragraph 7.31** of this manual may also be kept in view in this context.

7.27.4 (D) Inventory Management and Control: -

Some of the major contracts and agreements entered into by the department and its field units for purchases and supplies may be scrutinized to highlight deficiencies in systems and procedures, irregularities in purchases, instances of purchases being resorted to without adequate justification or even in the absence of actual requirements resulting in unutilized inventories, etc., Adequacy of the arrangements for inventory management and control may also be examined and commented upon.

7.27.5 Internal control:

Integrated audit should comment comprehensively and in a focused manner on the quality of internal control exercised by the department at the Secretariat and Directorate levels as well as by its field units in the spheres of financial management, programme management and personnel management. For this purpose, Audit need to ascertain whether (a) adequate control mechanisms have been prescribed; (b) these are appropriate and adequate; and (c) such controls as are available are in fact operative and functioning.

7.27.6 Accountability aspects:

Audit should examine and comment upon the arrangements for securing and enforcing accountability at different levels of the department with particular reference to the availability of appropriate internal control mechanisms in all areas of its functioning and utilization of these mechanisms in a manner that facilitates the achievement of the overall goals and objective of the Department.

[Paragraph 3.9.19 of MSO (A)]

7.28 APPROPRIATION AUDIT:**7.28.1 Introduction:**

The responsibility for watching the progress of expenditure against a Grant or Appropriation devolves on the Executive, who is ultimately responsible for restricting the expenditure within the Grant or Appropriation. The general principles and rules governing audit against provision of funds are contained in the CAG's MSO (Audit).

7.28.2 Audit Objectives and Scope:

The Primary objectives of Appropriation Audit are to:

- i. ascertain whether the money spent has been applied to the services and purposes for which the Grants and Appropriations were provided;
- ii. verify whether the expenditure against each Grant or Appropriation is within the amounts authorized by the Legislature; and
- iii. check whether the orders of allotment of funds and re-appropriation orders conform to the rules and regulations.

7.28.3 Source documents:

The following are the important source documents for appropriation audit:

- i. Orders of allotment of funds and re-appropriation orders.
- ii. Appropriation Accounts of earlier years.
- iii. Appropriation Audit Registers.
- iv. Departmental files containing reasons for excess/savings.
- v. Abstract Contingent Bills Register maintained by DDOs.
- vi. Monthly expenditure reports sent by the DDOs to the Controlling Officers.
- vii. Reconciliation Registers maintained in the AG (A&E) Office containing details of reconciliation done by controlling officers.
- viii. Statements of monthly expenditure submitted by the administrative departments to the Finance Department.

7.28.4 Audit Approach:

On receipt of the Monthly Civil Accounts containing details of major head-wise totals, the departments and areas where substantial excess expenditure has been incurred are to be identified for undertaking reviews and incorporation of comments in the shape of draft paragraphs for inclusion in the Audit Report.

7.28.5 Audit of Sanctions:

Orders of allotment of funds and re-appropriation orders received in Audit should be scrutinized to ensure that:

- a) these have been issued by an authority competent to do so;
- b) the allotments made are not in excess of the amounts authorized under the relevant Grant or Appropriation;
- c) the amount appropriated is available under the unit from which it is allotted;
- d) amounts re-appropriated are not intended for meeting expenditure on a 'New Service' or a 'New Instrument of Service';
- e) no amount has been re-appropriated from one Grant or Appropriation to another Grant or Appropriation;
- f) no amount has been re-appropriated from the 'Charged' Section to the 'Voted' Section and vice versa;
- g) no amount has been re-appropriated from Revenue head to Capital head and vice versa; and
- h) funds provided under 'Plan' heads have not been re-appropriated to 'Non-Plan' heads without the previous consent of the Finance Ministry/Department.

7.28.6 Review of variations:

Instances of unnecessary and injudicious re-appropriation of funds and surrender of funds based on a study of the trends of actual expenditure and the reasons furnished by the departments for abnormal variations viz. excess expenditure or savings in the Appropriation Accounts should be probed in detail by scrutinizing the departmental files as envisaged in subsequent paragraph of this Manual. The Pr. AG should identify to conduct a comprehensive review of the budgetary procedures followed and see that the provisions made in the budget/supplementary demands were based on concrete or firm proposal for speedy implementation of the schemes. Results of these reviews and comments on such variations should be incorporated in Chapter II of the Audit Report.

[Paragraph 3.15.6 of MSO (A)]

7.29 AUDIT OF EXCESS AND SAVINGS OVER BUDGET PROVISIONS:

Records in respect of the offices/auditee units may be examined where substantial excess expenditure or savings over the budget provision have taken place to frame appropriate comments. Such detailed appropriation audit should provide an insight not only into the nature of and reasons for the excess expenditure or savings in relation to the budgeted grants but also to focus attention, more importantly, on the control failures and deficiencies, delays in decision-making, etc. that might have facilitated the excesses/savings and on the failure of superior authorities to detect and rectify them. Examinations to ascertain the reasons for excess expenditure/savings are as follows:

1. It will be necessary for audit to examine the veracity of the explanations on excesses or savings in expenditure furnished by the departments. These should be analyzed with reference to departmental records and the systems, if any, in place for monitoring expenditure under each unit of appropriation against each Grant or Appropriation. This analysis will be conducted with reference

to the excesses or savings under various detailed heads administered by the department concerned and will necessarily be confined to only significant and material variations. While the expenditure on Non-Plan items should be examined with greater care, the Plan expenditure should be analyzed to ascertain whether the excess expenditure or savings took place in respect of State Plan or Centrally Sponsored Schemes and specific and precise reasons thereof should be collected from the relevant files and records. The expenditure on the State Plan and Centrally Sponsored Schemes should be examined and failures or deficiencies in such monitoring should be commented upon. In both these cases, the DDOs responsible for the excess expenditure or savings should be identified, it should also be examined, inter alia, whether large amounts drawn through Abstract Contingent Bills to avoid lapse of budget provision remained unadjusted even though the accounts revealed expenditure was incurred in excess.

2. The following aspects will require special attention and probe with reference to the failure of the controlling and DDOs to restrict their expenditure within the allotted amounts.

- i.** Deficiencies in budgetary procedures and processes that might have resulted in under provisioning or incomplete estimation of requirements based on insufficient information.
- ii.** Reliability of the estimates and their basis and the extent to which the excess expenditure was avoidable.
- iii.** Adequacy of mechanisms for budgetary and expenditure control by controlling officers.
- iv.** Arrangements for reporting of progressive monthly expenditure by the DDOs to the controlling officers and their monitoring by the latter and their adequacy.
- v.** Adequacy of arrangements for the periodical and prompt reconciliation of expenditure with that accounted for by the PAG to facilitate timely detection of the likelihood of the expenditure exceeding allotments and appropriate corrective action.

3. The monthly Civil Accounts, containing the summarized progressive expenditure under each major head, sent by the AG (A&E) WB to the Finance Department and the administrative Head of Department concerned should also be seen to determine whether any warning slips were issued by the former to the Executive when the grants were either being exceeded or were almost utilized fully. The corrective action, if any, taken on these intimations by the Finance Department and the administrative Secretary or the controlling officer should also be looked into to determine if it was adequate.

4. Reasons for excess expenditure or savings could be many and varied. Audit parties undertaking reviews of specific departments that persistently incur expenditure in excess of allotments could, with advantage, examine the following and frame appropriate comments after obtaining the explanations of the departments concerned.

- i.** Scrutiny of proposals for supplementary grants to determine whether these were submitted only after a proper assessment of the trend of expenditure or ascertaining the actual expenditure incurred.
- ii.** Instances where amounts surrendered exceeded the overall savings in the grant and analysis of the causes.

- iii. Cases of expenditure exceeding the amount of deposits received for execution of works. The reasons for the excess and the sources from which the excess expenditure was met by the departments concerned should also be ascertained.
- iv. Instances of expenditure incurred in fulfillment of decrees, which should correctly have been met out of Charged Appropriations, being irregularly met out of voted provisions.
- v. Cases of excess expenditure attributable to the repayment of overdrafts, if any to be obtained from the Reserve Bank of India. The circumstance leading to the excess expenditure would need to be examined in detail.
- vi. Cases of conversion of loans given to public undertakings and other autonomous bodies into grants or investments even in the absence of the necessary budget provision. The circumstances in which such necessity arose should be examined in depth.
- vii. Instances of failure of DDOs to include in their estimates/demands appropriate provision for meeting un-discharged liabilities of past periods.
- viii. Instances of non-adherence by the departments to the prescribed Annual Plan ceilings while incurring expenditure.
- ix. Cases of failure to conduct periodical reconciliations of departmental expenditure with that accounted for in the books of the AG (A&E) office.
- x. Action taken by the Finance Department to intimate details of the cuts imposed in the estimated demands of the departments concerned while communicating the approved budget estimates to them and action taken, in turn, by the departments to inform the field units about these cuts.
- xi. Instances of delays, if any, on the part of the Finance Department in communicating details of approved revised estimates to the departments.
- xii. Cases of default by the department in furnishing regularly the statements of monthly expenditure to the Finance Department and the Pr. AG.
- xiii. Instances of budget provisions being made by the departments for vacant posts held in abeyance on account of a ban on filling up these posts.
- xiv. Cases of failure of departments concerned to formulate re-appropriation proposals for submission to the Finance Department.
- xv. Instances of issue of financial sanctions by the Government towards the close of the financial year without ensuring the necessity for drawal of funds and feasibility of their utilizations.

[Annexure to Paragraph 3.15.8 of MSO (Audit)]

5. To facilitate compilation of figures relating to excess expenditure over allotment, the field parties should collect the information as follows:

(a) Head of Accounts; (b) Name of Treasury; (c) Name/Designation of the Head of the Office and DDO and (d) details of expenditure in the following proforma:

Year	Particulars	Allotment received	Expenditure incurred	Excess Expenditure	Savings, if any	Reasons
1	2	3	4	5	6	7

(BO No. OA/1C/2000-01/7 dt. 20.7.2000)

7.30 SYSTEM AUDIT:**7.30.1 Introduction:**

The concept of Systems Audit is that if an in-depth analysis of the mechanics of a system reveals that it is designed with appropriate controls, checks and balances to safeguard against errors, frauds, etc., Audit can reasonably assume, without the necessity of undertaking a detailed examination of the individual events or transactions, that the results produced by the system would be fairly accurate. Evaluation of the efficiency and effectiveness of any system will, however, require sample testing of its actual working. Systems Audit thus serves also as an effective aid to management.

7.30.2 General principles:

The general principles governing Systems Audit are as follows:

- i. To locate the deficiencies in any system, in each procedure forming part of the operational or financial activity.
- ii. To ascertain how best the procedures that have in-built delays they can be streamlined. Causes of departures from or special relaxation of the prescribed procedure should be analyzed.
- iii. To example whether action on important points has been initiated at sufficiently high levels of the hierarchy so as to produce meaningful results.
- iv. In addition, procedures and/or records which appear to be redundant or superfluous should be identified for elimination.

7.30.3 Source documents:

The important source documents that will form the basis of audit scrutiny to evaluate the adequacy of systems are the following:

- i. Organization Chart.
- ii. Procedural Manuals.
- iii. Delegation of Powers Rules.
- iv. Departmental Accounts Manual.
- v. Accounting Policies and Procedures.
- vi. Budgeting Policies and Procedures.
- vii. Performance Budget.
- viii. Work Plans.
- ix. Technical Manual relating to quality specifications.
- x. Internal Audit Reports.

7.30.4 Main Stages of Systems Audit:

The main Stages of System Audit are indicated in the following paragraphs:

a) Organizational analysis: The first step will be to find out the basic objective or activity and to study the organizational pattern to ensure that there is clear and logical plan of organizational function which is responsible for financial and operational activities of the entity. A flow chart could be prepared in order to examine whether:

- i. The units are functionally segregated to ensure professional, functional and/or technical specialization and to achieve functional independence for purposes of internal management control;
- ii. Proper distribution and clear demarcation of functional responsibilities exist among the personal working in the entity;
- iii. The entity's staffing pattern conforms to norms or standard prescribed for the purpose and has the approval of the competent authority;
- iv. The financial functions are separated from other administrative functions;
- v. The employees within the financial unit responsible for the custody of the financial or material resources are separated from those record transactions, maintain accounting records and prepare financial reports;
- vi. 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 given point of time;
- vii. checks and balances have been integrated into transactions in such a manner as to ensure added reliability without increasing costs or creating new positions or new operating units;
- viii. there is an effective system of follow-up to determine whether assignments are properly carried out;
- ix. the organizational units are designed to obtain maximum effectiveness at the minimum cost;
- x. staff requirements are reviewed from time to time keeping in view changes in the entity's functions and relevant factors;
- xi. posts remain vacant for long periods affecting adversely the entity's functioning; and
- xii. there is any overstaffing with reference to the entity's functional responsibilities.

b) **Analysis of system of authorization and recording:** This involves examination of the system of authorization of transactions and operations and the related procedures and records prescribed for the purpose. It has to be seen that the system provides for procedures to ensure that:

- i. all approved transaction documents serve as source documents for accounting entries; and
- ii. all cash and materials received in the entity are immediately accounted for.

c) **Analysis of system of accounting:** This requires a study of the departmental accounts manual, relevant orders, circulars, etc. including the prevailing policies and procedures. It may be examined to see whether:

- i. the accounts records provide for compilation of transactions according to the budgetary classification;
- ii. an effective method of budgetary control, including a machinery for the prompt reporting and analysis of variations between the budgetary allotments and expenditure, is available;
- iii. the accounting system provides for well-designed documents and forms for control purposes as well as for conducting operations;
- iv. the accounting records maintained for resources and operations are informative, clear and generally adequate;
- v. controls exists to safeguard against errors and irregularities in operational and financial data; and
- vi. the accounting system is adequate, conforms to the generally accepted accounting principles and includes such forms and records as are absolutely necessary to ensure sound accounting and financial reporting.

- d) **Examination of system of internal control:** It should be examined whether each organizational unit in the entity is adopting sound practices so as to ensure proper internal control. These include the provision of locked store rooms with access restricted only to authorized persons, arrangements for surprise physical verification of cash, bank reconciliation by independent personnel, pre-check of payments, institution of checks to see that transactions are properly authorized, dual custody of valuable negotiable assets, etc. It should also be seen whether the system provides for departmental enquiry into all cases of shortage, loss, theft and embezzlement.
- e) **Evaluation of standards of quality and performance:** It should be examined whether a proper system exists for evaluating the quality and performance with reference to the standards prescribed for the purpose. Performance budgets, work plans, technical manuals, etc. should also be studied to ascertain the standards prescribed. The standards of quality and performance achieved by the management- should then be listed out and compared with those prescribed and the results evaluated.
- f) **Examination of the system of internal audit:** It should be ascertained whether an internal audit system has been introduced in the entity and, if so, whether the unit responsible is completely independent of the operating unit. The prevalent system of internal audit should also be examined to verify whether it provides for an objective, timely, systematic and professional examination of financial, administrative and other operations subsequent to their execution for the purpose of their evaluation and verification and whether the system is geared to ensure prompt and adequate follow-up corrective action on the internal audit report.
- g) **Review and evaluation:** The review and evaluation should not be based entirely on die replies to audit observations, procedural manuals or flow charts prepared by the entity. The following guidelines to be kept in view in review and evaluation of the System Audit:
- i. Review and evaluation should not be based on replies on audit observations, procedures manuals or flow charts prepared by the entity.
 - ii. How operations and transactions are actually processed should be determined.
 - iii. To be tested by actual observation or “Walking through” a very small number of selected representative transactions or operations.
 - iv. Strengths and weaknesses in key control points to be identified.
 - v. To evaluate tentatively the effectiveness of the procedures and controls in operation.
 - vi. Procedural manuals to be reviewed to determine whether procedures are adequate but are not being properly applied or whether they are inadequate.
 - vii. Discussions to be made with persons who appear as knowledgeable, competent and dedicated on various suggestions for improvement of the system and procedures which may reflect in report.
 - viii. Detailed audit procedures may be selected to determine the scope of tests to be applied in areas considered weak.
 - ix. Recommendation should be made for strengthening control in weak areas.
 - x. The report should be prepared in an objective and constructive manner so that management of the auditee organization could take 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.

[Paragraph 3.20.1 to 12 of MSO (A)]

7.31 MANPOWER AUDIT:

7.31.1 Audit approach:

The audit approach varies considerably among the auditee units and may involve examination of all respects of human resource management within a department or within a branch or programme of the department. The system-based manpower audit in the office of each cadre controlling authority and in its subordinate offices was to evaluate the efficiency and effectiveness of establishment expenditure to make an overall assessment of the operational efficiency and effectiveness of the systems. Audit of manpower 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. Methods and principles adopted for assessment of manpower requirements;
- iii. Norms/standards adopted for computation of requirements;
- iv. Allocation and actual deployment of manpower resources;
- v. Control systems available for monitoring the efficient and effective utilization of human resources; and
- vi. Training and development of human resources.

System based manpower audit will ordinarily be undertaken once in three years in each cadre controlling office.

7.31.2 Source documents:

The documents to be examined in the course of audit will include, inter alia

- i. Government instructions on procedures for computing manpower requirements, recruitment of personnel to different posts and the pay scales and other terms and conditions relating to the posts;
- ii. files relating to assessment of manpower requirements;
- iii. registers of sanctioned strength;
- iv. statements of actual men-in-position;
- v. duty allocation registers;
- vi. office manuals describing duties and responsibilities of various posts;
- vii. delegation of powers;
- viii. registers and bills relating to establishment expenditure, etc.
- ix. The computerized data base prepared by the A&E office from the payrolls of State Government employees can also be used effectively for manpower audit. This will provide comprehensive and integrated information about the manpower profile of the department as a whole and its cost.

7.31.3 Job analysis, description and specification:

Job analysis is an analytical examination of a work assignment. It is the process of collecting information about, and analyzing, duties, responsibilities and the conditions of work involved in the job, its inter-relationship with other work assignments and the qualifications necessary for its performance. Based on the job analysis, a written statement is prepared outlining 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 the job. The job specification

is primarily intended for emphasizing and detailing the personal characteristics required for satisfactory performance of the job. Efficient personnel management requires that an organization's current and future manpower needs should be determined in terms of both quantity and quality. The techniques of job analysis, job description and job specification are extensively used in manpower planning and development for specifying the nature and requirement of a job or a group of jobs, selection and placement of personnel and for job evaluation and are useful in identifying and assessing the training needs of different categories of personnel and in formulating the objectives and design of a training programme. It is thus imperative that proper systems should exist for maintenance of job descriptions and job specifications for various categories of posts in each department based on an analytical examination of each category. It should be examined during audit that:

- i. arrangements for applying these techniques are sound and effectively managed;
- ii. job descriptions and job specifications are maintained up to date and correspond accurately to current job requirements, and all jobs are periodically reviewed with a view to revising their descriptions and specifications in conformity with the changes in organizational objectives, job content and job context;
- iii. job descriptions and job specifications are precise and clear so as not to give room for any ambiguity or misconception; and
- iv. there is no overlapping of duties and responsibilities assigned to different jobs.

7.31.3 Assessment of Manpower requirement:

Manpower requirements are forecast on the basis of:

- i. opinions of different supervisory or controlling officers within the department; or
- ii. projection of past trends using statistical techniques like extrapolation, regression, correlation, etc.; or
- iii. standard formulae devised with reference to the results of work study, job descriptions, specifications, etc.; or
- iv. measures of productivity.

[Paragraph 3.21.1-15 of MSO (Audit)]

7.31.5 Audit of the system of Manpower requirement:

The following should be examined in auditing the systems for forecasting manpower requirements:

- i. The extent to which the projections of manpower requirements correspond to the numbers, levels and skills of personnel required for the objectives set forth and the work load 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 manpower forecasts.
- iii. Are there standard departmental procedures and standard formula for manpower forecasts and whether they are adequate;
- iv. In the event of changes in the organizational pattern of the Department or changes in policy, corresponding changes in manpower estimate are reflected;

- v. The evidence, such as workload at current levels, additional posts for future expansion programmes, etc., are available to support the forecasts and their reliability;
- vi. Extent to which the standard formulae prescribed for different processes of work have been applied in the computation of manpower requirements; and, in case standard formulae have not been evolved, the reasonableness and fairness of the principles adopted for computation.
- vii. Extent to which introduction of computers, electronic data processing, photocopying machines and similar technological improvements have made a difference to the standards and forecasting of manpower requirements.
- viii. Soundness of the procedures prescribed for translating manpower estimates into cash estimates.

In analyzing the system of allocation and regulation of manpower resources, it should be examined whether:

- i. changes in work load that have taken place since the preparation of the initial estimates have been taken into account while allocating the manpower resources;
- ii. the cuts imposed in allocations have a proper basis and take care of the priorities laid down for regulation of manpower resources;
- iii. the reductions made in the manpower estimates have been correspondingly reflected in the cash estimates and vice versa;
- iv. 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;
- v. sound procedures have been prescribed for engaging substitutes on a casual basis or for payment of additional remuneration like overtime allowances or honorarium to tide over shortfalls in availability of manpower resources;
- vi. Where some reserve is kept in distribution of the man-power allocations, how is it ultimately utilized; and
- vii. How the actual deployment of manpower compares with the allocations made.

7.31.6 Work measurement:

Work measurement is a vital necessity and forms the basis for comparison or control of the organization's capacity, efficiency, economy or relative accomplishment, and involves the following broad steps:

- i. selection of a specific work for study;
- ii. compilation of relevant information in regard to nature of personnel and of their duties and responsibilities, working conditions, the sequence of actual performance of various items in the total range of work and individual elements in cash component, etc.;
- iii. critical examination of the recorded work breakdown, after separating unnecessary, avoidable and non-productive elements, to ascertain the best method of doing the work;
- iv. assessment of the time involved in each necessary element with reference to the most appropriate technique for the situation;

- v. determination of time allowances to cater to the requirement of relaxation, personal needs, contingencies, etc. and
- vi. computation of the standard time required for each operation which will include the measured time and permissible time allowances.

An independent agency called the Staff Inspection Unit is generally constituted not only to prescribe norms but also to periodically review the actual functioning of offices to ensure that:

- i. manpower sanctioned for a particular purpose is utilized for that very purpose;
- ii. redundant and profitless activities are eliminated; and
- iii. work methods are simplified so as to effect economies in manpower without sacrificing efficiency.

In auditing the system relating to work norms and the working of the Staff Inspection Unit, the following questions would be of relevance:

- i. Are the techniques followed for formulating the time estimates appropriate having regard to the work environment and conditions obtaining in the particular department?
- ii. Are there, in actual fact, functions or jobs that cannot be subjected to work measurement necessitating the adoption of ad hoc methods?
- iii. Is the Staff Inspection Unit independent of the control of the line management?
- iv. Are all individual offices of departments having a large number of local offices in the field inspected? On the other hand, if the inspection is confined to a sample of offices, can this sample be justified statistically?
- v. Are adequate arrangements available for monitoring the implementation of the recommendations of the staff Inspection Unit?
- vi. Are instances of failure to implement the schedule reported to the senior management?
- vii. Are conflicts, if any, between the Staff Inspection Unit and the management referred to a senior level for objective decisions?
- viii. Is the planned cycle of inspection achieved?
- ix. For Departments having an extensive local office structure are all individual officers inspected or is the inspection confined to a sample of offices?
- x. Can the sample be justified statistically?
- xi. What arrangements exist for monitoring the implementation of staff inspection recommendations?
- xii. Does it follow a cyclical pattern to cover all important units over a particular period?
- xiii. What sections/branches/grades of staff are not inspected and whether their omissions are in order?

7.31.7 Control of manpower:

In auditing manpower control systems, it should be examined whether:

- i. there exists a separate branch or section for coordinating and controlling departmental manpower with a clear demarcation of its role and responsibilities;

- ii. the manpower branch critically examines all demands for manpower taking into account the work norms, the recommendations of the O&M Unit, the Staff Inspection Unit, etc.;
- iii. the utilization of manpower resources is monitored;
- iv. steps have been taken to provide training so as to impart to the staff the latest information and techniques relevant for their job requirements; and
- v. arrangements exist to correlate the utilization of manpower resources with achievements of targets and goals.

7.31.8 Training of manpower:

In evaluating an organization's performance, it may be determined whether:

- i. short-term and long-term training plans were formulated and training courses designed only after assessing the needs;
- ii. programmes developed for training of personnel are job and development oriented;
- iii. the training function is balanced and cost effective;
- iv. an inventory of personnel trained in various disciplines is maintained so as to ensure the optimum use of the training imparted to them; and
- v. the organization has a system for a periodical review and revision of training courses through classroom evaluation, evaluation by participants and post-training evaluation.

[Paragraph 3.21.1 to 32 of MSO (A)]

7.31.9 Use of computerized data base:

The computerized data base prepared by the A&E office from the pay rolls of State Government employees can be used effectively for manpower audit. It will also be possible to examine whether the approved staffing pattern for different cadres has been adhered to and whether the staffing pattern itself is commensurate with the department's mandate, objectives and programmes. Based on an examination of the data base, at least five per cent of the major and medium DDOs may be selected for local audit. The results of central audit of vouchers may also be suitably used for scrutiny of the service records in the field.

7.32 AUDIT OF ABSTRACT CONTINGENT BILL/ DETAILED CONTINGENT BILL:

- a) As per sanction order of the Government, sometimes the field offices draw fund in advance for specific purposes in Abstract Contingent (AC) Bill, adjustment of which is required to be submitted in Detailed Contingent (DC) Bill within 60 days from the date of drawal of such advance.
- b) Non-submission of DC bill within the stipulated date and incurring expenditure for the purpose other than the purpose for which it was sanctioned should be looked into. While conducting audit, the information as per the proforma given in **paragraph 5.4.1(20)** of this manual should be obtained and to be submitted along with the IR.

- c) Following check should be exercised in audit for incorporation of comments, if any, in the IR.
- i. Whether necessary sanction order for drawing the amount in advance was issued by the competent authority;
 - ii. Whether the amount drawn was required for immediate utilization;
 - iii. Whether the advance was adjusted by submission of DC bill within the stipulated period, if not, reasons for the delay;
 - iv. Whether the expenditure incurred for purchases etc. was as per the financial rules;
 - v. Whether the articles procured out of the fund were taken into stock and were utilized for the purpose for which it was procured/ sanctioned;
 - vi. Whether the articles were procured/ retained unnecessarily;
 - vii. Whether the vouchers were chronologically and systematically maintained to prevent double payment/fraudulent payment;
 - viii. Whether the fund was unnecessarily retained/parked in any PL/Deposit/LF/Bank Account.
 - ix. Diversion of fund, if any;
 - x. Whether the field offices had drawn fund as advance from treasuries on Grants-in-aid bill or on regular contingent bill instead of presenting TR form 35 in order to avoid submission of DC bill;

(B.O. No. OA/IC/2000-01/15 dated 14.12.2000 & OA/IC-1/79-2000/13 dated 22.10.99)

7.33 AUDIT OF “NIL” PAYMENT VOUCHERS:

Considerable amount of funds are transferred at the end of the year from Consolidated Fund to the PL/Deposit Account, Savings Bank Account or other Public fund account through “NIL payment vouchers”. Since the amounts so transferred are booked as expenditure, figures of expenditure of the particular head are artificially increased while there is no actual expenditure from the concerned head of account of the Government. Thus, audit findings on “NIL Payment Vouchers” may be incorporated in the IR paragraph keeping in view of the following points.

1. Detailed particulars of scheme-wise ‘NIL Payment Vouchers’ (indicating number of vouchers) drawn;
2. Audit check may be applied to the end use of funds transferred through ‘NIL Payment vouchers’;
3. Period during which the funds were spent;
4. Total amount (with details as to the date of drawal, purpose of drawal, Head of account etc.) of fund parked in Bank account, PL Account, Deposit account and Executive Agencies, if any;
5. Extent of funds for which utilization certificates are wanting and from whom indicating the steps taken to obtain the same;
6. Diversion of fund;
7. Transfer of fund from PL Account to LF Account.
8. Whether the fund was drawn and transferred to avoid the lapse of budget grants.
9. Whether drawal of fund was authorized by the competent authority.

10. Whether unspent balance drawn in advance and transferred credited to deposit account remained unutilized. If so, the particulars of scheme for which the funds remained unutilized vis-à-vis the impact over the scheme may be analysed and incorporated in the IR,

These guidelines are illustrative and not exhaustive. Thus, the field parties are free to enhance the scope of audit and collect more materials on these aspects as deemed fit.

(BO No. OA/IC/99-2000/13 dt. 22.10.99)

7.34 AUDIT OF DEPOSITS:

7.34.1 Audit Objectives and Scope:

The main objectives of audit of deposits are to ensure that:

- i. funds are not diverted from the Consolidated Fund and unnecessarily accumulated in deposit accounts, 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;

The deposits 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.

7.34.2 Source Documents:

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 AG (A&E).
- v. Deposits Register.
- vi. Authority for opening of Deposit Accounts.
- vii. Vouchers.
- viii. Expenditure sanctions.
- ix. PL Accounts maintained at treasuries.
- x. The Deposits Module of the VLC database maintained by the AG (A&E) containing details of PL Accounts.

7.34.3 Receipt and repayment or withdrawal of deposits:

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 LF Accounts and Special Deposits Accounts 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.

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.

7.34.4 Lapsed Deposits:

An Annual return of transactions of the Government relating to revenue and civil and criminal court deposits is to be rendered to the AG (A&E). The amounts in respect of deposits that remained unclaimed for more than three complete financial years and have lapsed should be deducted from the plus and minus memoranda for the month of March. Audit of lapsed deposits involves verification:

- i. whether the lapsed amounts have been correctly written off in the plus and minus memoranda for March;
- ii. whether deposits 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. 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 AG (A&E) for adjustment in the accounts.
 - iv. On receipt of the application for refund of the lapsed deposits whether necessary checks have been exercised with reference to the original deposits, before issuing for payment of refund.
 - v. No deposit that has lapsed has been repaid without the authority from the AG (A&E) or the treasury.

[Chapter 11 of section 3 of MSO (A)]

7.35 AUDIT OF DEPOSIT ACCOUNT/PERSONAL LEDGER (PL) ACCOUNT:

7.35.1 Personal Ledger/Deposit Account:

Personal Ledger/Deposit Account are being maintained in the Treasuries in the nature of Bank Account by Several DDOs of the State Government under the TR 6.08 of WBTR-2005 for transferring fund from Consolidated fund of the State for discharging liabilities of the Government for execution of various projects/scheme of the Central/State Government. The audit of PL account which should be opened on obtaining concurrence of the AG (A&E) should be compulsorily carried out in respect of each of the DDO in a thorough manner to examine that:

1. Personal Deposit (Ledger) Accounts have been opened with proper authority and with the prior concurrence of the AG (A&E).
2. The fund credited in the account was drawn from the consolidated fund of the State/India was as per the order of the Government and no fund credited in the account was drawn to avoid the lapse of the budget grant;
3. 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 and no expenditure was incurred for the purpose other than those for which it was sanctioned/drawn and credited in the Deposit Account.
4. Whether value for money was achieved for such expenditure;
5. Whether separate Cash Book for the Transaction through PL Account is being maintained.
6. Except where PL/Deposit account was created by Law or Rules having in force for discharging liabilities arising out of special enactment, other PL/Deposit account were 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.

**(Ref. para 3.11.10 to 3.11.14 of MSO (Audit) and BO No. IC/PLA/97-98/7 dt. 17.10.97
and OA/IC/99-2000/13 dt. 22.10.99)**
7. Whether any reconciliation have been made to ascertain the discrepancies, if any, between the PL Pass Book and PL Cash Book.

8. The balance of the PL/Deposit account Pass book of the DDO/administrator is to be got reconciled monthly by the 10th of the following month by the concerned Treasury Officer. In case, if the same is not verified consecutively for three month the Treasury Officer shall not permit payment from the said account.

(Govt. of WB Finance Department order No. 13-92-F dt. 1.11.83 and BO No. OA/IC-I/1999-2000/14 dt 3.11.99)

7.35.2 Other Deposit Accounts:

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.

7.35.3 Local Audit:

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 fact thereof has been noted against the entry in respect of the original deposit as a safeguard against double payment.
- iii. 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.

7.36 SOLATIUM FUND SCHEME 1982:

The Solatium Fund Scheme 1982 was introduced by Government of India for payment of compensation to persons involved in Hit and Run Motor Accidents from 1st October 1982.

According to the Scheme there shall be offices of claims Enquiry Officers, State Transport Commissioner and the office of the Solatium Fund Authority in Delhi for the operation of the fund. In respect of the districts “the Claim Enquiry Officers” are the Sub-Divisional Officers of the sub-division and the District Magistrates/ Dy. Commissioners of the districts respectively. In Calcutta Dy. Commissioner of Police (Traffic) is the Claim Enquiry Officer and Director, Public Vehicle Department is the “Claim Settlement Commissioner”. Transport Commissioner is another Departmental surname of Home (Transport) Secretary.

7.36 Creation and flow of fund:

As mutually agreed, the initial fund to be created by Government of India is to be in the order of Rs. 1 crore. Out of which Rs. 70 lakhs are to be contributed by General Insurance Corporation and its subsidiaries, Rs 15 lakhs by the Central Governments and remaining Rs.15 lakhs by the State Governments. The amount to be contributed by the Government of West Bengal annually has been agreed upon to be Rs 70,000.

The Solatium Fund Authority of Government of India shall determine the quantum of funds to be allotted to each State and shall place at the disposal of the Transport Commissioner of the State such amount as may be necessary from time to time.

The Transport Commissioner shall allot to the “Claims Settlement Commissioners” such amount of the funds placed at his disposals, as may be required by the claims settlement Commissioners” from time to time.

7.36.1 Operation of the fund:

In G.O. No.1165-WT/3M/158/82 Pt. II dated 15.2.84 the Government of West Bengal in terms of T.R. 3.04 & 3.05 of the WBTR-2005 has accorded sanction to the maintenance of a separate Fund, namely, Solatium Fund and also opening of Savings Bank Accounts at the State Head Quarter by the Secretary Home (Transport) Department and at the district Headquarters by the District Magistrates/Dy. Commissioners in respect of his district and by the Director, Public Vehicles Department for the city of Calcutta in a Nationalized Bank for the operation of the said fund. It has also been prescribed in the said Government order that the Bank account should be opened at the State Head Quarter jointly by the Secretary, Home (Transport) Department and an Officer of the Home (Transport) Department, nominated by him and in each district/Calcutta by the “Claims Settlement Commissioner” and one officer nominated by him and all withdrawals shall be made by cheque signed by the two officer jointly.

A subsidiary Cash Book may be maintained showing receipt and payment accounts of the fund in each office. In the cash book of the respective office total of daily receipt and payment may be shown.

7.36.2 Audit checks:

The Broad checks which have to be exercised while conducting local audit in the respective offices dealing with Solatium Fund and the quantum of audit related there-to as prescribed by the C&AG are as follows :-

a) In the office of the Claim Enquiry Officer:

The records for one month may be checked during local audit of these offices to ensure that the cheques have been correctly paid to the beneficiaries and undertaking from the legal representatives of the deceased, injured person or his duly authorized agent before making payment of compensation (in Form 'D') have been obtained and stamped receipts kept on records.

b) In the office of the Claim Settlement Officer:

The main check would be with reference to the enquiry report received from the claims enquiry officers and accounts of money received from the Transport Commissioner and payment made there from. The quantum of audit has been prescribed as one month's account in a year to be conducted at the time of regular audit of these offices. The correctness of the amounts sanctioned with reference to the provisions of the scheme would have to be checked.

c) In the office of the transport Commissioner:

The audit may be conducted with reference to the amounts placed at the disposal of Commissioner by the Solatium Fund Authority. Funds are placed at the disposal of the Claims Settlement Commissioners in the State by the Transport Commissioner and the monthly reports received from them. This check is to be exercised at the time of regular audit of the office to the extent of one month's transactions.

d) In the office of the Solatium Fund Authority, New Delhi:

The Director of Audit, Commerce, Works and Misc., New Delhi who is the audit officer of the Ministry of Shipping and Transport would conduct audit of one month's transactions.

While conducting local audit, Sr.AO/AO, AAO/Supervisor, may see that the accounts of the Solatium Fund maintained in the offices of the Home (Transport) Secretary, District Magistrates/Deputy Commissioners, Director, Public Vehicles Department, Calcutta, Sub-Divisional Officers and the Deputy Commissioner of Police(Traffic), Calcutta are checked according to the manner and quantum as mentioned above and irregularities seen are incorporated in the respective IRs of the offices. In order to have a fair knowledge about the Scheme, the officers may consult the Original Scheme (in a Book Form) kept at the headquarters.

Note: (Hqs Circular No.9-TAI/84 received with his No.230 TAI/207-83 dated 28.2.84/Govt. of West Bengal Home (Transport) Department No.1165-WT/3M-158/83 Pt. II dated 15.2.84/Govt. of West Bengal Home (Transport) Department No.1660-WT/3M-158/82 Pt. II dated 1.3.84 and Solatium Fund Scheme 1982 introduced by the Govt. of India, Ministry of Shipping and Transport (Transport Wing/ and notified under S.O. 800(E) dated 12.11.82 and as amended vide S.O. 163(E) dated 9.3.83.)

7.37 AUDIT OF WORLD BANK AND OTHER EXTERNALLY ASSISTED PROJECTS:**7.37.1 Introduction:**

The World Bank gives aid for implementation/execution of different schemes projects in two ways:

- i. Sanctioning and releasing an amount of expenditure in advance.
- ii. Reimbursement of claim.

In India, reimbursement of claim system is adopted.

7.37.2 Project decision and implementation:

The responsibility of identification, determination of feasibility of project, its execution and administration rests with the borrower. However, an appraisal is carried out by the Bank with the assistance of the borrower to examine the economic, financial and technical requirement of the project which provides a basis for decision to support with a loan. The appraisal report includes a detailed explanation and assessment of the financial management system and any additional requirements for the particular project.

7.37.3 Audit objectives and scope:

Audit is responsible for reporting to the funding agency whether the implementing agencies have carried out expenditure on the scheme in accordance with the pattern specified in the appraisal report, as well as Government of India instructions relating to the schemes and terms of such assistance and to identify matters relating to inadequacies in systems and control, cases of fraud or presumptive fraud, wasteful expenditure, failure of administration to take corrective action on recommendations contained in earlier report.

7.37.4 Document essential for Audit certification:

Following documents are essential for scrutiny and issue of audit certificate:

- i. Loan/Development Credit Agreement.
- ii. Staff appraisal report.
- iii. Statement of expenditure (SOE).
- iv. Supporting vouchers.
- v. Reconciliation statement.
- vi. IR of local/central audit for inclusion of any serious financial irregularities pointed out in audit.

7.37.5 Audit Approach:

Local audit is to review viability of the project, review of the project management system to ensure that the work is properly and effectively supervised and executed and that there is accountability throughout the various stages of the project. For some payments of miscellaneous nature, e.g. 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.

7.37.6 Main Points to be checked in Different Audit Areas:

The agreements for loan/development credit entered into by the International Bank for Reconstruction & Development and International Development Association with the Government of India for financing development projects to be implemented by departments of the Central Government, State Government, Public Sector Undertakings and Autonomous Bodies, etc. include specific agreement for Accounts and Audit. These agreements, inter alia, provide that the Project Implementing Agency of the Government shall: -

- a) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, the operations, resources and expenditure in respect of the Project,
- b) 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,
- c) furnish to the Bank within 9 months or earlier of the close of the financial year a certified copy of the report of audit referred to in the paragraph at (b) by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, and

- d) furnish the report of audit for all expenditures in respect of withdrawals made on the basis of Statement of Expenditure (SOE) (without documentation), as to whether the SOE together with the procedures and internal controls involved in their preparation, can be relied upon in support of such withdrawals.

The World Bank has accepted the CAG of India to be an independent auditor for the purposes of certification of accounts, issue of audit certificates in respect of projects being executed in India with World Bank financial assistance. As per the loan agreements, in respect of projects executed by Government Departments and Corporations, the audit of which vests with the CAG of India is met by the Accountants General (Audit) by furnishing to the project authorities for onward transmission to the Bank, an integrated audit certificate within 9 months or earlier of the close of the financial year based on irregularities noticed in Central Audit as well as Local audit in relation to the accounts of these projects.

The annual accounts are to be certified by CAG as sole auditors in respect of projects executed by Government Departments, other bodies and authorities. If any further details are required by the World Bank, these are to be furnished by the project authorities. The integrated Audit Certificate is considered adequate for the purposes of the World Bank and it would not be necessary for the Bank to await the all-inclusive Audit Report of the CAG submitted to the respective legislatures. As the Audit Certificate is not to be published and is in the nature of a document exchanged between the clients and the Bank, the Certificate should indicate, in brief, the amounts held under objection in relation to wanting vouchers, D.C. bills, sanctions etc. and misclassification, defalcation, overpayments etc. that come to notice.

The Audit Certificates in respect of projects executed by Government Companies are issued by Chartered Accountants who are statutory auditors of the companies and not by the CAG who conducts only a supplementary audit in such cases under the Companies Act, 1956.

7.37.7 Audit of implementing Agencies:

- a) Funds from Bank loan may be disbursed only on 'account of expenditure for goods and services provided by national of' and produced in or supplied from, Bank member countries. The expenditure should be incurred as per terms and conditions of the World Bank which inter-alia requires:
- i. Utilisation of loan for the purpose projected and sanctioned for.
 - ii. Consideration of economy and efficiency, extra avoidable expenditure may therefore be objectionable for reimbursement from World Bank Loan. Cost overrun due to non-completion of work in stipulated time may also be disputable claim for reimbursement from the Bank.
 - iii. Non denial of pre-qualification to a firm for reason unrelated to its capacity to supply the goods/services in question except if the borrower country has commercial relation with that country to which that firm relates provided the bank is satisfied that such exclusion does not preclude effective competition.
 - iv. Award of any contract is required to be strictly in accordance with loan agreement or guidelines.

- v. Implementing agency not agreeing to any material modification or waiver of the terms and conditions of contract or extension of the stipulated time of performance which would affect the contract inconsistent with the provision of loan agreement.
- vi. Procurement of goods and services inconsistent with agreed procedure.
- b)** The items, which qualify or do not qualify for reimbursement, are as follows:
 - 1. Amount recovered towards security deposit (SD) is not eligible. However, release of SD to the agencies is claimable.
 - 2. Secured advance paid on material is not reimbursable.
 - 3. Mobilization advance paid to the agency is reimbursable.
 - 4. Income tax/sales tax recovered from contractor is claimable for civil work but not for supplies.
 - 5. Foreign exchange freight charges are eligible for reimbursement.
 - 6. Local transportation charges are not reimbursable.
 - 7. Insurance premiums paid in foreign exchange are eligible for Bank financing; self-insurance and premium paid in local currency are ineligible unless explicitly provided in the loan agreement.
 - 8. The Bank does not finance custom duties and other taxes imposed by borrowing country.
 - 9. All payments to consultants are made in accordance with contract provisions which normally specify currencies and mode of payment.
 - 10. Income tax and other duties paid to the consultant are not reimbursable unless specifically provided in the contract.
 - 11. Fund drawn for incurring expenditure other than the purpose for which the amount was sanctioned/released by the World Bank/State and Central Government.

(HQ Circular No.493-Rep(s)/109-2002 dt. 14.5.2002 under BO No. OA/IC/2002-03/9 dt. 16.7.2002)

- 12. In G&SS offices the expenditure is met by drawing funds on AC bills. The expenditure supported by DC bills will be admissible. The SOE, therefore, needs to be scrutinized with reference to the report of AC/DC bills received in Accounts and Entitlement office.
- c)** In respect of finalization of Central assistance given to States on provisional basis for relief of distress caused by natural calamities, the certification by audit would be limited to the following:
 - i. Certification of correct classification of the expenditure in accounts after check of classification of vouchers with reference to Sanctions issued.
 - ii. Disallowance of expenditure which does not qualify for Central assistances noticed during the course of Test Audit e.g. purchase of staff car which does not qualify for central assistance for drought relief.
 - iii. Deduction of expenditure incurred by State Government by way of Grants-in-aid/advances to local bodies etc. where utilization certificates had not been received by audit.

- iv. Deduction of amount drawn from the Treasury on “Abstract Contingent Bills” (AC Bill) as advance for which “Detailed Contingent Bills”(DC Bill) have not been received in audit.
- d) For issue of audit certificate for Central Plan Schemes/Centrally Sponsored Schemes following procedure should be followed:
 - i. Where it was not possible to relate the amount of AC bills for which DC Bills are awaited to particular scheme or category of schemes, such amount would be excluded from the audited expenditure at the time of issue of Audit Certificate.
 - ii. Amount transferred to PL Account and had not actually spent should also be excluded from the figures of audit expenditure.
 - iii. Where amount have been drawn by Drawing NIL Bill through transfer credit vouchers debiting the amount to the final heads the amount actually not spent should be excluded from the figures of audited expenditure.
 - iv. Amount kept under objection and intimated to the Ministries along with the Audit Certificate may regularly be pursued with the State Government till its final receipt.

(HQ office memo no. 31-Audit/MOM/30-90 dt. 21.1.99 read with HQ office DO circular no. 202-Audit/MOM/30-90 dt. 20.4.95 BO No. OA/IC-I/98-99/19 dt. 10.2.99)

7.37.8 Issue of Audit Certificate:

- a) Where SOE procedure is used for loan disbursement, the SOE should be integrated to become a part of project financial statement. The SOE procedure simplifies and accelerates the Bank’s loan disbursement process by eliminating the requirement for bank staff to review supporting documentation for many a small expenditures prior to authorizing disbursements. During local audit, it is necessary to obtain a listing of all SOEs submitted during the period under review and for each of the expenditure to perform the following:
 - i. Evaluate the adequacy of the supporting documentation which should normally include one or more of the following:
 - ii. **procurement documents** (Bid documents, invitation, evaluation, award)
 - a. purchase contract
 - b. purchase order
 - c. letter of credit
 - d. supplier’s invoice and certification of origin
 - e. shipping or import documents and inspection certificates
 - f. contractor’s invoices or certificates
 - g. other evidence of receipt of goods or services
 - h. force account records
 - i. recurrent cost records
 - j. authorization for payment
 - k. evidence of payment/bank statement
 - l. accounting records of approvals, disbursements, and balances available

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- m. evidence that refunds have been made by suppliers and corresponding adjustments made in subsequent applications in instances where goods have been returned.
- iii. Ascertain the expenditure was properly authorized and approved.
- iv. Verify that the expenditure is eligible for bank disbursement under the loan agreements. Following ineligible expenditures, if included in the SOE may be examined.
- a. duplicate invoices;
 - b. 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;
 - c. payments that should have been made under normal disbursement procedures with full documentation (e.g. payments against contracts subject to the Bank's prior review, or payments against contracts with values exceeding defined SOE limits); and
 - d. payments for items that are not procured in accordance with the legal agreements, such as:
 - payments for items from countries that are not eligible under the Bank's Procurement Guidelines;
 - payments for items not specified in the procurement;
 - payments made prior to loan signing or before the eligible date specified for retroactive financing;
 - payments for items on the negative list or not on the positive list (for adjustment operation lending).
- v. Verify the mathematical accuracy of the SOE.
- vi. Agree the percentage used to determine the Bank's share of the total disbursement to the loan agreements. Verify that the proper amount was requested for reimbursement.
- vii. Summarise the results of the work performed on a summary form.
- viii. Notify borrower of all instances of negative findings.
- b) While issuing audit certificate, it should be ensured that the expenditure is incurred for the purpose it is meant and conforms to the procedure and terms and conditions of agreement and Government of India's instructions. All objections raised during local audit should also be mentioned in the Audit Certificate duly signed by Group Officer. As per existing instructions issued by Ministry of Finance (Department of Economic Affairs), SOE should reach the PAG by 31' July following the close of financial year. Implementing agency is to obtain, reconciled and verified SOE from PAG so that Audit Certificate could be issued in time. There should be proper interaction if necessary, between the Audit and Accounts and Entitlement office to avoid unnecessary delay. Audit Certificate should be issued in printed revised proforma and on printed letterhead appended as **Annexure 'N'**.
- c) After the closure of every financial year; the audit certificate shall be issued within 9 months or earlier as required under the Project/Loan Agreement i.e. certificate should be issued any time after receipt of SOE. The issue of the Audit Certificates is delayed mainly due
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to non-receipt of the SOE's from the project implementing authorities and there is a general tendency to shift the responsibility for delay on Audit. To overcome this problem, timely and prompt action by taking up the matter with the Finance Secretary of the State should be initiated. Audit certificate should be issued to project implementing authority under intimation to Ministry of Finance (Department of Economic Affairs).

d) While conducting the audit on the “Statement of Expenditure” (SOE) in respect of World Bank/Externally aided projects for certifying Expenditure admissible for reimbursement, the field party should also conduct audit on the propriety side of the financial transaction, and a separate IR covering all aspects of financial transaction should be prepared and issued to the implementing authorities and Department for taking necessary action at their end.

[AG's Order dated 27.8.02 circulated under BO NO. OA/IC-I/ 2002-03/12 dt. 23.8.2002 and Paragraph 3.17.24 to 26 of MSO (Audit)]

7.38 FRAUD AND CORRUPTION:

7.38.1 Introduction:

Fraud and corruption have increasingly become important concerns of countries for which auditors need to be alert for situations, control weaknesses, inadequacies in record keeping, errors and unusual transactions or results, which could be indicative of fraud, improper or unlawful expenditure, unauthorized operations, waste, inefficiency or lack of probity. To fight against fraud and corruption the audit should:

1. seek an adequate level of financial and operative independence and breadth of audit coverage;
2. take a more active role in evaluating the efficiency and effectiveness of financial and internal control systems and aggressively follow up the recommendation of audit organisation;
3. focus audit strategy more on areas and operations prone to fraud and corruption by developing effective high risk indicators for fraud;
4. establish an effective means for the public dissemination of audit reports and relevant information including, establishing good relationship with the media;
5. produce relevant audit reports that are understandable and user-friendly;
6. consider a closer cooperation and appropriate exchange of information with other national and international bodies fighting corruption;
7. intensify the exchange of experiences on fraud and corruption with other audit organization;
8. encourage the establishment of a personnel management procedures for the public service that selects, retains and motivates honest competent employees;
9. encourage the establishment of guidance for financial disclosure by public servants and monitor compliance as part of the ongoing audit process;
10. use the **INTOSAI** Code of Ethics to promote higher ethical standards and a code of ethics for the public service;
11. consider the establishment of a well-publicized means to receive and process information from the public on perceived irregularities.

7.38.2 Responsibilities for prevention of fraud and corruption:

It is an essential function of Management to establish controls and safeguard assets of the entity. The responsibility of the Auditor is to provide assurance about the audited entity and its financial statements and his obligation to make the management aware of any weaknesses in the design or operation of the accounting and internal control systems which are reviewed by him in the discharge of his professional duties.

7.38.3 Audit Mandate:

Depending on their peculiar circumstances, the CAG of India should actively consider adopting a formal policy or strategy for deterring fraud and corruption in the organizations covered in their audit jurisdiction. These Guidelines are based on the awareness that CAG should have an adequate level of mandate to deal with cases of fraud and corruption in planning and conducting an audit and that this mandate is usually inherent in the audit mandate. However, if CAG feels constrained in its investigation of fraud or corruption cases in the performance of its normal audit work it should seek reinforcement of its audit mandate. This reinforcement could be in the shape of a regularity provision specifying that the CAG would be notified in all cases where fraud or corruption are suspected or reported.

7.38.4 Understanding Fraud and Corruption:

Fraud and corruption includes both those committed by the government employees or management of an auditee (internal fraud and corruption), and those perpetrated against the auditee by outside individuals or groups (external fraud and corruption). Internal fraud and corruption may result in benefits being obtained either from organisation (e.g. theft of cash/assets, falsification of payroll data), or from a third party (e.g., the theft of patients' property).

7.38.5 Definition of Fraud:

Fraud involves deliberate misrepresentation of facts and/or significant information to obtain undue or illegal financial advantage.

Fraud may involve:

- manipulation, falsification or alteration of records or documents;
- misappropriation /misapplication of assets.
- suppression or omission of the effects of transactions from records or documents.
- recording of transaction without substances.
- misapplication of accounting policies.

7.38.6 Definition of Corruption:

CORRUPTION involves effort to influence and/or the abuse of public authority through the giving or the acceptance of inducement or illegal reward for undue personal or private advantage.

7.38.7 Factors Influence Fraud and Corruption:

It is useful for auditors to understand the motivational and organizational/ environmental factors of fraud and corruption.

7.38.8 Identification of High Risk Areas:

An understanding of the audited entity should enable the auditor to identify potential high risk areas and suitably modify audit procedures and techniques. Some of the commonly perceived high risk areas are:

- contracts of service/procurement; inventory management;
- sanctions/clearances;
- program management;
- revenue receipt;
- cash management;
- general expenditure; and
- other areas with public interface.

7.38.9 Contract Fraud and Corruption:

Procurement of goods and services is a major activity in the Government sector and is traditionally prone to fraud and corruption. Understanding fraud and corruption in contracts may therefore be beneficial to the auditor. The audit of Contracts, therefore, becomes an area of focus for the Auditor who has to be particularly sensitive to the possibility of Fraud in this area.

7.38.10 Computer Fraud:

With the increased use of information technology in the function of entities and increased introduction of IT System the auditors need to understand that the perpetration of fraud and corruption and consequently detection of such instances become more complicated. Computer fraud could involve the manipulation of a computer or computer data in order to dishonestly obtain money, property or some other advantage of value or to cause loss.

The auditor has to be particularly aware of the audit trail, of the check and balances of IT systems of the levels of control and needs to also have a fair idea of how processing controls can be circumvented by the perpetrator of fraud and how data can be accessed and manipulated. Audit evidencing in an environment is often more complex than traditional manual audit. The standards of audit evidence collection have to be set by the CAG in consonance with the legal framework and regulations in which the audit is carried out. Since this is an emerging field of audit and is also undergoing rapid changes it may be necessary to consider the pooling of information on the IT audits conducted and techniques adopted.

7.38.11 Treatment of Fraud and Corruption:

(A) The basic auditing principles in treatment of fraud and corruption, as per INTOSAI/ASOSAI guidelines are as follows:

- a. Materiality is often considered in terms of value but the inherent nature or characteristics of an item or group of items may also render a matter material. While determining materiality levels for different audit areas the audit may take into account adjustments to the materiality level that may make audit more responsive to risk arising from fraud and corruption.
- b. Audit evidence plays an important part in the auditor's decision concerning the selection of issues and areas for audit and the nature, timing and extent of audit tests and procedures. The CAG should apply its own judgment to determine the extent of audit investigation to be undertaken in cases of suspected fraud and corruption.
- c. With an increasing concern on fraud and corruption it is expected that the audit would address these concerns and actively consider adopting a formal policy or strategy for deterring fraud and corruption.
- d. The CAG should work with the accounting standards setting organizations to help ensure that proper accounting standards are issued for the government and should review whether applicable accounting standards ensure adequate recognition of assets and liabilities and disclosure of true financial position inclusive of any losses resulting from fraud and corruption. In case it observes any deficiency in this regard it should work with the audited entity and the accounting standard setting body to remove the deficiency. The responsibility for adequate and timely disclosure of any cases of fraud and corruption rest with the management and the responsibility of ensuring reliability and results of operation must include concerns arising from risk of fraud and corruption. Audit must evaluate and report on the adequacy and competence with which the management has discharged this responsibility.
- e. It is the responsibility of the auditee unit to develop adequate internal control systems to protect its resources and to ensure that controls are in place and functioning to help ensure that applicable statutes and regulations are complied with and propriety are observed in decision making. The audit institute should be alert to shortcomings in systems and controls that are likely to provide an environment conducive for fraud and corruption and should proactively report to the management to improve the control environment and minimize the risk of fraud and corruption.
- f. The CAG must have access to the sources of information and data as well as access to officials and employees of the auditee organization in order to carry out properly its audit responsibilities. Legislative enactment can ensure that all suspected and detected cases of fraud and corruption are reported to audit by the management. If considered necessary the CAG can reinforce their mandate to investigate cases of fraud and corruption by seeking legislative enactments on these lines.
- g. Audit office should work towards improving techniques for auditing the validity of performance measures. The auditor should make the management aware that the absence or lack or application of reliable and valid performance measures and indicators could increase the possibility of occurrence of fraud and corruption.

(B) General Standards: General standard includes that the audit should

- a. Adopt the procedure for acquiring specialized skills from external sources for successful carrying out of the audit and for augmentation of a perceptive and soundly based audit findings, conclusions and recommendation.
- b. Adopt policies for in-house training and encouragement of attendance at external courses to meet the requirements of its audit mandate for professional development of its personnel to deal with fraud and corruption. Training could include developing forensic auditing skills and sharing of information and knowledge of techniques, procedures and skill development in order to develop expertise in this area.
- c. Prepare manuals and other written guidance and instructions for communication to its staff for conducting audits that are sensitive to fraud and corruption and dealing with suspected cases of the nature.
- d. Be independent and should avoid conflict of interest between the auditor and the entity under audit and must observe the laws in conducting audit, and should have free access to all premises and records relevant to audited entities and their operations and should provide adequate powers to obtain relevant information from persons or entities possessing it. Where necessary the audit should work for legislation that would allow its access to all records and information required in the examination of cases of fraud and corruption. Without compromising on their independence to plan and conduct audit the CAG should consider establishment of means to receive and process information from the public on suspected cases of fraud and corruption.
- e. Exercise due care in specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations. It should be fair in its evaluations and in its reporting of the outcome of audits. Since complete evidence about cases of fraud and corruption may not be available to the 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 that would normally be considered appropriate and necessary for arriving at an audit opinion. In investigating and reporting cases of fraud and corruption the audit should be aware of the risk that perpetrators of fraud and corruption seek protection for their acts by accusing the auditors of libel and slander. The CAG could consider working towards changes in their legislation which protects their auditors against such allegations and likely legal proceedings.

(C) Field Standard:

- i. The auditor should plan the audit 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. While planning his audit the auditor should assess the risk that fraud may cause the financial statements to contain material misstatement or record material irregular transactions.
 - The auditor may keep in view that the risk of fraud and corruption could be higher in certain organization like those involved in procurement of goods and services.
 - The auditor may keep in view that when a fraud is detected there is a deliberate effort to conceal the facts and distract the auditor.

- For planning the audit the auditor should have a complete understanding of the auditee including the environment in which the entity operates the level of internal control and the past performance of the auditee especially previous instances of fraud and corruption.
- ii. 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. In case of high risk audit, the audit team should be selected keeping in view the requirement of such audit. The CAG should keep in view the need for flexibility in terms of budget, time and expertise of the audit team particularly when fraud and corruption are suspected or discovered in the course of audit.

7.38.12 Supervision and Review:

The work of the audit staff at each level and audit phase should be reviewed by a senior member of the audit staff before the audit opinions or reports are finalized. It should be carried out as each part of the audit progresses. Review brings more than one level of experience and judgment to the audit task and should ensure that:

- a. all evaluations and conclusions are soundly based and are supported by competent, relevant and reasonable audit evidence as the foundation for the final audit opinion or report;
- b. all errors, deficiencies and unusual matters have been properly identified, documented and either satisfactorily resolved or brought to the attention of a more senior officer(s) and
- c. changes and improvements necessary to the conduct of future audit are taken into account.

7.38.13 Study and Evaluation of Internal Control:

The auditor, in determining the extent and scope of the audit, should study and evaluate the reliability of internal control. Where accounting or other information systems are computerized, the auditor should determine whether internal controls are functioning properly to ensure the integrity, reliability and completeness of the data. The changes and improvements in the internal control system made by management when there have been previous instances of fraud and corruption or in response to changes in the auditee environment should be particularly studied and evaluated during audit. Increasing use of IT systems by auditees requires that the auditor should have access to reliable and verifiable system-based audit trails to evaluate the internal control. For meeting this objective legislation or executive guidance should ensure that audit is viewed as a stakeholder in the system development.

7.38.14 Compliance with applicable Laws and Regulations:

- a. The auditor also should be alert to situations or transactions that could be indicative of illegal acts that may indirectly impact the results of the audit. When audit steps and procedures indicate that illegal acts have or may have occurred, the auditor needs to determine the extent to which these acts affect the audit results. Without affecting the CAG's independence, the auditors should exercise due professional care and caution in extending audit steps and procedures relative to

illegal acts. Due care would include consulting appropriate legal counsel and the applicable law enforcement organizations to determine the audit steps and procedures to be followed.

b. Whenever a material instance of failure to comply with the applicable laws and regulations is observed the auditor should without automatically assuming the management and staff as 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.

7.38.15 Audit Evidence:

a. Auditor should have a sound understanding of techniques and procedures such as inspection, observation, enquiry and confirmation, to collect audit evidence. The CAG should ensure that the techniques employed are sufficient to reasonably detect all quantitatively material errors and irregularities.

b. 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 certificate requires the qualification.

c. 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 conclusions. Auditors should also keep in view that the evidence gathered by them and the conclusion drawn by them could become the basis of legal or disciplinary proceeding. Some of the sources of evidence and factors that may be considered in searching for evidence are listed in **Annexure ‘O’**.

d. 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.

e. The field party should be serious in collection of Audit Evidences (AE) and obtain reply to audit query from the competent authority. In case of failure to obtain reply, in spite of best efforts, at least confirmation of facts and figures mentioned in the Audit Query (AQ) should be obtained and to be treated as AE for processing a DP. Paragraph should be developed keeping in mind the Systemic failure and thematic aspect. Efforts should be made to communicate findings/observations among fellow officers to bring out similar observations to arrive at conclusion which are systematic /thematic in nature. In case of solitary and stray incidents, efforts should be made to bring out or establish failure or lack of internal control mechanism.

[Ref: - Branch No. OA/IC-I/2010-11/05 dated: 18 February 2011]

7.38.16 Analysis of Financial Statements:

In regularity (financial) audit and in other types of audit when applicable, auditors should analyse the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with and to ascertain the existence of the expected relationship within and between various elements of the financial statements, identifying any

unexpected relationships and any unusual trends. Auditors need to be alert particularly when there is suspicion of fraud and corruption.

7.38.17 Reporting Standard:

At the end of each audit the auditor should prepare a written opinion or report, as appropriate, setting out the findings, in an appropriate form; its content should be easy to understand and free from vagueness or ambiguity, include only information which is supported by competent and relevant audit evidence, and be independent, objective, fair and constructive. When in the opinion of the auditor the financial statements include material fraudulent transactions, or such transactions have not been adequately disclosed, or the audit conducted by the auditor leads him to the conclusion that instances of fraud and/or corruption have taken place and when the auditor has adequate evidence to support his conclusion, he should qualify the audit certificate and/or ensure that his findings are adequately included in his audit report. However, the term fraud or corruption may not be used in a conclusive sense unless such action is established in a court of law. The report may contain auditor's recommendations for the changes in the system and procedures that could prevent recurrence of such instances. 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.

(ASOSI guidelines on audit of Fraud and Corruption)

7.39 ENVIRONMENT AUDIT:

7.39.1 Audit objectives and scope:

The objectives of Environment Audit are to ensure that appropriate and adequate policies and procedures are in place and are duly complied with in order to achieve the development without destruction of the environment and without foreclosing the options for future needs. The interests of the industry and environment have, thus, to be mutually supportive.

The scope of Environment Audit would extend to examination of:

- i. the environmental appraisal and impact assessment procedures in the Central Government for developmental activities;
- ii. the extent of compliance with the related Government legislation and regulations;
- iii. the effectiveness of waste minimization and pollution control programmes and programmes for the conservation and utilization of energy, water and other natural resources like flora, fauna, wild life, etc.

The scope of audit would also extend to an examination of the environmental policies and initiatives of Government and of the measures taken to respect its international commitments in this sphere.

7.39.2 Audit Approach:

Environment Audit would be conducted within the broad framework of Regularity and Performance Audit.

7.39.3 Issues for audit scrutiny:**a) Environmental Impact Assessment (EIA)**

The objectives of EIA are to identify and evaluate the potential benefits as well as adverse impact of development projects on the environmental and ecological systems. It is a useful aid for decision-making, based on an understanding of the environmental implications, including social, cultural and aesthetic concerns, which could be integrated with the cost-benefit analysis of the projects concerned.

The Ministry of Environment and Forests has made EIA mandatory in a Notification issued in January 1994 and amended in May 1994 in respect of twenty-nine specified categories of developmental activities, including industrial projects, thermal power plants, mining activities, river valley and hydroelectric schemes, and infrastructure projects. In evaluating the EIA procedures, Audit will examine the following:

- i.** Documents submitted by the project proponents which include:
 - (a) Feasibility Reports;
 - (b) Site clearance in respect of site-specific projects mentioned in the EIA Notification;
 - (c) ‘No Objection’ certificates from the State Pollution Control Boards (SPCBs) and other local authorities;
 - (d) Environment Impact Assessment Reports;
 - (e) Environment Management Plans;
 - (f) Risk Analysis and Emergency Preparedness Plans in the case of projects involving hazardous substances;
 - (g) Rehabilitation Plans in respect of projects likely to lead to large scale displacement of the population, etc.
- ii.** Minutes of meetings of Expert Appraisal Committees in the Ministry, along with Reports of their site visits with a view to ascertaining the adequacy and efficacy of the appraisal procedures in the Ministry.
- iii.** Reports on public hearings, if any, held in respect of particularly controversial projects.
- iv.** Adherence to prescribed time schedule for completing the impact assessment.
- v.** Recommendations of Appraisal Committees forming the basis of environmental clearances and conditions attached thereto and deviations, if any, there-from.

In terms of the EIA Notification, on commissioning of the projects, the project entities are required to submit half-yearly reports of compliance with the conditions stipulated in the environment clearance. These are to be examined in the Ministry. The adequacy of the action taken in the Ministry on the compliance reports with particular reference to deficiencies, if any, and of the post-project monitoring by the Regional Offices located at Bangalore, Bhopal, Bhubhaneshwar, Chandigarh, Lucknow and Shillong should be examined in audit. Cases of non-compliance with the

conditions subject to which environmental clearances are accorded are brought to the notice of the SPCB concerned, which may then initiate action against the defaulting entities. The action taken in this regard would also need to be reviewed in audit for possible comment.

b) Prevention and Control of Pollution

The Policy Statement for Abatement of Pollution issued by the Ministry of Environment and Forests in 1992 provides instruments in the form of legislation and regulation, fiscal incentives, voluntary agreements, educational programmes and information campaigns in order to prevent, control and reduce environmental pollution. Evaluation by Audit of the impact of various initiatives taken to prevent and control pollution will involve the following:

i. Scrutiny of the Acts promulgated by the Central, State and Union Territory Governments to prevent and control pollution, with a view to critically examining their adequacy and efficacy in controlling or preventing pollution.

ii. Examination of the adequacy of the monitoring systems and mechanisms in the Ministry to ensure compliance with these Acts through the Central and State Pollution Control Boards.

iii. Review of monitoring by different monitoring stations of the Central and State Pollution Control Boards of air (including noise) and water quality status intended for ensuring adherence by industries to the prescribed emission and effluent standards.

iv. Polluting units seeking consent under the Water (Prevention and Control of Pollution) Act 1974, or the Air (Prevention and Control of Pollution) Act 1981, or both and authorization under the Hazardous Wastes (Management and Handling Rules), 1989, are required to submit an Environment Statement to the SPCB concerned. Consents given by the SPCBs to establish and operate the polluting units and the adequacy of the arrangements for a regular review of these units by the Boards and of the action taken against defaulting units should be examined.

v. The Central Pollution Control Board (CPCB) has identified 1,551 large and medium industries in 17 categories as highly polluting ones. SPCB & CPCB are also required to monitor compliance with the standards prescribed in this regard. The reports of these Boards should be scrutinized with a view to ascertaining the adequacy of the monitoring.

Audit should also review in depth, from ECPA, VFM or 3Es perspective, specific programmes and projects, such as the Ganga Action Plan, Taj Protection Mission, Development and Promotion of Clean Technologies, Hazardous Substances Management, etc. implemented or under implementation by the Ministry for prevention and control of pollution.

[(Paragraph 3.19.1 to 3.19.9 of MSO (Audit)]

7.40 AUDIT OF COMPUTERISED SYSTEM:

7.40.1 Introduction:

Following the significant advances in the field of information technology (IT), Government organisations have become increasingly dependent on computerized information systems to conduct their operations and to process, maintain, and report essential information. As a consequence,

the reliability of the computerized data and of the systems that process, maintain and report these data is a major concern to audit.

IT Audit is the process of collection and evaluation of evidence to determine whether a computer system has been designed to maintain data integrity, safeguard assets, allow the effective realization of organisational goals, and ensure efficient utilisation of resources. While evaluating the effectiveness of any system, the IT Auditor must be aware of the characteristics of the users of the information system and the decision-making environment in the auditee organisation.

Use of computer facilities has brought about radically different methods of processing, recording and controlling information and has resulted in many previously separated functions being combined. The financial implications of recurring or repetitive errors could, in the final analysis, be very substantial. This makes it imperative for the auditor to test the invisible processes, and to identify the vulnerabilities in a computer information system.

7.40.2 Controls in a Computer System:

Controls in a computer information system reflect the policies, procedures, practices and organizational structures designed to provide reasonable assurance to ensure effectiveness and efficiency of operations, reliability of financial reporting and compliance with the rules and regulations. It is, important for Audit to verify that not only adequate controls exist, but that they also function effectively.

Information system controls are broadly classified into two categories, namely General controls and Application controls. General controls include controls over data centre operations, system software acquisition and maintenance, access security, and application system development and maintenance.

Application controls pertain to specific computer applications. They include controls that help to ensure the proper authorization, completeness, accuracy, and validity of transactions, maintenance, and other types of data input.

7.40.3 Significance of Controls:

Controls provide safeguards against data loss attributable to damage to or corruption of files, manipulation of data, power failures or fluctuations, viruses, computer abuses, etc. Absence of audit trails would also make it difficult to ensure the efficient and effective functioning of a computerized system for an auditor. Besides, in organisations where computer systems are operated, on contract, by outside agencies that employ their own standards and controls, absence of controls will also make the system vulnerable to remote and unauthorised access.

7.40.4 Objectives of Computer Controls:

The objectives of controls do not change with the introduction of computers. Typical control objectives within a government data processing function aim to ensure:

- i. the provision of effective organizational control over functions related to data processing by clearly defining organizational objectives;

- ii. effective management control over development of data processing resources in conformity with organizational objectives;
- iii. adoption of practices related to data processing activities in accordance with statutory requirements and prescribed administrative procedures;
- iv. adherence to policies, standards and procedures in respect of all data processing functions, and
- v. efficiency and effectiveness of the data processing systems geared towards achievement of the desired objectives.

7.40.5 Audit objective and scope:

The basic objectives of computerized systems include an evaluation of:

- i. The acquisition and installation of computer and computer systems;
- ii. System effectiveness;
- iii. System economy and efficiency and data integrity;
- iv. System security; and
- v. Compliance of system related activities with applicable laws, regulation and guidelines;

The above objectives can be achieved by reviewing:

- i. The acquisition of computer facilities;
- ii. Whether the computer-based systems incorporate adequate procedural controls that are not invalidated by subsequent amendments;
- iii. The adequacy of controls governing development and maintenance of computerized systems;
- iv. The adequacy of administrative and organizational controls to ensure safe and expedient day-to-day operations; and
- v. The use of resources to appraise and report on waste, extravagance and inconvenient administration or poor value of money.

An auditor has to always bear in mind that he has to exercise an independent judgment on the capability of the system to cater to the intended objectives – efficiency and adequate disposal.

7.40.6 Preliminary evaluation:

The first step in audit should be preliminary evaluation of the computer systems covering:

- i. The manner in which the computer function is organized;
- ii. The use of computer hardware and software;
- iii. The applications processed by the computer and their relative significance to the organization; and
- iv. The methods and procedures prescribed for implementation of new applications or revision of existing applications.

In course of the preliminary evaluation, the auditor should ascertain the level of control awareness in the auditee organization and existence (or non-existence) of control standards.

7.40.7 Audit methodology:

After completing the preliminary evaluation of the computer systems, the auditor has to decide whether it would be more appropriate to adopt the system-based audit approach or the direct substantive testing approach. The aspects to be borne in mind in arriving at the decision are the following:

- i. Results of preliminary evaluation;
- ii. extent to which reliance can be placed on any work carried out by the internal audit wing of the auditee organisation;
- iii. nature of any constraints, such as the absence of any audit trail, and the practicability of testing.

7.40.8 Direct Substantive Testing:

If the direct substantive testing approach is chosen, a sample of transactions should be selected and tested. The results of the preliminary evaluation will be particularly of assistance in this context because it would have:

- i. enabled an overall assessment of the control environment and identified any serious weaknesses that should be raised with the auditee;
- ii. afforded sufficient familiarity with the system to facilitate selection of appropriate transactions for testing and their efficient substantiation; and
- iii. provided sufficient information to determine the initial requirement for any Computer Assisted Audit Techniques (CAATs).

7.40.9 Systems-based Audit:

In adopting the system-based audit approach, it will be necessary to examine aspects relating to the regularity, economy, efficiency and effectiveness of the system besides evaluating data integrity, and data security. These are explained below:

- i. System effectiveness is measured by determining whether the system performs the intended functions and whether the users are able to obtain the requisite information in the right form and at the right time.
- ii. A system is economical and efficient if it uses the minimum number of information resources to achieve the output required by the users. This will involve optimization of the use of system resources-hardware, software, personnel and money.
- iii. System activities can be considered to be regular if they comply with all applicable laws, rules, policies, guidelines, etc.
- iv. Achievement of 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. In order to ensure data security, the data system resources, like other assets, must be sufficiently protected against theft, waste, frauds, unauthorized use and natural disasters.

The key controls for ensuring the above will have to be identified, recorded, evaluated and compliance tested.

7.40.10 Audit techniques:

IT audit techniques refer to the use of computers, including software, as a tool to independently test computer data of interest to Audit. The following are some of the well-established techniques:

- i. Collection and processing of a set of test data that reflect all variants of the data and errors which can arise in an application system at different times.
- ii. Use of integrated test facilities, built into the system by the auditee, to assist the auditor in his requirements, as one of the users of the system.
- iii. Simulation of the auditee's application programs using audit software to verify the results of processing.
- iv. Periodical review of programme listings in order to verify that the programmes have not been altered unauthorisedly.
- v. Use of either commercial software or programmes developed in-house to interrogate and retrieve data applying selection criteria and to perform calculations.
- vi. Extraction of data samples from the database/files of the auditee, using sampling techniques, for post analysis and review. The sampling technique to be employed is determined by the nature of data and type of analysis required.

Computer audit techniques are employed for:

- i. Independent verification of ledger balances and control totals;
- ii. re-calculation of critical computerized calculations to verify their correctness;
- iii. range checks to verify the efficient functioning of computer-based controls and test for exception conditions;
- iv. testing the validity of data stored in the master file;
- v. detection of data abuse/frauds; and
- vi. substantive testing with large volumes of data which is difficult, if not impossible, in a manual audit process.

The employment of a particular computer audit technique depends on:

- 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 printed information.

At present, many data-based management systems also 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 centre.

7.40.11 Issues for audit scrutiny:

7.40.11(a) Audit of Acquisition

Generally the acquisition of computer facilities involves the following stages:

- i. Definition of a computer policy and strategy based on an evaluation of organizational requirements and the ways and means of satisfying them.
- ii. Establishment of the need.
- iii. A thorough examination and evaluation of the alternative courses of action available.
- iv. Precise specification of the requirements and delineation of existing and future applications, hardware, software, modes of operations, conditions of supply, etc.
- v. Evaluation of alternative sources of supply and selection of the most appropriate source(s).
- vi. Physical acquisition of the facilities and the systems.

Often these stages tend to overlap or merge imperceptibly into one another.

To review the adequacy of the administrative procedures and controls used by the auditee organisation when considering and deciding upon the acquisition of computer facilities it is to ascertain whether:

- i. a sound administrative structure is available to enable a proper analysis of the requirements of computer facilities;
- ii. the acquisition procedures are effective in facilitating the formulation of a viable computing policy and strategy; and
- iii. the processes of evaluation and selection ensure that the requirements of the organisation are met in the most effective and efficient manner.

The auditor should direct his attention to an examination of the following:

- 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.

7.40.11 (b) Audit of Systems Development

The audit objective of system development controls is to ascertain that procedures are adequate to ensure that the development results in well-documented computer systems incorporating adequate controls and meeting the defined user requirements in an efficient manner.

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 the source code. Further, the terms and conditions, such as rights over the source code, provisions for modifications/updating in future, etc. should be examined. The penal provisions may also be examined in cases of non-delivery of the agreed upon services or non-adherence to the stipulated time schedules. It may also ascertain whether any of the objectives envisaged could not be realized because of belated delivery of the software.

7.40.11(b) (i) Categories of Systems Development Audit

Systems development audit can be categorized into the following three general classes:

i. **Monitoring Audit:**

The auditor evaluates the project throughout the process to determine whether the development is proceeding effectively and ascertains whether milestones are being met, expenditure rates are as predicted, high quality documentation is being written, the software conforms to established technical standards and tests are being conducted as scheduled or evaluated as planned.

ii. **Design review audit:**

Its objective is to determine whether the preliminary and detailed designs accurately reflect the functional data and systems specifications, and incorporate adequate internal controls.

iii. **Post-implementation audit:**

This is performed three to six months after the system becomes operational and serves to evaluate whether the system meets requirements, is cost-effective and generally provides benefits predicted in the project planning documents.

7.40.11 (b) (ii) Association of audit in systems development

The ultimate responsibility for incorporating internal controls and an adequate trail into computer-based systems must rest with the auditee organisation. It is, therefore, not necessary for the auditor to provide, as a matter of policy, any consultancy advice on developing systems.

7.40.11 (b) (iii) Main points to be checked by Audit

While the auditor should be cautious enough not to be drawn into unproductive involvement in systems development, he should nevertheless examine whether:

- i. a published standard methodology is being used for designing and developing systems;
- ii. there is a common understanding by all parties-users, systems analysts, 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. the IT applications development is authorized by the user, the steering committee or the management;
- iv. the systems development work was preceded by a feasibility study to determine the most appropriate solutions to standard problems;
- v. there is adequate cross referencing between (a) content and format of preliminary studies; (b) feasibility studies; (c) system specifications; and (d) programme coding;
- vi. project management techniques, such as the stipulation of project decision milestones, time and cost estimates, etc., are applied in systems development work to facilitate monitoring of the against estimates;
- vii. programming standards using modular structured methodology are being adhered to in coding; and

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- viii. existing in-house or externally available application packages were considered before deciding upon new in-house application development.

7.40.11(c) Audit of Operation and Maintenance

A. General Controls: 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.

B. Organizational controls: These 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 authorized.

C. Segregation of duties: The auditor should verify whether duties amongst the staff operating the computer system are adequately and effectively segregated so as to substantially reduce the risk of error and fraud. 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.

In any major IT System, the following duties should be adequately segregated:

- System design and programming.
- System support.
- Routine IT operations and administration.
- System security.
- Database administration.

D. Physical Access Control: Physical Access Controls include the environmental controls which operate across the entire IT environment and affect all underlying computer applications. These controls are designed to protect the computer hardware and software from damage, theft and unauthorised access. The auditor should make a quick assessment of the physical access controls and their adequacy.

E. Authorisation Control: This helps verify the identity and authority of the person desiring to attempt a procedure or an operation. This control is exercised through the use of passwords, signatures, smart cards, cryptographic systems, etc. Such controls ensure that only authorized persons have access to the system for the purpose of entering and/or altering transactions, obtaining information, etc.

F. Logical Access Control: 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 the installation as well as application levels. Logical access controls are often used with physical access controls to reduce the risk of programme and data files being amended unauthorisedly. The IT 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 systems 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.

G. Operation and File Controls: These controls are meant to ensure that the computer and computer files are safeguarded 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 safeguard against the unauthorised processing of data or programmes. File controls and procedures adequately safeguard files and software against loss, misuse, theft, damage, unauthorised disclosure and accidental or deliberate corruption.

H. Change Management Controls: Change Management Controls are used to ensure that amendments to a computer system are properly authorized, tested, accepted and documented. Poor change controls could result in accidental or malicious changes to the software and data. Audit should ensure that a new or amended computer system is thoroughly tested by its end users before live use.

Audit should emphasise that an auditee organisation which update their computer systems should have appropriate change management and configuration management controls. These controls should ensure that all system and program amendments are satisfactorily justified, authorized, documented and tested and that an adequate audit trail of the changes is maintained. All change procedures should be documented.

I. Service Continuity Planning: The auditor should ensure that there are adequate plans and arrangements to resume processing in the event of failure of computer operations. The degree of continuity planning will depend on the size of the IT department and the dependence on computer processing.

Organizations with large IT 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 may fail when put into practice. Testing will reveal deficiencies and allow amendments to be made.

Back-up copies of systems software, financial applications and underlying data files should be taken regularly. Back-ups should be cycled through a number of generations by, for example, using daily, weekly, monthly and quarterly tapes. They should be stored, together with a copy of the disaster recovery plan and systems 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 stored on local hard disks.

(I)(a) Important points to be checked in audit:

In reviewing general controls, the following aspects points should be covered:

- i. Availability of all hardware equipment, including computer, ancillary and terminal equipment in use should be verified with reference to a list of hardware obtained from the auditee organisation indicating the model, performance details, etc.
- ii. An up-to-date organizational chart should be obtained and examined to determine the manner in which the computer fits into the overall organisation.

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- iii. An up-to-date chart indicating the deployment of personnel of the computer department and their relative responsibilities and authorities should be reviewed to note any changes.
 - iv. Similarly changes, if any, in the job specifications (role definition) for senior computer personnel and supervisors of the ancillary section should be noted.
 - v. Details of standards and norms fixed for each of the functions, such as data control, data preparation, system operation, etc. should be obtained and adherence thereto verified with reference to the following:
 - a. computer utilisation per shift in terms of the Central Processing Unit (CPU) and peripheral use;
 - b. key depressions per shift per data entry operator and error allowance;
 - c. document standards and controls-batching, balancing and sequencing, and
 - d. run-to-run controls maintained by system operators.
 - vi. It should be verified, through a test check, whether manuals are maintained and kept up-to-date specifying the control procedures area whether they are enforced in practice.
 - vii. Availability of the following terminal controls to protect data and system integrity should be verified:
 - a. Physical access controls to terminal rooms;
 - b. Software controls through password protection and user directories;
 - c. Logging of terminal activities by all users.
 - viii. Details of security measures, both physical and system, should be obtained for examining the following:
 - a. Adequacy of protection of hardware and software against risk of fire (fire prevention measures and firefighting arrangements);
 - b. Arrangements for maintenance of hardware and system software;
 - c. Provision of air conditioning and protective measures against possible radiation, vibrations etc.;
 - d. Availability of measures to ensure system security in the event of possible industrial action or malicious action by programmers, operators and input-output staff attributable to discontent among the operating staff;
 - e. Adequacy of security awareness and training provided to all employees;
 - f. Adequacy of emergency shut-down procedures in case of power failures;
 - g. Deficiencies, if any, in the arrangements for safe custody of software and data files and type library;
 - h. Adequacy of back-up files, including offsite storage;
 - i. Adequacy of control over operator access to program files and data;
 - j. Availability of procedures and contingency, plans for reconstructing files in the event of loss or disk/type errors;
 - k. Availability of computer equipment back-up through the use of compatible equipment at other dispersed sites;
 - l. Restriction of access to the computer room by personnel other than systems operators and hardware engineers; and
 - m. Insurance of the installation to cover possible risks.
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J. Application Controls: 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, primarily to the management, that all transactions are valid, authorized and recorded.

Before attempting an evaluation of application controls, it will be necessary for an auditor to secure a reasonable understanding of the system. For this purpose, a brief description of the application should be prepared indicating (i) the major transactions; (ii) the transaction flow and main output; (iii) the major files maintained and (iv) approximate figures for transaction volumes.

Application Control requirements may be divided into the following:

- i. Documentation standards
- ii. Input controls
- iii. Processing controls
- iv. Output controls
- v. Master/Standing Data File controls
- vi. Audit requirements

(J)(i) Documentation Standards: Documentation standards ensure that adequate and up-to-date system documentation is maintained. Careful updating of documentation is also important. The auditor will find documentation helpful as an aid to understanding the system but he must be careful to ensure that it is up-to-date before using it. There should be appropriate standards in the auditee organization to ensure that:

- i. System documentation is sufficiently comprehensive;
- ii. Documentation is updated to reflect system amendments; and
- iii. A back-up copy of the documentation is available.

Without good documentation, it will be difficult to assure that controls will operate on a continuous basis and there will also be a greater likelihood of errors. Good application documentation reduces the risk of users making mistakes or exceeding their authorities.

Documentation should include the following:

- i. A system overview;
- ii. User requirements specification;
- iii. Program descriptions and listings;
- iv. Input/output descriptions;
- v. File contents descriptions;
- vi. User manuals; and
- vii. Desk instructions.

(J)(ii) Input Controls: The objective of input controls 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)** the data have been entered accurately and without duplication.

In evaluating input controls, the auditor should ensure that:

- i. all prime inputs, including changes to standing data, have been appropriately authorized;
- ii. the ability to enter data from a terminal is adequately restricted and controlled in respect of on-line systems;
- iii. there are methods to prevent and detect duplicate processing of a source document;
- iv. all authorized inputs have been submitted or, in an on-line system, transmitted; and
- v. there are procedures for ensuring correction and resubmission of rejected data.

The controls outlined above may be invalidated if it is possible to by-pass them by entering or altering data from outside the application.

(J)(iii) Data Transmission Controls: These controls are built into IT Applications to ensure that data transmitted over local or wide area networks are valid, accurate and complete. Organizations using networks should ensure that there are adequate controls to reduce, to an acceptable level, the risk of data loss, addition of unauthorized transactions and data corruption. Some computer systems are connected to either local or wide area networks (LANs or WANs), which permit them to receive and send data from remote locations. The more common data transmission media include telephone wires, coaxial cables, infrared beams, optical fibres and radio waves.

Applications which transmit information across networks may be subjected to the following risks:

- i. Data may be intercepted and altered either during transmission or during storage at intermediate sites.
- ii. Unauthorized data may be introduced into the transaction stream using the communication connections.
- iii. Data may be corrupted during transmission.

The auditor should ensure that there are adequate controls in place, either within the network system, or the financial applications, to detect corrupted data. There are a number of controls that may be used to address these problems. For instance, digital signatures may be used to verify that the transaction originated from an authorized user and that its contents are intact. Similarly, data encryption techniques may be used to prevent the interception and alteration of transactions.

(J)(iv) Processing Controls: 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. Verifying, during or after processing, the control totals established prior to processing.

The objectives of processing controls are to ensure that **(i)** the processing of transactions is accurate and complete; **(ii)** the transactions are unique without any duplication; **(iii)** all transactions are valid; and **(iv)** the computer processes are susceptible to audit.

Processing controls 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. The auditor should ensure that there are controls to detect the incomplete or inaccurate processing of input data.

Application processes may perform further validation of transactions by checking data for duplication and consistency with other information held by other parts of the system. The aim of such controls is to detect external amendments to data due to system failure or use of system amendment facilities such as editors.

(J)(v) Output Controls: These controls are incorporated to ensure that the computer output is complete, accurate and correctly distributed. A well-controlled system for input and processing is likely to be completely undermined if the output is uncontrolled.

Output controls ensure that all output is:

- i. produced and distributed on time;
- ii. fully reconciled with pre-input control parameters;
- iii. physically controlled at all times, 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.

(J) (vi) Master/Standing Data File Controls: Master/Standing Data File Controls are meant for ensuring the integrity and accuracy of the master files and standing data. These controls have to ensure:

- i. amendments to standing data are properly authorized and controlled;
- ii. integrity of master and standing files is verified by checking control totals and periodic reconciliation with independently held records;
- iii. special amendment facilities are properly recorded and their use controlled by management authorization and subsequent review; and
- iv. physical and logical access to application data files are restricted and controlled.

7.40.12 Audit Requirements:

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 the input stage through to its final destination and the breakup of a result into its constituent parts. Auditors may have to use audit software or test data for the efficient execution of their audit. They have, therefore, to make reasonable requests for the access to copies of system data files, report generators and processing time.

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 the following:

- i. weaknesses 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.

7.40.12A Important points to be checked:

Audit of an operational application system involves verification of the input/output controls, processing controls and the audit trail. Testimonial evidence may be obtained in the course of audit by means of the following questionnaire to arrive at a reasonable conclusion in regard to the availability of controls and their adequacy:

- i. Are the data processed genuine, complete and accurate and not provisional?
- ii. Is the expected output produced and distributed on time?
- iii. Do the application programs process data as intended and accurately?
- iv. Is a complete audit trail available for tracing back a transaction from the final result to the initial input?
- v. Are the data and changes thereto authorized by appropriate authorities both in the user and computer departments?
- vi. Are schedules for receipt of input data maintained and what is the extent of compliance?

- vii.** Is there a preliminary check on input data to ensure completeness?
- viii.** Are output reports test-checked prior to their distribution to the user department and is the output produced in accordance with a prescribed schedule?

Further, it should also be examined whether the application system provides for the following programmed controls:

- a.** Controls to checks for missing/duplicate transactions to ensure continuity of goods invoice numbers issued by a station and locating missing numbers; and (ii) to ensure that more than one subscription is not accounted for in the same month in respect of a Provident Fund subscriber.
- b.** Controls on rejected items are to be retained under computer suspense to ascertain that it does not have valid heads of account as given in the budget master and such rejected items kept under suspense.
- c.** Input validation for data purification to ensure conformity with data types.
- d.** Limit/range checks: To ensure that the transaction type in a financial accounting system (expressed in terms of rupees) does not have values less than 1 or greater than 6; or the maximum basic pay does not exceed Rs 9,000 per month; or the code for treasury alone for any State does not have values in excess of two digits.
- e.** Overflow checks: To illustrate, if the field length for withdrawal/ advances in a computerized Provident Fund system is only five digits and there is a valid debit transaction with six digits, the high order digit would get truncated and only five digits of the debit will be recorded. This mistake will remain undetected in the absence of overflow checks.
- f.** Controls should be available to ensure that certain mandatory fields are not left blank.
- g.** Check digits: In a pay roll system, the account number, 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 the check digit given. If the check digits do not tally, it can be concluded that account number has been wrongly entered.
- h.** Compatibility checks.
- i.** Exception condition checks.
- j.** Total for a batch/lot. For example, the batch total for a major head under a treasury is worked out on the computer and tallied with the total given in the schedule of payments/receipts for that batch in order to ensure complete accounting of transactions in a batch.

Record totals and summaries for reconciliation. When a goods basic tape is created in a freight accounting system, it gives the total number of records, which should tally with the total number of invoices input.

7.40.12B Audit Trail:

The objective of the audit trail is to obtain sufficient evidence in regard to the reliability and integrity of the application system.

The audit trail should include the following information:

- i. System information including start up time, stop time, restarts, recovery etc.
- ii. Transaction information in respect of database applications, including input items which change the database, control totals and rejected items.
- iii. Communication information, including terminal log-on/off, password use, security violations, network changes and transmission statistics, which would be of relevance to transaction processing or TP applications.

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. If the design of the computer system does not provide for adequate audit trail, this should be brought out in the audit review, highlighting control weaknesses or lack of controls in the system. Apart from errors that might creep into the system, there is a possibility of frauds, which might occur due to undetected control weaknesses.

7.40.13 Format and Structure of IT Audit Report.

It is best to adhere to the normal reporting format for audit reports in case of IT audit. It should be preferable to propose draft paragraphs focusing on a single issue that has come across. In the IT audit, the base of focus in the audit examination is a system. When the system is running in more than one unit, audit examination should be spread over suitably, so that audit conclusions become more representative. The question of money value in IT audit report has been a difficult one. In several aspects of IT audit, especially when the control environment and related issues are being commented upon, any pecuniary loss would be hard to come by. Similarly when aspects like procurement etc. are commented upon, money value will be one of the prime consideration. Thus, a typical IT audit report in the review format would contain observations with and without money value attached to them, Since much of the IT audit also covers areas like potential risks associated with lack of controls, money value cannot be determined. The report should state clearly why such value cannot be calculated. It would be credible to audit if it comments on risks and mention the total value of assets at stake.

As regards IT Audit reports the following guidelines are suggested for reporting on the IT Audit.

- a. The report must contain a few introductory paragraphs which will include audit objectives, scope and coverage, a statement of nature and extent of audit and the system(s) audited.

- b. The report must briefly give details of the systems highlighting application and operating software environment and hardware resources required to run the system. The volume of data, the complexity of processing and other details should also be highlighted so that the reader can gain a clear idea about the system to appreciate subsequent audit findings.
- c. The criticality of the system must be assessed and mentioned, as many of the audit observations gain their seriousness from the criticality of the system.
- d. If the data/process flow is complex, a flow chart may be annexed to the report.
- e. From this point on, the report can be divided into three parts: **The first part should deal with project and policy issues, if any**, namely delay in procurement, absence of stock registers, etc. **The second part should deal with general controls, applications controls and other** such issues. **The third parts should deal with the results of data analysis.**
- f. Sweeping conclusions regarding absence of controls and risks thereon must be avoided, when they are not supported by substantive testing. **In other words, just because it is mentioned in the guidelines, it cannot be an audit conclusion. Even if** audit discovers that an organization does not have an IT policy, audit would further examine whether it has actually led to haphazard development and whether such development can be ascribed to lack of IT policy.
- g. Before making any comments/remarks it will be advisable to double check manually on a sample basis the documents to be sure about the veracity of such observations.
- h. The audit conclusions must be supported by overall evidence gathered during the audit.
- i. Technical jargons should be avoided as far as possible. It is advisable to use flowcharts, snapshots of programmes/ data to make a point clearer.
- j. Timeliness in reporting is required taking into the consideration of the year of procurement of the hard wares, to justify comments of audit.
- k. Some of the golden rules of audit reporting are worth mentioning .They are:
 - i. One thought per sentence;
 - ii. Use short paragraphs;
 - iii. Use headings and sub-heading to break up long paragraphs;
 - iv. Substitute longer words with shorter word;
 - v. Be specific.

7.40.14 Reply of the management

In case of IT Audit Reports, it is extremely important to get the confirmation of/replies to the audit observation. While formal reply may be difficult to get, the concerned field party should try to have meetings with the Management at the highest level. Even if these efforts fails, adequate evidence about efforts made should be kept on record and mentioned in the report about these efforts.

7.40.15. Audit Evidence

Electronic evidence is admissible as evidence for consideration of the report in the Headquarters office. It should be ensured that as far as possible that time stamps of the electronic evidence are invariably marked

7.40.16 Recommendations

It is not absolutely necessary to incorporate recommendations in the IT audit report. However, field offices are free to recommend should the context and gravity of the conclusions warrant such recommendations.

[Guiding note on reporting on IT audit as per International Centre for Information System and audit vide HQ letter No. 61/IT-Audit/Dy.Dir.-II/2003-04 dt. 17.6.2003 & Paragraph 3.22 of MSO (A)]

7.41 AUDIT OF INTERNAL CONTROL MECHANISM:**7.41.1 Introduction:**

Internal control is not one event or circumstances, but a series of action that intertwined with an entity's activities and is most effective when it is built into the entity's infrastructure and is an integral part of the essence of the organization. As internal control provides the mechanisms needed to help understand risk in the context of the entity's objectives, the management will put internal control activities in place and monitor and evaluate them. This is a tool used by the management and directly related to the entity's objectives.

7.41.2 Provides reasonable assurance:

Reasonable assurance recognizes that the cost of internal control should not exceed the benefit derived. Cost refers to the financial measure of resources consumed in accomplishing a specified purpose and to the economic measure of a lost opportunity, such as a delay in operations, a decline in service levels or productivity, or low employee morale. A benefit is measured by the degree to which the risk of failing to achieve a stated objective is reduced.

7.41.3 Achievement of objectives:

The general objectives are implemented through numerous specific sub-objectives, functions, processes, and activities. The general objectives are:

- i. Fulfilling accountability obligations.
- ii. Complying with laws and regulations.
- iii. Executing orderly, ethical, economical, efficient and effective operations.
- iv. Safeguarding resources against loss due to waste, abuse, mismanagement, errors, fraud and irregularities.

7.41.4 Limitations on internal control effectiveness:

An effective internal control system can give the management information about the entity's progress, or lack of it, toward the achievement of the objectives. But internal control cannot change an inherently poor manager into a good one. Moreover, shifts in government policy or programs, demographic or economic conditions are typically beyond management's control.

Because internal control depends on the human factor, it is subject to flaws in design, errors of judgment or interpretation, misunderstanding, carelessness, fatigue, distraction, collusion, abuse or override.

Another limiting factor is that the design of an internal control system faces resource constraints.

7.41.5 Components of internal control:

Internal control consists of five interrelated components to provide reasonable assurance that the entity's general objectives are being achieved as detailed below:

7.41.5 (A) Control Environment

The control environment sets the tone of an organization influencing the control consciousness of its staff. It is the foundation for all other components of internal control, providing discipline and structure.

Elements of the control environment are as follows:

i. The personal and professional integrity and ethical values of management and staff:

The personal and professional integrity and ethical values of management and staff determine their preferences and value judgments, which are translated into standards of behavior. They should exhibit a supportive attitude towards internal control at all times throughout the organization.

Public organizations have to maintain and demonstrate integrity and ethical values, and they have to be consistent with their mission.

ii. Competence:

Competence includes the level of knowledge and skill needed to help and ensure orderly, ethical, economical, efficient and effective performance, as well as a good understanding of individual responsibilities with respect to internal control. Managers and employees are to maintain a level of competence that allows them to understand the importance of developing, implementing, and maintaining good internal controls and to perform their duties in order to accomplish the general internal control objectives and the entity's mission. Everyone in an organization is involved in internal control with his own specific responsibilities.

iii. Tone at the top: The “tone at the top” reflects:

- a supportive attitude toward internal control at all times independence, competence and leading by example
- a code of conduct set out by the management and counseling and performance appraisals that support internal control and ethical behavior.

Management should set a good example through its own actions and its conduct should reflect what is proper rather than what is acceptable or expedient. The integrity of managers and their staffs is, however, influenced by many elements. Overall performance appraisals should be based on an assessment of many critical factors, including the implementation and maintenance of effective internal controls.

iv. Organizational structure: The organizational structure of an entity provides:

- assignment of authority and responsibility;
- empowerment and accountability;
- appropriate lines of reporting.

v. Human resource policies and practice:

Human resource policies and practices include hiring and staffs orientation, training (formal and on-the-job) and education, evaluation and counseling, promoting and compensating and remedial action. Competent trustworthy personnel are necessary to provide effective control. Therefore, the methods by which persons are hired, evaluated, trained, promoted and compensated, are an important part of the control environment. Human resource management also has an essential role in promoting an ethical environment by developing professionalism and enforces transparency in daily practice. This becomes visible in recruitment performance appraisal and promotion processes.

7.41.5 (B) Risk Assessment:

Risk assessment is the process of identifying and analyzing relevant risks to the achievement of the entity’s objectives and determining the appropriate response. It implies the followings:

i. Risk identification:

A strategic approach to risk assessment depends on identifying risks against key organizational objectives. Risks relevant to those objectives are then considered and evaluated, resulting in a small number of key risks. An entity’s performance can be at risk due to internal or external factors at both the entity and activity levels. The risk assessment should consider all risks that might occur (including the risk of fraud and corruption). It is therefore important that risk identification is comprehensive. Risk identification should be an ongoing, iterative process. It is necessary to adopt appropriate tools for the identification of risk. Two of the most commonly used tools are commissioning a risk review and a risk self-assessment.

ii. Risk evaluation:

In order to decide how to handle risk, it is essential not only to identify in principle that a certain type of risk exists, but to evaluate its significance and assess the likelihood of the risk event occurring. The methodology for analyzing risks can vary largely because management's risks are difficult to quantify.

One of the key purposes of risk evaluation is to inform management about areas of risk where action needs to be taken and their relative priority. Therefore, it will usually be necessary to develop some framework for categorizing all risks.

iii. Assessment of the risk “appetite” of the organization:

An important issue in considering response to risk is the identification of the “risk appetite” of the entity. The risk appetite of an organisation will vary according to the perceived importance of the risks. For example, tolerable financial loss may vary in accordance with a range of features, including the size of the relevant budget, the source of the loss, or associated other risks such as adverse publicity. Identification of risk appetite is a subjective issue, but it is nevertheless an important stage in formulating the overall risk strategy.

iv. Development of responses:

Responses to risk can be divided into four categories. In some instances, risk can be transferred, tolerated, or terminated. However, in most instances the risk will have to be treated and the entity will need to implement and maintain an effective internal control system to keep risk at an acceptable level.

7.41.5 (C) Control Activities:

Control activities are the policies and procedures established to address risks and to achieve the entity's objectives.

To be effective, control activities must be appropriate, function consistently according to plan throughout the period, and be cost effective, comprehensive, reasonable and integrated with the overall organizational objectives. Control activities occur throughout the organisation, at all levels and in all functions. They include a range of detective and preventive control activities as detailed below:

i. Authorization and approval procedures:

Authorization procedures, which should be documented and early communicated to managers and employees, should include the specific conditions and terms under which authorizations are to be made. Conforming to the terms of an authorization means that employees act in accordance with directives and within the limitations established by management or legislation.

ii. Segregation of duties (authorizing, processing, recording and reviewing):

No single individual or section should control all key stages of a transaction or event. Rather, duties and responsibilities should be assigned systematically to a number of individuals to ensure that effective checks and balances exist.

iii. Controls over access to resources and records:

Access to resources and records is limited to authorized individuals who are accountable for the custody and/or use of the resources. Restricting access to resources reduces the risk of unauthorized use or loss to the government and helps achieve management directives. The degree of restriction depends on the vulnerability of the resource.

iv. Verification:

Transactions and significant events are verified before and after processing, e.g. when goods are delivered, the number of goods supplied is verified with the number of goods ordered. Afterwards, the number of goods invoiced verified with the number of goods received.

v. Reconciliations:

Records are reconciled with the appropriate documents on a regular basis, e.g. the accounting records relating to bank accounts are reconciled with the corresponding bank statements.

vi. Reviews of operating performance:

Operating performances are reviewed against set standards on a regular basis, assessing effectiveness and efficiency.

vii. Reviews of operations, processes and activities:

Operations should be reviewed. This type of review of actual operations of an organisation should be clearly distinguished from the monitoring of internal control.

viii. Supervision (Assigning, reviewing and approving, guidance and training):

Competent supervision ensures that internal control objectives are achieved. Assignment, review and approval of an employee's work encompasses:

- clearly communicating the duties, responsibilities and accountabilities assigned to each staff member;
- systematically reviewing each member's work to the extent necessary;
- approving work at critical points to ensure that it flows as intended.

A supervisor's delegation of work should not diminish the supervisor's accountability for these responsibilities and duties. Supervisors also provide their employees with the necessary guidance and training to help ensure that errors, waste and wrongful acts are minimized and that management directives are understood and achieved.

7.41.5 (D) Information Technology Control Activities:

Information technology controls consist of two broad groupings: (1) General Control & (2) Application Control.

(1) General controls:

General controls are the structure, policies and procedures that apply to all or a large segment of an entity's information systems - such as mainframe, minicomputer, network, and end-user environments and help ensure their proper operation. They create the environment in which application systems and controls operate.

The major categories of general controls are:

- 1. Entity wide security program planning and management** provide a framework and continuing cycle of activity for managing risk, developing security policies, assigning responsibilities and monitoring the adequacy of the entity's computer-related controls.
- 2. Access controls** limit or detect access to computer resources (data, programs, equipment and facilities), thereby protecting these resources against unauthorised modification, loss, and disclosure. Access controls include both physical and logical controls.
- 3. Controls on the development, maintenance and change of application software** prevent unauthorised programs or modifications to existing programs.
- 4. System software** controls limit and monitor access to the powerful programs and sensitive files that control the computer hardware and secure applications supported by the system.
- 5. Segregation of duties** implies that policies, procedures and an organizational structure are established to prevent one individual from controlling key aspects of computer-related operations and thereby conducting unauthorized actions or gaining unauthorized access to assets or records.
- 6. Service continuity controls** ensure that when unexpected events occur, critical operations continue without interruption or are promptly resumed and critical and sensitive data are protected.

(2) Application controls:

Application controls are the structure, policies and procedures that apply to separate, individual application systems — such as accounts payable, inventory, payroll, grants, or loans — and are designed to cover the processing of data within specific applications software.

These controls are generally designed to prevent, detect and correct errors and irregularities as information flows through information systems.

Application controls and the manner in which information flows through information systems can be categorized into three phases of a processing cycle:

- **input:-** data are authorized, converted to an automated form, and entered into the application in an accurate, complete and timely manner;
- **processing:-** data are properly processed by the computer and files are updated correctly; and
- **output:-** files and reports generated by the application reflect transactions or events that actually occurred and accurately reflect the results of processing, and reports are controlled and distributed to the authorized users.

7.41.5 (E) Information and Communication:

Information and communication are essential to the realization of all the internal control objectives.

i. Information: A precondition for reliable and relevant information is the prompt recording and proper classification of transactions and events. Pertinent information should be identified, captured and communicated in a form and timeframe that enables staff to carry out their internal control and responsibilities (timely communication to the right people). Therefore, the internal control system and all transactions and significant events should be fully documented. Management's ability to make appropriate decisions is affected by the quality of information which implies that the information is appropriate, timely, current, accurate and accessible.

The internal control system and all transactions and significant events should be fully and clearly documented (e.g. flow charts and narratives). This documentation should be readily available for examination.

ii. Communication: Effective communication should flow down, across and up the organisation, throughout all components and the entire structure. All personnel should receive a clear message from top management that control responsibilities should be taken seriously. They should understand their own role in the internal control system, as well as how their individual activities relate to the work of others. There also needs to be effective communication with external parties.

7.41.5 (F) Monitoring:

Internal control systems should be monitored to assess the quality of the system's performance over time. Monitoring is accomplished through routine activities, separate evaluations or a combination of both.

1. Ongoing monitoring: Ongoing monitoring of internal control is built into the normal, recurring operating activities of an entity. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. It is more effective than separate evaluation. Since separate evaluations take place after the fact, problems will often be identified more quickly by ongoing monitoring routines.

2. **Separate evaluations:** The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures.

Specific separate evaluations cover the evaluation of effectiveness of the internal control system and ensure that internal control achieves the desired results based on predefined methods and procedures.

All deficiencies found during ongoing monitoring or through separate evaluations should be communicated to the appropriate level to take necessary action. Monitoring internal control should also include policies and procedures that ensure that the findings of audits and other reviews are adequately and promptly resolved. Managers are to **(1)** promptly evaluate findings from audits and other reviews, including those showing deficiencies and recommendations reported by auditors and others who evaluate agencies' operations, **(2)** determine proper actions in response to findings and recommendations from audits and reviews, and **(3)** complete, within established time frames, all actions that correct or otherwise resolve the matters brought to their attention.

7.41.6 Roles and Responsibilities:

Everyone in an organization has some responsibility for internal control; as detailed below:

Managers	Directly responsible for all activities of an organization, including the internal control system. Their responsibilities vary depending on their function in the organization (e.g. board, financial officer, audit committee) and the organization's characteristics.
Internal auditors	Examine the effectiveness of internal control and recommend improvements, but they don't have primary responsibility for establishing or maintaining it.
Staff members	Contribute to internal control as well. Internal control is an explicit or implicit part of everyone's duties. All staff members play a role in effecting control and should be responsible for reporting problems of operations, noncompliance with the code of conduct, or violations of policy.

External parties also play an important role in the internal control process and also contribute to achieve the organization's objectives, or may provide information useful to effect internal control.

PAG on behalf of CAG	Encourage and support the management for effective internal control in the establishment. The assessment of internal control is essential for conducting financial and performance audits and the findings and recommendations of the audit are communicated to the management.
External auditors	They should provide advice and recommendations on internal control.
Legislators and regulators	Establish rules and directives regarding internal control. They should contribute to a common understanding of internal control.
Other parties	Interact with the organisation (beneficiaries, suppliers, etc.) and provide information regarding achievement of its objectives.

The tasks of external parties, in particular external auditors and the Pr. AG under CAG include assessing the functioning of the internal control system and informing management about its findings and may play a strategic role in the development of the internal control system, directly and indirectly, depending on their legal mandate and the management structure of the organisation.

Auditors' assessing of internal control procedures implies:

- determining the significance and the sensitivity of the risk for which controls are being assessed;
- assessing the susceptibility to misuse of resources, failure to attain objectives regarding ethics, economy, efficiency and effectivity, or failure to fulfill accountability obligations, and non-compliance with laws and regulations;
- identifying and understanding the relevant internal controls;
- determining what is already known about control effectiveness;
- assessing the adequacy of the control design;
- determining, through testing, if controls are effective;

Reporting on the internal control assessments and discussing the necessary corrective actions.

The Pr. AG also needs to develop a good working relationship with the internal audit units so that experience and knowledge can be shared and work mutually can be supplemented and complemented. Inclusion of internal audit observations and recognizing their contributions in the external audit report when appropriate can also foster this relationship and PAG should develop procedures for assessing the internal audit units's work to determine to which extent it can be relied upon. A strong internal audit unit could reduce the audit work of the PAG and avoid needless duplication of work. Pr. AG should ensure that it has access to internal audit reports, related working papers and audit resolution information.

Legislation can provide a common understanding of the internal control definition and objectives to be achieved. It can also prescribe the policies that internal and external stakeholders are to follow in carrying out their respective roles and responsibilities for internal control.

(INTOSAI guidelines on Audit on Internal Control Standard)

7.42 AUDIT OF BORROWINGS, LOANS, ADVANCES, INVESTMENTS GAURANTEES, INTEREST PAYMENT AND MATERIALS MANAGEMENT:

7.42.1 Audit Objectives and scope:

The primary objective of audit of borrowing of the Government, loans advances, and guarantees given by the Government etc. is to ensure that:

- i. the transactions are within such limits, if any, prescribed and are in tune with the authority that govern them;
- ii. the transactions are correctly reflected in the detailed accounts;
- iii. the balances relating to these accounts represent amounts which are realisable and there exists a mechanism for periodic confirmation of balances.

The departmental offices as well as the loanee/debtors (viz., State Autonomous Bodies, Government companies, quasi-public bodies and private institutions etc.) maintain records relating to the loans and advances given by the Government. Audit is to ensure that **(i)** the amount is correctly stated in the voucher; **(ii)** interest due had not been paid twice for the same half-year/year, **(iii)** correctness of interest calculations, **(iv)** Income tax deductions, and **(v)** correctness of arithmetical computations etc.

7.42.2 Borrowings:

Under Article 293 of the Constitution, a State may borrow within the territory of India upon the security of the Consolidated Fund of the State within such limits, if any, as may from time to time be fixed by an act of the Legislature of the State. However, a State may not, without the consent of the Government of India raise any loan, if any part of a loan made to the State by the Government of India is still outstanding or if that Government has guaranteed the repayment of any loan. A state Government may also obtain loan from the Government of India subject to such conditions as may be laid down by or under any law made by Parliament. The AG (A&E) maintain the detailed accounts of such loan and also arrange for payment of the principal and interest wherever due. The important points to be looked into in the course of audit of borrowings are as follows:

- (a)** To ensure that the borrowing of a Government are so regulated as not to exceed the limits, if any, fixed by the legislature from time to time and the conditions laid down by or under an Act of Parliament are duly observed in respect of a loan granted by the Government of India to a State or guaranteed by it.
- (b)** To ensure proper monitoring and compliance, by the State Government, with the conditions imposed by the Government of India while giving consent to their raising the loans or guaranteeing their repayment, or while granting a loan to them.
- (c)** To ensure that the proceeds from borrowings had 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.
- (d)** To verify that the borrowings were actually made for absolute necessity and proper assessment was made for actual requirement and to ensure that no fund was kept unutilized leading to unjustified payment of interest there on.
- (e)** To examine whether adequate arrangements have been made for amortisation 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.
- (f)** The responsibility for the audit of transactions connected with the Debt Redemption Scheme of the Union Government or of any such scheme adopted by State Governments devolves on the

Indian Audit and Accounts Department. It should be verified that the conditions governing these schemes are scrupulously observed, It should be seen, in particular, that the annual debits against revenue under the schemes are calculated strictly in accordance with the approved programmes, that the appropriations for reduction or avoidance of debt are applied to the objects for which the money has been set aside, and that the liquidation of debt proceeds at the rate and on the lines prescribed.

7.42.3 Loans and Advances:

Government makes loans and advances to public and quasi-public bodies and to individuals. Some of these loans and advances are made under special laws and others for special reasons or in pursuance of recognized policies. Loans being granted by the Central Government or by the Autonomous Institutions (viz. Life Insurance Corporation, Bank etc.) to the State Government and/or by the State Government to the Statutory Corporations, State Autonomous Bodies, Government companies, quasi-public bodies and private institutions for developmental and other purposes. Apart from watching the fulfillment of various conditions on which the loans are sanctioned, the responsibilities of Audit in relation to loans and advances will extend to the following:.

- (a) Except in case of loans and advances made under special laws or in respect of which the government has issued any general rules and orders, audit is to see the reasons for making the loans or advances as well as the conditions attached to them has been stated clearly and completely in the relevant sanction orders. Any unusual conditions, such as the remission of interest in an individual case, if any, included in the sanction order should be scrutinised to ascertain the justification thereof;
- (b) Whether the purpose of sanctioning loan has been specified;
- (c) Type of loan i.e. either for incurring revenue and capital expenditure;
- (d) That the debtor has complied with the conditions governing repayment of loan or advance and payment of interest;
- (e) Loan and advances was sanctioned taking into consideration the financial viability or by ascertaining the repayment capacity of the loanee/debtor;
- (f) The rate of interest on loan has been clearly specified;
- (g) Whether any moratorium period for repayment of loan was specified;
- (h) Whether any provision for penal interest on overdue loan was specified;
- (i) Whether adequate security has been obtained, particularly from private debtors to safeguard Government's interest and whether government has made adequate arrangements to keep itself informed of the continued solvency of the debtors;
- (j) Whether further loans have not been granted for the same purpose when substantial unutilised balances out of the previous loan are still available;
- (k) and the loans have been utilised only for purposes and on the objective for which were sanctioned.

The financial rules and orders issued by Government prescribe the authority which should maintain detailed accounts of loans and watch the recoveries and payment of interest. Each and every department administering loans should also maintain registers in respect of loans. These registers contain details in respect of each loan, the amount disbursed; the interest accrued from time to time, the installments of principal and interest paid by the beneficiaries and the balances outstanding. In the case of loans granted by the Government of India to the State Government besides maintaining detailed accounts by the, the AG (A&E) WB also arrange for payment of installments of principal and interest due to the Government of India. This is also arranged through the Reserve Bank of India after obtaining the consent of the State Government wherever necessary. The registers maintained by the loanee organisation and or the Departmental offices should be reviewed in local audit to verify:

- i. The loan was duly accounted for;
- ii. The loan amount was drawn in prescribed bill form;
- iii. Conditions, if any, prescribed by the sanctioning authority have been fulfilled;
- iv. Acknowledgements have been obtained periodically from the debtors in respect of outstanding balances;
- v. Loans paid and repaid and the interest remitted have been properly account for;
- vi. No diversion was made and the loan amount was utilised for the purposes for which it was sanctioned;
- vii. In case of non-payment of installment of loan and interest due whether any provision for outstanding loan and interest was made in the annual accounts of the debtors;
- viii. Penal interest, if any, was levied on overdue installments;
- ix. Whether any remission from payment of outstanding loan and interest was granted and converted as Capital of the organisation and such conversion was duly accounted for.

7.42.4 Revenue Advances:

Revenue Advances includes Takavi Advances under the Land Improvement Act and any other advances made by Revenue Officers in connection with land revenue, agriculture or famine under any act of the legislature or under any orders of Government. Such advances may be issued from the treasury upon orders signed or countersigned by the collector or other duly authorised officer and the advances may be made either **(i)** direct to the parties concerned on their receipt (stamped when necessary) or **(ii)** in lump sums on abstract contingent bills to Government officers disbursing the advances. In the former case, the payments in the treasury accounts must be supported either by actual payees receipts or where these are required by the departmental officers by a certificate from the collector other duly authorised officer to the effect that payment have been made to the proper parties and their receipts duly taken and filed in the departmental records. In the latter case, action to be taken as detailed in the **paragraph 7.32** of this Manual.

(Read with TR 5.06 & 5.07 of WBTR)

Audit is to verify that:

- a. The transaction, conform to the rules governing them and
- b. Proper control records are maintained to ensure that the expenditure on this account does not exceed the allotment, where such allotment is placed at the disposal of more than one head of Department/Controlling officer by Government, out of the fund voted for such purposes under a single unit of appropriation.

7.42.5 Permanent Advance:

Government officers, who have to make payments for contingent expenditure before they can place themselves in funds by drawing contingent bills on the treasury, may make such payment out of permanent advances or imprests which they may be permitted to hold under the orders of competent authority, subject to recoupment on presentation of contingent bills. A register of Permanent Advances are to be maintained by the department and by the respective unit offices.

(Read with Rules 88 of WBFR Vol.-1 and TR 4.114 of WBTR)

While conducting audit of the permanent Advance the following to be verified:

- a. These has been sanctioned by the competent authority;
- b. Amounts sanctioned as permanent advances do not exceed the ceiling prescribed by Government for the offices concerned and not larger than is absolutely essential or the powers delegated to the sanctioning authority;
- c. Only petty item of expenditure was paid out of this advance;
- d. Expenditure was incurred from the permanent advance on the basis of the pay order of the authorised officer;
- e. Recoupment of the advance amount and the total expenditure incurred out of permanent advance does not exceed the total budgetary provision.

7.42.6 Advance to Government servants:

Various types of (long-term or short term and interest bearing or interest free) loans and advances were being sanctioned by government to its employees. Some of which intended for construction of houses, purchase of conveyances, etc. are accounted for under the specific loan heads and some advances such as advances for travelling allowances, advance of pay on transfer, advances for contesting law suits, festival advances etc., are granted to government servants by debit to the final heads of accounts. Important points to be looked into in course of audit of such loans and advances are as follows:

- a. The loans/advances to the Government servant was sanctioned by the competent authority in accordance with the rules and orders governing them;

- b. Proper records are being maintained to watch repayment/adjustment of loans and advances and the recovery of interest thereon;
- c. Whether the loans/advances were utilised for the purpose for which it was sanctioned;
- d. Whether the conditions relating to mortgage, insurance etc. were fulfilled;
- e. Utilisation certificate, where necessary, was furnished;
- f. Whether appropriate and adequate action was taken by the offices responsible for maintaining their detailed accounts to ensure that the individual balances outstanding in their books are reconciled periodically with the balances shown in the recovery schedules.

7.42.7 Investments:

Audit is responsible for keeping a watch over the investment of funds forming part of the Public Account of a State. In doing so, audit should ensure the following:

- a. The investments made on account of any regularly constituted sinking or other funds administered by the State Government are of the category authorised by the relevant statutory provisions of the instruments by which the Funds are governed. When there are no governing statutory provisions or instruments, proper authority for the investment should be demanded. This principle also applies to the investment of cash balances of the State Government.
- b. Any of the investments which considered being unauthorised, irregular or unsound to be taken up with the Government.
- c. Any ascertained losses connected with the investments or unusual depreciation in their market price should be reported Government along with such comments as PAG may consider appropriate.

7.42.8 Contingent liabilities on account of Guarantees given by Government:

Guarantees given by Government in respect of loans raised by others constitute contingent liabilities to Government. It is essential duty of audit to maintain a close watch over guarantees given by government to ensure that:

- i. the ceiling prescribed by the legislature are not exceeded;
- ii. any general or special orders of the governments concerned prescribing the levy of a commission for giving guarantees are duly observed; and
- iii. a sound system in place to maintain proper records of the guarantees given along with their terms and conditions;
- iv. total amount of such guarantees as well as the amount involved in guarantees, if any, invoked during the year.

7.42.9 Payment of interest on loan taken from open market:

Loan obtained from autonomous institutions like the Life Insurance Corporation of India, National Cooperative Development Corporation, Nationalised Bank etc., are managed by the departmental offices of Government. Pr. AG is to assume that the principal sum mentioned in the interest voucher is the correct amount on which interest is due and that interest has not already been paid for the half year claimed in the voucher. In all respect and especially in respect of the correctness of the calculation of the interest and income tax and the casting of totals, the vouchers are subject to regular audit.

In course of audit of these interest vouchers, it should be verified that:

- i. the amount entered in the voucher as the half-yearly interest in fact presents one half year's interest due on the amount of the loan mentioned;
- ii. the total amount due is the half year's interest multiplied by the number of half years as entered in the column provided for the purpose;
- iii. the amount shown as being due in the column has been correctly computed;
- iv. the receipt is properly signed, either by the person named as the holder or by his representative; and
- v. income tax at the maximum rate has been deducted from the interest due unless the owner of the security has produced a certificate issued by the income Tax officer authorizing exemption from tax or levy of a lower rate of tax.
- vi. that the payments are covered by sanctions accorded by a competent authority.

(Chapter 13 of section 3 of MSO Audit)