

PREFACE

I am pleased to present 9th edition of the Manual of Audit Department, Defence Services to the personnel of the Defence Audit Department to guide them in achieving excellence in their official work. The manual is based on the instructions issued by the Government of India, C&AG and DGADS from time to time and as such does not override the statutory codes, rules and orders issued by the Government of India and instructions issued by Comptroller and Auditor General of India. This compilation is to be read in addition to the original general manuals and orders of Comptroller & Auditor General.

Far reaching changes have taken place both within SAI India and the auditee since the publication of the last edition. Adoption of the Auditing Standards and Perspective Plan for the IA&AD are major milestones within SAI India. Additionally, there is greater focus on IT audit, Risk based audit, statistical sampling, audit of fraud and adoption of international best practices in carrying out audit activities.

Similarly major changes in structures and procedures of the auditee have taken place. These include formation of Defence Procurement Board (DPB), re-designation of Service Headquarters as Integrated Headquarters of Defence Services, introduction of IFA System in Army Headquarters and Commands, greater delegation of financial powers to CFAs, accounting and budgetary reforms, computerization of accounting, personnel and inventory management functions etc. The current revision of the Manual attempts to incorporate all the above changes.

The Manual consists of four volumes. While volume-I relates to General Principles of Audit and Audit of Army and Inter-Service Organisations (ISO), the other two volumes relate to Air Force/Navy audit and Ordnance Factories audit. The last volume relates to administrative and establishment aspects of Defence Audit Department.

The first volume itself is divided into three parts. While Part 'A' deals with organization of Defence Audit Department and general principles of audit, Part 'B' deals with organization of the Defence Accounts Department and the general audit processes to be applied in Central Test Audit of the accounts maintained by Controller of Defence Accounts and local audit and Part 'C' deals with the audit processes to be applied during local test audit of various Army Units and Formations as well as other Defence Establishments.

All officers and members of the establishment are expected to make themselves fully conversant with the contents of the Manual. Ignorance of its provisions will not be accepted as a valid reason for any departure from rules or failure to comply with them.

Coordination Section in office of the Director General of Audit, Defence Services, New Delhi will be responsible for keeping the Manual up-to-date and issue of correction slips. For this purpose, Command Offices, Co-ordination and other sections in the DGADS headquarters office will propose corrections periodically and

the Coordination Section will get the approval of DGADS. If any discrepancies are noticed vis-a-vis standing orders of GOI/CAG in the manual, the same may be brought to the notice of Coordination Section in DGADS headquarters office for necessary amendment.

Efforts have been made to make the revised Manual a comprehensive book of reference by including new chapters on specific topics of increasing interest and relevance in Audit and adding useful appendices listing *inter alia* 'Audit Approach', 'Statistical Sampling', 'Risk Assessment', 'Internal Control and Standard' and 'Important orders/instructions issued by various authorities' etc. having a direct bearing on Statutory Audit, so as to help an auditor achieve a high standard of efficiency and quality. There is, however, no substitute for planning, practical experience, innovation and creativity in audit. In fact, there are as many best ways to do anything as there are creative minds. The idea that absolute perfection in any human endeavour is unattainable implies that there is endless room for improvement and every auditor should strive for that improvement by becoming experimental, progressive and receptive to new ideas.

New Delhi
Date: 24 May 2005

(B.K. CHATTOPADHYAY)
Director General of Audit
Defence Services, New Delhi

TABLE OF CONTENTS

VOLUME-I

PART 'A'

Chapter	Contents	Page
1.	Origin, Duty and Authority of the Department	11
2.	Organisation of Headquarters Office of the Director General of Audit, Defence Services, Principal Director of Audit (Ordnance Factories) and Principal Director of Audit (Air force & Navy)	15
3.	Duties and Responsibilities of Headquarters Office	33
4.	General Duties of Command Officers and Senior Audit Officers/ Audit Officers who are Heads of Offices	51
5.	General Principles and Audit Methodology	87
6.	Performance Audit	117
7.	Computerised Compilation of Defence Accounts and Audit Checks	127
8.	Certification of Finance Accounts and Appropriation Accounts (Defence Services)	139
9.	IT Audit	161
Appendices		
I	Report of the Comptroller & Auditor General of India, Union Government (Defence Services)	175
II	Report to be furnished to the Director General of Audit, Central Revenues, Director General of Audit, Economic and Service Ministries in respect of Central (Civil) Expenditure	185
III	1. Combined Finance and Revenue Accounts 2. Statement of Central Transactions	187
IV	Audit Approach	191
V	Statistical Sampling	193
VI	Risk Assessment	197
VII	Internal Control and Internal Audit	201
VIII	Audit of Fraud	215
IX	Common Irregularities /Lapses observed in Stores/ Purchase Contracts and Guidelines for Improvement in the Procurement System	225

Chapter	Contents	Page
X	Important Orders/Instructions issued by various authorities	239
	1. Evolution of a standard procedure for a mandatory and time bound scrutiny of all major Defence Purchase decisions by the C&AG and CVC.	239
	2. Soft copy of Sectional Compilation	243
	3. Introduction of Computer-Based Accounting System in Government Department.	244
	4. Audit of <i>Cantonment Boards</i>	247
	5. Disposal of Audit Objections and Draft Audit Paras - <i>AO- 481/73</i>	248
	6. Statutory (Test) Audit and Draft Audit Paras - <i>AFO- 22/2002</i>	252
	7. Extracts from ' <i>STANDING GUARD FILE</i> ' (3 rd Edition) (1991) issued by G of I, M of F (Department of Expenditure) on constitutional and statutory provisions relating to CAG	263

Forms

Form No. Subject

100	Top Sheet
101	Audit Profile Update
102	Work Completion Certificate
103	Defence Audit Manual Amendment Proposal
104	Statement showing progress of cases reported earlier in Bimonthly D.Os.
105	Progress Report on Central Test Audit of Sections of Controllers of Defence Accounts Offices
107	Register for watching Progress of Audit and disposal of Objection Statements/Local Test Audit Reports
109	Half Yearly Local Test Audit Programme
110	Statistical Chart in regard to Local Test Audit
111	Register of Auditable Units
112	Quarterly Progress Report of Local Test Audit
113	Statement showing outstations to be visited by the LTA Parties

- 114 Audit Intimation
- 115 Register for watching the receipt and issue of Local Test Audit Reports

INDEX

ORGANISATION -PART 'A'

CHAPTER	SUBJECT	PARA
1.	Origin and constitution of the Department	1- 6
2.	Organisation of the Department	7-18
	General	7
	Organisation of HQrs. And Command Offices of Director General of Audit , Defence Services	8
	HQrs. Office of Director General of Audit , Defence Services	9
	Command Offices	10
	HQrs. office of Air Force and Navy Audit Wing	11
	Air Force Audit Wing	12
	Naval Audit Wing	13
	HQrs. office of Factory Audit Wing	14
	Regional Offices	15
	Relationship between DGADS, PDA (AF/N) and PDA (OF)	16
	Staff Strength	17
	Association of Defence Audit Board Appraisals of Defence Public Sector Undertaking	18
	Annexure A - Organisational chart of Defence Audit Department	
	Annexure B - Organisational chart of Director General of Audit Defence Services and Command Offices	
	Annexure C - Organisational chart of Air Force & Navy Wing	
	Annexure D - Organisational chart of Factory Audit Wing	
	Annexure E - Audit Jurisdiction of command /Branch office of Director General of Audit- Army Audit Wing	
	Annexure F - Audit Jurisdiction of Air Force & Navy Audit Wing	
	Annexure G - Audit Jurisdiction of Factory Audit Wing	
3.	Duties and responsibilities of HQrs. Office	26-41
	General	26
	Organisation of different sections of HQrs.	30
	Administration Section	31
	Budget Section	32
	Establishment Section	33
	Hindi Section	34
	Audit Group Section	35
	Efficiency cum Performance Audit Section	36
	Appropriation Audit	37
	Report and PAC Section	38

	Co-ordination Section	39
	EDP Cell	40
	Other issues in HQrs. Office	41
	(i) Audit of Sanction	
	(ii) Requisitioning of papers	
	(iii) Files to be submitted to Director General for Orders	
	(v) Scrutiny of cases of frauds, losses and write off	
	(vi) Scrutiny of Codes, Regulations etc	
	(xi) Scale Audit	
	(xii) Audit of the disposal of surplus and obsolete stores	
	(xiii) Audit of Defence Pension in Nepal	
	Annexure 'A' –Distribution of Audit Entities	
4.	General duties of Command Officers and Audit Officers who are Heads of Offices	43-77
	General Duties	43
	Responsibility of correctness of payment and accounting	44
	Reference outside the Department	45
	Cases referred to the HQrs. Office	46
	Cases for inclusion in Director General's Monthly DO to Comptroller and Auditor General	47
	Preparation of Central Test Audit Programme	48
	Detailed programme of work	49
	Progress of audit	50
	Progress Report	51
	Special Enquiries	53
	Observation Lists, Objection Statements, pursuit of objections and settlement	54
	Preparation of objection statement	55
	Objections statements – issue and pursuit of	56
	Objections referred to higher administrative authorities	57
	Settlement of objections	58
	Objections which provide potential material for comment	59
	Quarterly list of important points	60
	Duties of Local Audit Party	62
	Local Test Audit Programme	63
	Points to be borne in mind in preparation of programme	64
	Audit intimation	65
	Period covered by Audit	66
	Audit Procedure	67
	Observation lists and Local Test Audit Reports	68
	Preparation of Local Test Audit Report	69
	Issue of Local Test Audit Report	70

	Period within which LTARs should be issued	71
	Settlement of LTARs	72
	Other special duties	73
	Progress Reports	74
	Quarterly Report to be submitted to ADAI(Defence)	75
	Ranking the performance of Audit Offices	76
	Assurance Memos	77
	Annexure 'A' – List of Duties of Sr.AO/AAOs/Sr.Auditors and Auditors	
5.	General Principles and Audit Methodology	83-98
	General	83
	Regularity Audit	84
	Performance Audit	85
	Major distinguishing features of Regularity Audits and Performance Audit	86
	Audit Planning	87
	Staffing for Audit	88
	Information Technology Tools	89
	Other Tools and Guidance	90
	Conducting the Audit	91
	Consultation and Advice	92
	Evidence	93
	Documentation	94
	Supervision	95
	Review	96
	Audit Reporting	97
	Follow up procedures on Audit Report	98
6.	Performance Audit	99-112
	Scope of audit	99
	Definition of Performance Audit	100
	Objective of Performance Audit	101
	Performance Audit &Regularity Audit	102
	Audit criteria	103
	Contents of the report	104
	Critical technical issues in performance audits – Fundamental principles	105
	Audit plan and programme	106
	Audit evidence for testing against criteria	107
	Sampling	108
	Audit findings	109
	Recommendations and follow – up procedure	110
	Publication	111

	Reporting procedures	112
7.	Computerised Compilation of Accounts	113-128
	Introduction	113
	Compilation of Accounts	114
	Preparation of Punching Media	115
	Despatch of original copies of PM and filling-up of office copies	116
	Amendments to PM	117
	PM for March (Supplementary) (13)	118
	PM for March (Supplementary correction) (14)	119
	PM for March (Supplementary Correction Manual)(15)	120
	Procedure in DDP Centre	121
	Registration and Preliminary Check of PM	122
	Keying in/Verification of Data	123
	Batch Totalling	124
	Closing of the Punching Media Register	125
	Printing, checking and Despatch of the Printed Compilations	126
	Procedure being followed in EDP Centre, CGDA, New Delhi	127
	Audit checks	128
8.	Certification of Finance Accounts and Appropriation	129-181
	Introduction	129-131
	Audit Objectives	132
	Objective of Certification	133
	Finance Accounts	134
	Part I - Summarised Statements	135
	Part II – Detailed Accounts and Other Statements	136
	Scrutiny and Certification of Finance Accounts	137
	Sending copy of Statements to DGADS by Command Offices	138
	Checking the summarised statements of the Finance Accounts relating to Defence by the Appropriation Audit Section in DGADS	139
	Statement No.1 - Summary of Transactions	140
	Statement No.3 - Loans and Advances by the Union Government	141
	Statement No.4 - Guarantees given by the Union Government	142
	Statement No. 5 - Summary of Balances	143
	Statement No.11- Investment of the Union Government in the Statutory Corporation, Government Companies, Other Joint Stock Companies, Co-operative Banks and Societies etc.	144
	Statement No.13 - Receipts, Disbursements and Balances under heads of account relating to Deposits, Remittances and Contingency Fund	145
Statement No. 14 - Debt and other Interest bearing obligations of Government	146	

	Statement No.15- Loans and Advances showing amounts advanced and repaid, interest received during the year and Balances of such Loans and Advances at the commencement and close of the year	147
	Statement No. 16 – Details of Earmarked Balances	148
	Appropriation Accounts of the Defence Services	149-151
	Scrutiny and Certification of Appropriation Accounts of the Defence Services	152
	Objective of the Scrutiny of Appropriation Accounts	153
	Section-I : Summary of Appropriation Accounts	154-155
	Section-II : Detailed (Grant-wise) Appropriation Accounts	156-158
	Section-III : Certification of Controller General of Defence Accounts	159-161
	Section-IV : Review of Military Engineer Services Expenditure	163-169
	Section-V : Appendices	170-173
	Section-VI : Review on the Accounts of Military Forms	174-180
	Audit Certificate	181
9.	Information Technology	182-194
	Introduction	182
	IT in IA&AD	183
	IT Audit Plan	184
	IT Audit Guidelines	185
	Checklist for involvement of Audit in the System Development Phases of Information Technology Systems	186
	IT Audit – Headquarter’s Office’s responsibility	187
	IT Audit – COs’ responsibilities	188
	Information Technology (IT) in Indian Army	189
	Policy letter formulated and issued by DDG IT	190
	History of IT in Defence Accounts Department	191
	Applications in Use	192
	Salient Features of Computerisation in D.A.D.	193
	Mission EXCEL IT in D.A.D.	194

CHAPTER – 1

ORIGIN, DUTY AND AUTHORITY OF THE DEPARTMENT

Origin

1. Under Rule 8 (ii) of the Rules framed by the Secretary of State for India in Council, under Section 96 D (i) of the Government of India Act 1919, the Auditor General (now designated Comptroller and Auditor General of India) was made responsible for the audit of expenditure in India from the revenues of India. When this Rule was framed under the Reforms of 1919, the question arose regarding the manner in which the Auditor General should discharge his statutory responsibility in respect of expenditure on the Defence Services. It was decided that the Auditor General should have his own inspection staff working in Military (now Defence) Accounts Offices to check the accuracy of the work done in those offices. Accordingly the appointment of a Deputy Auditor General was sanctioned in March 1922. As a result of further experience gained, the Government of India sanctioned in March 1924, as a temporary measure, two more Class I Officers of the General list, also designated Deputy Auditors General, for Test Audit of Military (now Defence) Accounts. While one of them was posted to Army Headquarters, the other two were to work in the Southern, Western, Northern and Eastern Commands. The work of the Deputy Auditors General of Commands consisted of an exhaustive inspection and test audit of the work done in each Command and District Office of the Military (now Defence) Accounts Department. The Deputy Auditor General at Headquarters audited the sanctions of the Government of India in the Army Department and controlled and watched the progress of audit in the Commands.

(Auditor General's Memo to Standing Finance Committee in the file No. Formation 1/24 F.D. No.403 F.E. dated 6th March 1922, F.D. No. 638 F.E. dated 17th March 1924, Formation 1/24)

2. In May 1924, it was decided to follow as closely as Indian circumstances permitted, the system of audit applied by the Comptroller and Auditor General of the United Kingdom to the expenditure of the Army. Proposals were accordingly submitted to the Secretary of State, inter alia, to convert the class I post of the rank of the Deputy Auditor General at the Army Headquarters into a post of the rank of an Accountant General, designated Director of Army Audit (later, Director of Audit, Defence Services and presently designated as Director General of Audit, Defence Services). The new scheme was approved by the Secretary of State in January 1925 and was sanctioned permanently with effect from 1st March 1928.

(F.D. No.4770-E/1149-24 dated 30th October 1924(Est.1/24)FD No F 28/iii/24-FE dated 23rd January 1925(Est.1/24) F D No. F 7/XV11/R 11/27 dated 20th February 1928(A/24/27)

3. (i) With the introduction of the Government of India Act 1935, an order in Council viz., the Government of India (Audit and Accounts) Order 1936 was issued on 18th December 1936, under which the Auditor General was made responsible for keeping the accounts of the Dominion and of each Province, other than the accounts relating to the Defence, Railways and the accounts relating to transactions in the United Kingdom.

(ii) Under paragraph 13 of the order it was prescribed that it shall be the duty of the Auditor General: -

- (a) to audit all expenditure from the revenues of the Federation and of the Provinces and to ascertain whether monies shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged and whether the expenditure conforms to the authority which governs it.
- (b) to audit all transactions of the Federation and of the Provinces relating to debt, deposits, sinking funds, advances, suspense accounts and remittance business; and
- (c) to audit all trading, manufacturing and profit and loss accounts, and balance sheets kept by order of the Governor General or of the Governor of a Province in any department of the Federation or of the Province.

(iii) Further, the Auditor General was, with the approval of the Governor General or the Governor of any Province, to audit and report on:

- (a) the receipts of any department of the Federation or as the case may be of the Province; and
- (b) the accounts of stores and stock kept in any office or department of the Federation or, as the case may be, of the Province.

4. (i) The Comptroller and Auditor General of India today derives his authority from the Constitution of India which lays down his duties and functions. The Comptroller and Auditor General is neither an officer of Parliament nor a functionary of Government. He is appointed by the President by a warrant under his hand and seal. Articles 148 to 151 of the Constitution and the subsequent Comptroller and Auditor General's (Duties, Powers and Condition of Service) Act 1971, lay down the duties and powers of the Comptroller and Auditor General.

(ii) The Statutory duties of the Comptroller and Auditor General of India include audit of:

- (a) receipts and expenditure from the Consolidated Funds of India and of the States and Union Territories;
- (b) transactions relating to Contingency Funds and Public Accounts;
- (c) trading, manufacturing, Profit and Loss accounts and balance sheets and other subsidiary accounts kept in any Government Department of the Union or of a State;
- (d) accounts of stores and stock kept in Government offices and departments;
- (e) government companies set up under the Indian Companies Act, 1956;
- (f) Union Government Corporations which have statutory provision for audit by Comptroller and Auditor General;
- (g) authorities and bodies substantially financed from the Consolidated Funds as per norms prescribed from time to time;

- (h) any body or authority even though not substantially financed, either at the request of the President/Governor or on Comptroller and Auditor General's own initiative;
- (i) accounts of bodies and authorities relating to grants and loans given by Government for specific purposes.

(iii) To enable him to discharge his duties effectively the Comptroller and Auditor General is empowered under Section 18 of the Act to:

- (a)
 1. inspect any office of the organisations subject to his audit;
 2. call for any books of accounts and other relevant documents that are required during audit;
 3. put queries or make such observations as may be considered necessary and to call for such information as may be required for preparation of any account or report.
- (b) The person in charge of any office or department, the accounts of which have to be inspected and audited by the Comptroller and Auditor General, shall afford all facilities for such inspection and comply with requests for information, in as complete a form as possible with all reasonable expedition.

(iv) The Comptroller and Auditor General has also the authority to dispense with, when circumstances so warrant, any part of detailed audit of any accounts or class of accounts or to apply such limited checks in relation to such accounts or transaction, as he may determine.

(v) The Powers exercisable by the Comptroller and Auditor General under the above Act or any other Law may be exercised by such officer of the department as authorised by the Comptroller and Auditor General in this behalf by a general or special order; provided that except during the absence of the Comptroller and Auditor General on leave or otherwise, no officer shall be authorised to submit on behalf of the Comptroller and Auditor General any report which the Comptroller and Auditor General is required by the Constitution or the Government of Union Territory Act, 1963 to submit to the President or the Governor of State or the Administrator of Union Territory having a legislative Assembly, as the case may be.

(vi) Various orders/instructions relating to Statutory Audit have been issued by the executive authorities from time to time. Of these, some important orders/instructions have been reproduced in Appendix-X for reference and record.

5. According to Article 151 (1) of the Constitution, the reports of the Comptroller and Auditor General relating to the accounts of the Union shall be submitted to the President who shall cause them to be laid before each House of Parliament.

6. The statutory audit of the receipts and expenditure of the Government of India in relation to Defence Services is carried out by the Defence Audit Department. The Director General of Audit (Defence Services), Principal Director of Audit (Air Force and Navy) and Principal Director of Audit (Ordnance Factories) are required to submit to the Comptroller and Auditor General each year a draft Audit report for his approval. The Appropriation Accounts relating to the Defence Services are prepared by the Secretary (Defence Finance) and forwarded to the Director General of Audit,

Defence Services who after scrutiny submits the same to the Comptroller and Auditor General by 30th March each year.

CHAPTER 2
ORGANISATION OF HEADQUARTERS OFFICE OF THE
DIRECTOR GENERAL OF AUDIT (DEFENCE SERVICES),
PRINCIPAL DIRECTOR OF AUDIT (ORDNANCE
FACTORIES) AND PRINCIPAL DIRECTOR OF AUDIT
(AIR FORCE & NAVY)

General

7. (i) Prior to June 1973, the Director of Audit Defence Services (DADS), as the Head of the Defence Audit Department, was responsible for the audit of Army, Navy, Air Force and Ordnance Factories. In June 1973, the audit of Ordnance Factories was entrusted to a Chief Auditor subsequently re-designated as Principal Director of Audit (Ordnance Factories) with Headquarters at Kolkata where the offices of the Ordnance Factory Board and Director General of Ordnance Factories are located.

(ii) The audit of the receipts and expenditure of the Air Force, the Navy, the Associated Research and Development units and the Coast Guard Organisation was entrusted to a Director of Audit (Air Force and Navy) (since re-designated as Principal Director of Audit (Air Force and Navy) and his office is located at New Delhi.

(iii) The Director General of Audit, Defence Services is nevertheless the Principal Audit Officer for all Defence transactions.

(iv) In subsequent parts of this Manual, the wings headed by Director General of Audit, Defence Services, Principal Director of Audit (Air Force and Navy) and Principal Director of Audit (Ordnance Factories) have been referred to as Army Audit Wing, Air Force & Navy Audit Wing and Factory Audit Wing respectively.

(v) Although the Defence Audit Department has been divided into separate wings as in Annexure 'A' for facility of audit, the entire staff of the department is borne on a single cadre controlled by the Director General of Audit, Defence Services, New Delhi and postings and transfers of all staff is solely his responsibility. The administrative and other arrangements have been defined in CAG's DO letter No. 120/0M/80/73 dated 29.5.1973 and Director of Audit Defence Services Part I Office Order No.2-.dated 3.2.1986 endorsed under No. 5854/A-Admn/227/85 dated 3.2.86, Director General of Audit Part I Office Order No. 26 dated 19.3.90 and Principal Director of Audit, Defence Services, (Air Force & Navy) Part I Office Order No.1 dated 9.3.90.

(vi) The audit applied in the Department is a statutory audit based on Auditing Standards, MSO (Audit) and other instructions issued by CAG from time to time.

Organisation of the Headquarters and Command Offices of the Director General of Audit, Defence Services.

8.(i) The Director General of Audit, Defence Services is directly responsible for the audit of transactions relating to receipts and expenditure of the Armed Forces (other than Ordnance Factories, Air Force and Navy, associated R&D establishments & MES offices for Air Force/Navy and Coast Guard Organisation) audit of Appropriation Accounts, Defence Services and work relating to submission of Draft

Audit Report (Report of Comptroller and Auditor General of India - Union Government - Defence Services Army and Ordnance Factories) as also audit of the Border Roads Organisation including Bhutan, Pension Disbursement of Defence Services including Gorkha Pension, Nepal and R&D Organisations.

(ii) The audit jurisdiction of the Command Officers and their branch offices as per Organizational chart (Annexure 'B') is depicted in Annexure 'E' to this chapter.

Note: The words "Command Officers" and "Commands" when used in this Manual refer to officers holding independent charge of an office and the spheres of their audit responsibility and do not refer to the "organisation of Commands" in the services.

(iii) A Pay Accounts Office for the Defence Audit Department designated as Pay and Accounts Office (Defence Audit) catering to the needs of the officers under Director General of Audit, Defence Services, Principal Director of Audit (Air Force and Navy) and Principal Director of Audit (OF) was formed with effect from 1.11.1984 and functions under the functional and administrative control of Director of Audit, Defence Services, Central Command, Meerut.

(Authority: DGADS Office Order Part I No. 14 dated 26-10-1984)

Headquarters Office of the Director General of Audit, Defence Services

9. (i) Besides the three Group Officers of the rank of Directors/Deputy Directors of Audit at Headquarters, there are branch officers who are in charge of one or more sections of Headquarters office and report to the Director General of Audit through the Group Officers.

(ii) The Headquarters Office deals with:

- (a) exercise of administrative and financial control over Command Offices (Army Wing);
- (b) cadre controlling functions for staff borne on strength of Defence Audit Department;
- (c) audit of MOD and other headquarters formations under MOD/AHQ through Audit Group sections;
- (d) finalisation and implementation of the Audit Plan;
- (e) finalisation of Audit Report and follow up action thereon.

Command Offices

10. The statutory audit of the accounts of receipts and expenditure of Defence Services (except Ordnance Factories, Air Force, Navy, associated R&D establishments & MES offices for Air Force/Navy and Coast Guard Organisation) is carried out, by different Command Offices (Annexure 'B' refers) either in Central Test Audit or in Local Test Audit as dealt with in detail in Chapter 4 and Parts B and C of this Manual. For this purpose Command Officers are assisted by Sr. Audit Officer/Audit Officers in the respective Command Offices or in the Branch offices functioning under their control.

Headquarters Office of the Air Force and Navy Audit Wing

11. (i) The Principal Director of Audit, Air Force and Navy is the head of the Air Force and Navy Audit Wing with his Headquarters at New Delhi. He is assisted in

the Headquarters by two group officers of rank of Directors of Audit/Deputy Directors of Audit. The organizational chart is given in Annexure 'C' and audit jurisdiction in Annexure-'F'.

(ii) The Headquarters office deals with the work relating to (a) audit of sanctions issued by Government of India relating to the Air Force, the Navy, associated R&D Establishments and the Coast Guard Organisation, (b) the scrutiny of connected Codes, Manuals and Regulations, (c) the audit of provisioning of stores at Air Force and Naval Headquarters, associated R&D Establishments and Coast Guard Organisations and (d) preparation of the Report of the Comptroller and Auditor General of India, Union Government, Defence Services (Air Force and Navy) as detailed in Volume II of this Manual.

Air Force Audit Wing

12. (i) The test audit of the accounts of receipts and expenditure of the Defence Services as it relates to the Air Force and associated R&D Establishments (i.e. Cash and Stores) is carried out by the Director/Deputy Director of Audit (Air Force) at Dehradun and Directors/Deputy Director of Audit (Air Force) at Bangalore either in central test audit or in local test audit as dealt with in detail in Chapter 5, Part A and Volume II of this Manual.

(ii) For administrative convenience, audit of Naval Hydrographic Office, Dehradun is also undertaken by the Director of Audit, Air Force at Dehradun as brought out in Annexure-'B'.

Naval Audit Wing

13. The test audit of the accounts of receipts and expenditure of Defence Services as it relates to the Navy, associated R&D establishments and Inspectorates and Coast Guard Organisation (i.e., Cash, Stores and Works) is carried out by the Director of Audit, Navy and his sub-offices at Visakhapatnam and Cochin either in central test audit or local test audit as brought out in Chapter 5 and Volume II of this Manual.

Headquarters Office of Factory Audit Wing

14.(i) The Principal Director of Audit (Ordnance Factories) is the Head of Ordnance Factories Audit Wing of Defence Audit Department with his Headquarters at Kolkata. He is assisted at Headquarters by one Deputy Director of Audit. There are also five Regional Offices headed by Deputy Directors of Audit along with one branch office working under the Deputy Director of Audit, Jabalpur, plus a Liaison Cell at New Delhi as indicated in Annexure 'D'. The audit jurisdiction of the offices is also shown in Annexure-'G' to this Chapter.

(ii) The audit of the Ordnance Factory Board is done by the Resident Audit Party (RAP) in the office of the Principal Director of Audit (Ordnance Factories), Kolkata.

(iii) The Headquarters office deals with the works relating to (a) audit of sanctions issued by the Government of India and Ordnance Factory Board, (b) audit of contracts and agreements entered into by the Government of India and Ordnance Factory Board (c) Imports (d) Provisioning policies and (e) Preparation of the Report of the Comptroller and Auditor General of India as it relates to portion pertaining to Ordnance Factories as detailed in Volume III of this Manual.

Regional Offices

15. The test audit of the accounts of receipts and expenditure of Factories (Cash, Stores and Works) is carried out by different Regional Offices of the Department either in Central or Local Test Audit as brought out in Volume III of this Manual.

Relationship between the Director General of Audit, Defence Services and the Principal Directors of Audit, Air Force & Navy and Ordnance Factories

16.(i) As Heads of the Factory Audit Wing and Air Force and Navy Audit Wing, the Principal Directors enjoy considerable autonomy in their sphere of work. However, the overall responsibility for audit of all transactions relating to Defence Services rests with the Director General of Audit, Defence Services in his capacity as the Principal Audit Officer. As the Principal Director of Audit (Ordnance Factories) and the Principal Director of Audit (Air Force & Navy) are concerned with the audit of a part of Defence Transactions and there exists linkages in many cases which have to be looked into for conducting effective audit, they will function in close liaison with the Director General of Audit, Defence Services and give due deference to views expressed by the latter on audit matters.

(ii) The Principal Director of Audit (Ordnance Factories) is responsible for preparing/finalising the draft paras relating to Ordnance Factories and sending them to the Government of India/Comptroller and Auditor General of India. He will simultaneously send copies of these paras to Director General of Audit, Defence Services. On receipt of approved copies of draft paragraphs from the Comptroller and Auditor General, the same are to be forwarded to the Director General of Audit, Defence Services for inclusion in the Report of Comptroller & Auditor General of India, Union Government Defence Services (Army and Ordnance Factories) as detailed in Volume III of the Manual. It is necessary to mention that the Principal Director of Audit (Ordnance Factories) is solely responsible for the contents of his draft paras.

(iii) The Principal Director of Audit (Air Force & Navy) is responsible for preparing/finalising the draft paras relating to the Air Force, Navy, associated R&D Establishments and Coast Guard Organisation and sending them to Government of India/Comptroller and Auditor General of India, for processing and finalisation. The final Report of the Comptroller and Auditor General of India, Union Government, Defence Services (Air Force & Navy) duly countersigned by the Comptroller and Auditor General of India is submitted separately to the President for being laid before each House of the Parliament as brought out in Volume II of this Manual.

Staff Strength

17. (i) Permanent Staff :

The entire staff of the Department is borne on a single cadre and the Defence Audit Organisation is treated as a single unit for purpose of scale audit. The Director General of Audit, Defence Services is empowered to make distribution of the

sanctioned strength (permanent and temporary) up to the grade of Senior Audit Officers. Distribution of staff among the offices of the Factory Audit Wing and Air Force and Navy Audit Wing is generally done in consultation with the Principal Directors of Audit concerned. The authority for distribution of IA&AS posts rests with the Comptroller and Auditor General of India.

(C&AG's letter No. 1244.GE/63-52 dated 18-3-50 A/Admn/8/53 and No. 120/0&M/80-73 dated 29.5.73. File A.AdmnOrg/OF/1973 and DADS Part I Office Order No.2 of 3.2.86 endorsed under No.5854/A-Admn/227/85 dated 3.2.86).

(ii) Temporary Staff

In addition to the permanent strength referred to in the preceding subparagraph, temporary posts are sanctioned from time to time for various purposes and are renewed where necessary, from year to year. Sanction for the creation or continuance of posts is accorded by the Comptroller and Auditor General of India or the Director General of Audit, Defence Services, as the case may be, in accordance with the provision of Section 'A' (Sl. Nos.3 to 5) of CAG's MSO (Admn) (Vol.II) as amended from time to time for which proposals with due justification should be made in time. In order to ensure that no temporary post is retained in the department beyond the period sanctioned for its employment, a register of sanctions of the temporary post is maintained in the Headquarters Office of the Director General of Audit, Defence Services at New Delhi.

Association of Defence Audit with Audit Board Appraisals of Defence Public Sector Undertaking

18. In order to enhance the effectiveness of audit of Defence Public Sector Undertakings which are presently being conducted by the Commercial Audit Wing of the Comptroller and Auditor General of India, the following procedure will be adopted:

(i) Whenever, appraisals of Public Sector Undertaking under the Ministry of Defence are taken up, the comments of ADAI (Defence) should be obtained on the proposed guidelines before finalising the same.

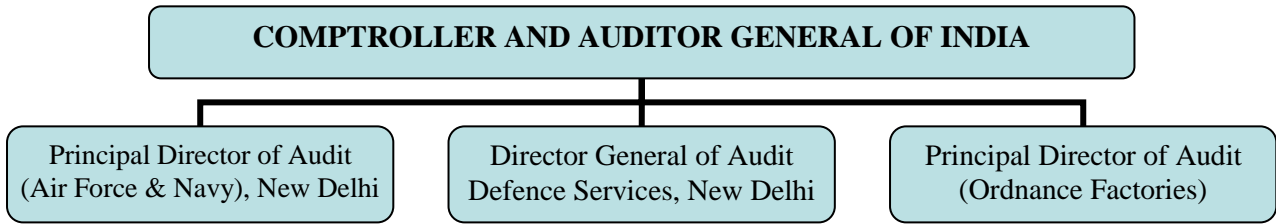
(ii) One of the official members in the Audit Board will be a Principal Director (Defence Audit) to be nominated by the ADAI (Defence).

(iii) For mini-reviews, the concerned MAB may ask for such assistance from ADAI (Defence) as he considers necessary. ADAI (Defence) will give such assistance to the extent possible by associating his nominated officers with the MAB and or supplying necessary information.

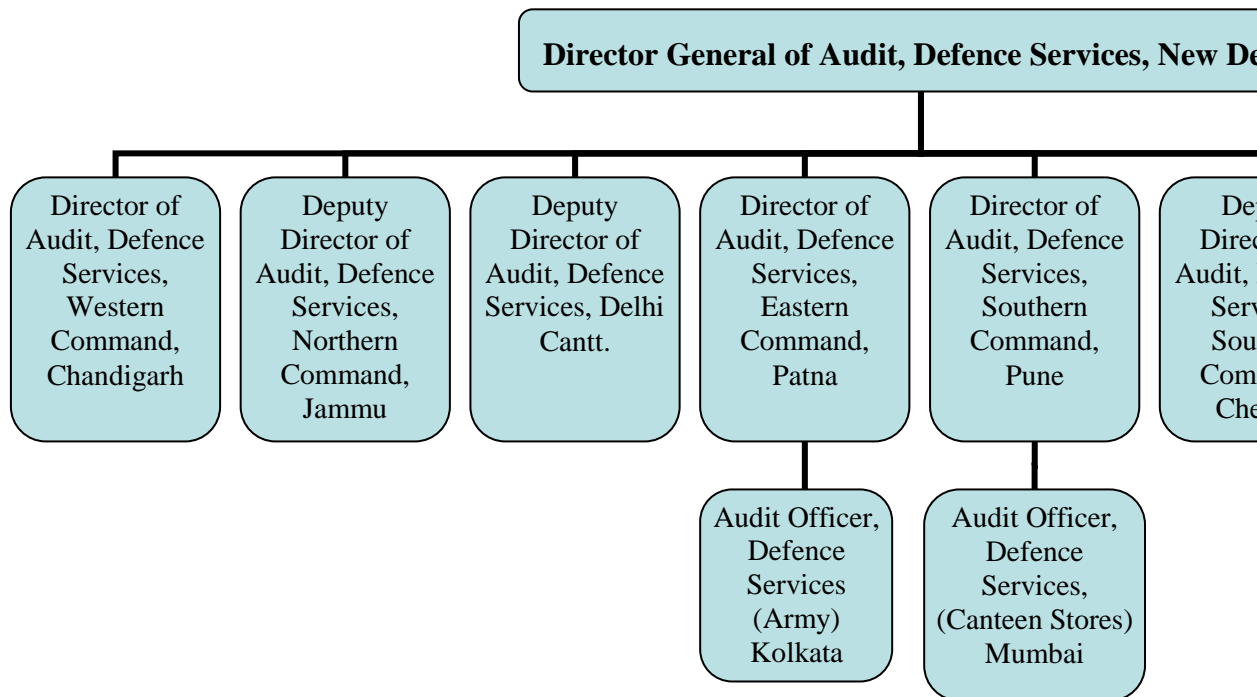
(Authority: C&AG No. 1300/CA-111/600-91 dated 21.6.91)

19. Blank
20. Blank
21. Blank
22. Blank
23. Blank
24. Blank
25. Blank

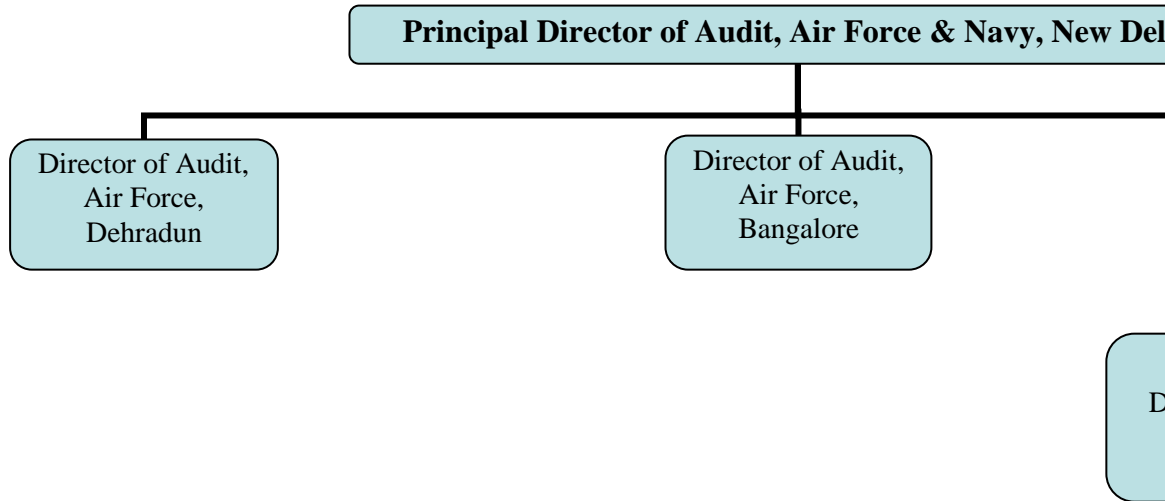
ANNEXURE - 'A'



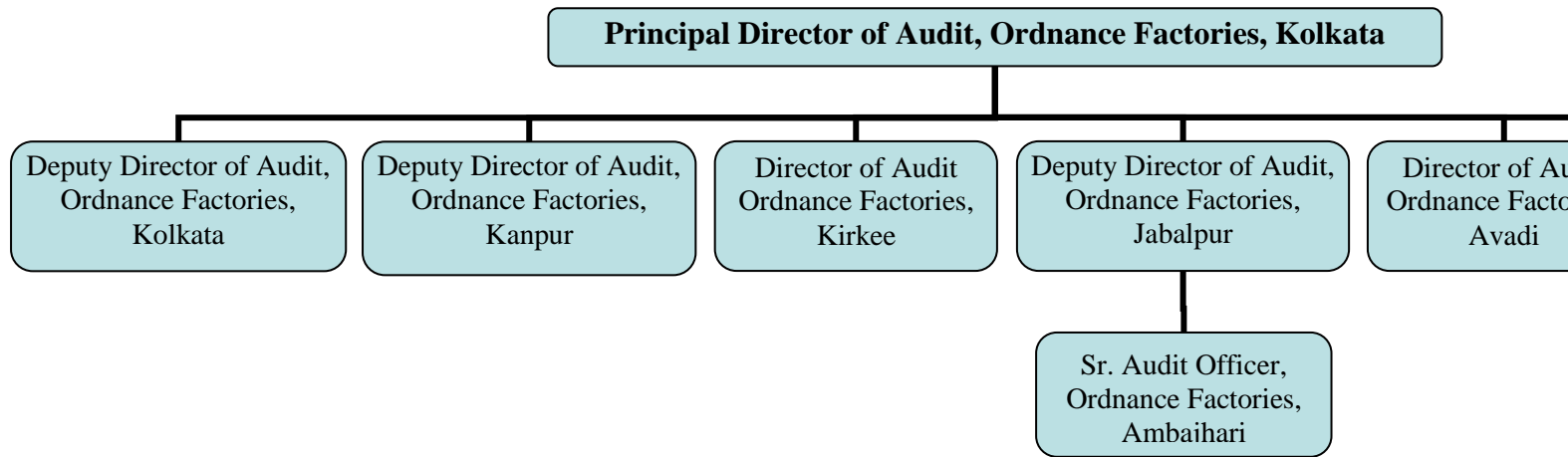
ANNEXURE - 'B'



ANNEXURE - 'C'



ANNEXURE - 'D'



ANNEXURE –‘E’

(Para 8(ii) refers)

**AUDIT JURISDICTION OF COMMAND/BRANCH OFFICES OF
THE
DIRECTOR GENERAL OF AUDIT DEFENCE SERVICES, NEW
DELHI**

Audit Groups (DGADS)	DADS WC Chandigarh	DDA DS, NC, Jammu	DDA DS, Delhi Cantt	DADS, CC, Meerut	DDA,DS, CC, Allahabad	DADS, SC, Pune	DDA DS, SC, Chennai	DADS, SC, Bangalore
PCDA New Delhi CDA (R&D)N Delhi CDA(BR) New Delhi CDA(IDS) New Delhi AAO (MOD)	PCDA Chandigarh, CDA(SWC) Jaipur AAO Jalandhar	PCDA Jammu	AAO, Delhi Cantt	CDA(Army) CDA(PD) CDA(Training) CDA(Funds) AAO, Agra	PCDA(Pens) PCDA(CC) Lucknow CDA(Jabalpur) AAO Kanpur AAO Allahabad	CDA Secunderabad CDA (R&D) Hyderabad CDA(O) Pune PCDA Pune CDA (CSD) Mumbai DCDA (R&D) Pune	CDA Bangalore, CDA Chennai	CDA Bangalore, CDA Chennai
	14 GTC	JAKLI, Leh	RRTC	BEG, JRC, KRC, GRC, RVC,	AEC, Grenadiers, Jak Rifles, MRC, Signals, 39 GTC, RRC, SLI, DRC, AMC, 11 GRGC	AOC, BEG, INT Corps, APTC, Arty, ACR, MIR, MLI	DSC, MRC, ASC Centre and College, CMP, Para Regt, MEG	
Army Headquarters Directorates	61 Indep Sub Area 91 Sub Area 81 Sub Area PH&HP (indp) Sub Area Non-static units in above military stations	31 Sub Area 21 Sub Area 71 Sub area Non-static units in above military stations	Delhi Area Non-static units in above military stations	Dehradun Sub Area Meerut Sub Area Sub Area Bhopal, Mau, & Gwalior Non-static units in above military stations	Lucknow Sub Area Allahabad Sub Area, Sub Area Jabalpur, Saugar, Itarsi,Panchmarhi Non-static units in above military stations	Bombay Sub Area Pune Sub Area, Goa Sub Area Non-static units in above military stations	ATNK&K Area Karnataka Sub Area Non-static units in above military stations	
DRDO Headquarters	SASE TBRL DLJ	FRL	DESIDOC CFEES DTDATEDRL, DIPAS, INMAS, ISSA, LASTEC, SAG, SSPL, DIPR	DRDE, DEAL, ADRDE, DARL, IRDE, ITM	DMSRDE Kanpur	ARDE, HEMRL, VRDE, RDE(Eng), ANURAG, DLRL, IAT, DMRL, DRDL,	CVRDE,	
CE (Project) Chetan	CE (Project) Chetak	CE (Project) Himank						
	Bhatinda Jalandhar Ambala Jaipur Bikaner Hisar	BD Bari Srinagar Udhampur Leh Pathankot	Delhi	Agra, Bareilly, Meerut	Lucknow, Jabalpur, Jhansi	Ahmedabad, Secunderabad Mumbai Khadki	Chennai Bangalore, Vishakhapatnam Kochi	

1. DADS No.5638/A.Admn/32/76-80/KW 2 dated 20.3.81.
2. DADS O.O No.9 dated 13.7.84 endorsement No.1646/A.Admn/81/81-84 dated 13.7.84.
3. DADS O.O No.13 dated 9.8.84 endorsement No.2325/A/Admn/8/81-84 dated 9.8.84.
4. DA (AF&N) No.242/A-Admn/AFN/91/86-91 dated 28.6.91.
5. DADS No.2769/A/Admn/32/82-83 dated 17.9.83.

6. DADS Secret No.5774/A-Admn/227/85 dated 30.1.85.
7. PDADS confidential No. 9861A-Admn./227/85-89 dated 25.6.92 and D.O. No.180/A-Admn/ 227/92-93 dated 1.9.92.
8. DGADS O.O. Part I No.63 dated 9.11.98
9. DGADS O.O. Part I No.64 dated 30.1.99
10. DGADS O.O. Part I No 67 dated 6.11.2003.
11. DGADS O.O. Pt. II No.68.
12. DGADS O.O. Pt. No.69 dated 11.8.2004.
13. DGADS O.O. No.70 dated 28.8.2004.

ANNEXURE –‘F’

(Para 11(i) refers)

**AUDIT JURISDICTION OF COMMAND/BRANCH OFFICES OF THE
PRINCIPAL DIRECTOR OF AUDIT AIR FORCE & NAVY, NEW DELHI**

	DA (Navy) Mumbai	AO Visakhapatnam	AO Kochi	DA(AF) Dehradun	DDA(AF) Bangalore
CDA/AAO				CDA(AF) Dehradun CDA(AF) New Delhi Dy CDA(AF) Subroto Park New Delhi	CDA R&D Bangalore DCDA(AF) Nagpur
Air Force Units				Units in the states north of Gujarat, Madhya Pradesh (except Amla), Orissa, Delhi	Units/formations in Gujarat, Maharashtra, Andhra Pradesh, Karnataka, Kerala, Tamil Nadu, Pondichery, Goa, Amla in Madhya Pradesh and HAL, Koraput in Orissa..
Naval Units	All Naval Units located in Western Naval Command and Goa Area and all Coast Guard units located in Western Region.	All Naval Units/ Formations in Eastern Naval Command and Andaman and Nicobar Islands excluding INS Rajali and INS Kattabomman and all Coast Guard units located in Coast Guard Districts located at Visakhapatnam, Paradip and Haldia.	All Naval Units at Southern Naval Command except Goa Area and all Coast Guard units under Eastern Region except Coast Guard Districts located at Visakhapatnam, Paradip and Haldia and Andaman and Nicobar Region.	Naval Hydrographic Office at Dehradun	
R&D	i) Naval Material Research Laboratory, Ambarnath.	Naval Science and Technological Laboratory, Visakhapatnam	NPOL Cochin		i) Microwave Tube Research Development Centre(MTRDC) ii) Defence Avionics Research Estt(DARE) iii) ADE Bangalore iv) Electronic & Radar Development Estt (LRDE). v) Center for Air Borne System (CABS) Bangalore. vi) Gas Turbine Research Estt (GTRE) vii) Aeronautic Development Agency(ADA) viii) Aircraft System Testing Estt(ASTE) ix) Center for Artificial

					Intelligence & Robotics x)DFRL Mysoor xi)Project Office (Material)Hyderabad xii)Centre for Military Airworthiness & Certification
MES	i) All MES units/formations exclusively working for Naval/Coast Guard Works in WNC and Goa Area and Coast Guard Western Region.. ii) Audit of final bills along with Cost data in respect of Naval Works undertaken by Mazagaon Dock Limited and Goa Shipyard.	All MES units and formations exclusively executing Naval/Coast Guard Works in Eastern Naval Command, Andaman and Nicobar Islands excluding those units located at Arkonam, Chennai and Tirunelveli. ii) DGNP iii) Audit of final bills along with Cost data in respect of Naval Works undertaken by M/s Garden Reach Workshop.	All MES units and formations exclusively executing Naval and Coast Guard Works located in Southern Naval Command except Goa Area, Arkonam, Chennai and Tirunelveli.	All MES Units/formations exclusive -ly executing Air Force Works in the above states and places.	All MES Units/ formations exclusive -ly executing Air Force Works located in the above states and places.
Other Units					i)Estate Management units ii)Software Development Institute

ANNEXURE –‘G’

(Para 14(i) refers)

**AUDIT JURISDICTION OF COMMAND/BRANCH OFFICES OF THE
PRINCIPAL DIRECTOR OF AUDIT ORDNANCE FACTORY,
KOLKATA**

Sl. No.	Name of Auditee units
A)	Head Office, Kolkata
1.	Ordnance Factory Board, Kolkata
B)	Regional office Avadi
1.	Cordite Factory Aruvankadu and its Accounts Office
2.	Ordnance Factory Trichi and its Accounts Office
3.	Heavy Alloys Penetrator Project, Trichi and its Accounts office
4.	Heavy Vehicles Factory, Avadi and its Accounts Office
5.	Ordnance Factory Medak and its Accounts Office
6.	Engine Factory Avadi and its Accounts Office
7.	Ordnance Clothing Factory, Avadi and its Accounts Office
8.	Addl. DGOF, A V Headquarters, Avadi and its Accounts Office
9.	Accounts of Vijayanta Senior Secondary School Avadi (VSSS)
10.	Defence Standardisation Cell Avadi
11.	Controllerate of Quality Assurance (Infantry Combat Vehicle) Medak
12.	Quality Assurance Establishment (Armaments) Medak
13.	Quality Assurance Establishment (Electronics) Medak
14.	Senior Quality Assurance Establishment Trichy
15.	CQA (A VL) Avadi
16.	Senior Quality Assurance Establishment (Armaments) Avadi
17.	CQA (HVF) Avadi
18.	Senior Quality Assurance Establishment (ME) Aruvankadu
19.	Senior Quality Assurance Establishment, Trichi
20.	Regional Marketing Centre, Avadi
C)	Regional Office Kirkee
1.	Ammunition Factory Khadki and its Accounts Office
2.	High Explosives Factory Khadki and its Accounts Office
3.	Ordnance Factory Dehu Road and its Accounts Office
4.	Ordnance Factory Ambernath and its Accounts Office
5.	Machine Tool Prototype Factory, Ambernath and its Accounts Office
6.	Controllerate of Quality Assurance (Armaments) Kirkee (CQA)
7.	Assurance Establishment (Weapon) Ambernath (QAE)
8.	Controllerate of Quality Assurance (Military Explosives), Kirkee (CQA)
9.	Senior Quality Assurance Establishment (Armaments), Kirkee (SQAE)
10.	OCRI, Kirkee
11.	Senior Quality Assurance Establishment (Military Explosives)
12.	Quality Assurance Establishment (Material), Ambemath QAE
13.	Quality Assurance Establishment (Military Explosives) Dehu Road (QAE)
14.	Regional Mark Centre, Kirkee
15.	Regional Training Institute Ambernath .

16.	Controllor of Safety, Kirkee
D)	Regional Office Kanpur
1.	Ordnance Factory Kanpur and its Accounts Office
2.	Field Gun Factory Kanpur and its Accounts Office
3.	Ordnance Equipment Factory Kanpur and its Accounts Office
4.	Ordnance Parachute Factory Kanpur and its Accounts Office
5.	Small Arms Factory Kanpur and its Accounts Office
6.	Ordnance Equipment Factory Hazaratpur and its Accounts Office
7.	Ordnance Factory Dehradun and its Accounts Office
8.	Opto Electronic Factory Dehradun and its Accounts Office
9.	Ordnance Cable Factory, Chandigarh and its Accounts Office
10.	Ordnance Factory Muradnagar and its Accounts Office
11.	Clothing Factory, Sahjahanpur and its Accounts Office
12.	Addl. DGOF (OEF Headquarters), Kanpur
13.	Regional Training Institute, Kanpur (RTI)
14.	Regional Training Institute, Dehradun (RTI)
15.	Quality Assurance Establishment (Armaments), OF Kanpur (QAE)
16.	Air Armament Inspection Wing (Detachment) at OF Kanpur (AAIW)
17.	Vehicle Inspection Wing OEF Kanpur (VIW)
18.	Quality Assurance Establishment (Small Arms), SAF Kanpur (QAE)
19.	Inspectorate of Metal, Muradnagar (I of M)
20.	Controllorate of Quality Assurance (Instrument) Dehradun (CQAE)
21.	Inspectorate of General Stores Shahjahanpur (IGS)
22.	Quality Assurance Establishment Establishment (Field p;un), FGF Kanpur (QAE)
23.	Quality Assurance Establishment (Metal), Dett Chandigarh (QAE)
24.	Air Armament Inspection Wing (Detachment) at OFM and Delhi (AAIW)
25.	Naval Armament Institute, Kanpur (NAI)
26.	Chief Resident Inspector Directorate of Technical Development & Production (DTD&P) Dehradun
27.	Quality Assurance Wing, OEF Kanpur (QAE)
28.	Defence Standardisation Cell Dehradun
29.	Ordnance Factory Cell, GB, New Delhi
E)	Regional Office Kolkata.
1.	Rifle Factory Ishapore and its Accounts Office
2.	Metal and Steel Factory Ishapore and its Accounts Office
3.	Gun and Shell Factory Cossipore and its Accounts Office
4.	Ordnance Factory Dum Dum and its Accounts Office
5.	Ordnance Factory Bolangir and its Accounts Office
6.	Consolidated Annual Accounts - CCA (Fys.) Kolkata
7.	Senior Quality Assurance Establishment (Armaments), Badmal (SQAE)
8.	Senior Quality Assurance Establishment (Armaments), Hastings, Kolkata (SQAE)
9.	AAIW, Cossipore
10.	Senior Quality Assurance Establishment (Armaments) GSF Cossiporc (SQAE)
11.	Controllorate of Quality Assurance Establishment (Small Arms) R.F. Ishapore (CQAE)
12.	Senior Quality Assurance Establishment (Small Arms), RF. Ishaporc (SQAE)
13.	Controllorate of Quality Assurance Establishment (Metal), MSF (SQAE)
14.	Senior Quality Assurance Establishment (Metal), MSF (SQAE)
15.	Defence Standardisation Cell, Ishapore

16.	Quality Assurance Establishment (Metal), Rourkela (QAE)
F)	Regional Office Jabalpur
1.	Gun Carriage Factory, Jabalpur and its Accounts Office
2.	Ordnance Factory Khamaria and its Accounts Office
3.	Vehicle Factory Jabalpur and its Accounts Office
4.	Grav Iron Factory, Jabalpur and its Accounts Office
5.	Ordnance Factory, Katni and its Accounts Office
6.	Ordnance Factory Itarsi and its Accounts Office
7.	Controllerate of Quality Assurance Establishment (Weapon), Jabalpur (CQAE)
8.	Senior Quality Assurance Establishment (Armaments), OFK (SQAE)
9.	Central Proof Establishment, Itarsi (CPE)
10.	Controllerate of Quality Assurance Establishment, VFJ (CQAE)
11.	Senior Quality Assurance Establishment (Armaments), GCF (SQAE)
12.	Senior Quality Assurance Establishment (Electronics), GCF (SQAE)
13.	Air Armament Inspection Wing (Detachment) GGF (AAIW)
14.	Regional Training Institute, OFK (RTI)
15.	Quality Assurance Establishment (Military Explosives), OFK (QAE)
16.	Air Armament Inspection Wing (Detachment) OFK (AAIW)
17.	Defence Standardisation Cell, VFJ
18.	Quality Assurance Establishment (Metal), Katni (QAE)
19.	Air Armament Inspection Wing (Detachment) Itarsi (AAIW)
20.	Quality Assurance Establishment (Military Explosives), Itarsi (QAE)
21.	Long Proof Range, Khamaria
G)	Branch Office Ambajhari
1.	Ordnance Factory, Ambajhari and its Accounts Office
2.	Ordnance Factory Bhandara and its Accounts Office
3.	Ordnance Factory Bhusawal and its Accounts Office
4.	Ordnance Factory Chanda and its Accounts Office
5.	Ordnance Factory Varangaon and its Accounts Office
6.	Ordnance Factory Staff College, Ambajhari
7.	Air Armament Inspection Wing, Ambajhari (AAIW)
8.	Quality Assurance Establishment Ambajhari (QAE)
9.	Regional College of Security Ambajhari (RCS)
10.	Regional Training Institute Ambajhari (RTI)
11.	Quality Assurance Establishment (Metal), Bhandara - Annual Accounts + Cost + DAD
12.	Air Armament Inspection Wing, Bhandara (AAIW)
13.	Quality Assurance Establishment (Detachment) Bhusawal (QAE)
14.	Quality Assurance Establishment Chanda (QAE)
15.	Air Armament Inspection Wing, Chanda (AAIW)
16.	Quality Assurance Establishment Varangaon (QAE)

CHAPTER 3
DUTIES AND RESPONSIBILITIES OF HEADQUARTERS OFFICE

General

26. (i) The Director General of Audit, Defence Services is the principal audit officer for the Ministry of Defence (expenditure pertaining to the Ordnance Factories and expenditure for the Air Force and Navy is audited by the Pr. Director of Audit (Ordnance Factories) Kolkata and Principal Director of Audit (AF/N) respectively) and is responsible for rendering reports to the Comptroller and Auditor General of India, of serious arrears in work vide Paragraph 1:16:6 of CAG's M.S.O.(Admn) Volume I.

(ii) In any case in which the Secretary, Ministry of Defence (Finance) is not prepared to accept the opinion of the Director General on an audit point, the question at issue has to be stated for the Comptroller and Auditor General's decision. It is also open to the Director General to refer to the C.A.G. of India any point on which he himself is in doubt and any decision of the Defence Authorities which is likely, in his opinion, to affect Civil Accountants General. The Comptroller & Auditor General of India would communicate to the Director General, changes of procedure in civil audit and accounts offices which may call for corresponding changes in Defence Accounts offices. The Director General should then take steps to have such changes introduced by the Secretary, Ministry of Defence (Finance).

(iii) The Director General will inspect his branch offices (which are functioning independently, whether in the same station or another station, whether headed by IA&AS Officer or Group 'B' Officer) periodically and at least once a year. A report on the deficiencies and irregularities (both administrative and technical) noticed during the inspection and remedial and follow-up action taken will be sent to Coordination Section in Headquarters within 3 months of inspection and also shown to Inspection Team when its next visit to this HQ.

- 27. Blank
- 28. Blank
- 29. Blank

Organisation of the different Sections of Headquarters Office

30. (i) Headquarters Office has fourteen Sections, viz:

- (a) Administration Section
- (b) Budget Section.
- (c) Establishment Section.
- (d) Hindi Cell/PAO
- (e) Audit Group. I
- (f) Audit Group. II
- (g) Audit Group. III

- (h) Audit Group. IV
- (i) Audit Group. V
- (j) E.C.P.A
- (k) Appropriation Audit Section
- (l) Report and P.A.C. Section
- (m) Coordination Section.
- (n) EDP Section

(DGADS O.O.Pt.1 No.10 dated 20/3/91, O.O. Part I No.35 dated 10.7.91 and O.O. Part I No.65 dated 25.2.2003 and O.O Part I No. 70 dated 25.8.2004)

(ii) The paragraphs below describe broadly the allocation of the duties between the different sections. Detailed lists of duties in respect of individual seats should be prepared and kept up-to-date. In the interest of expeditious disposal of work in the section, it would be open to the AAOs/SOs to make temporary changes in the distribution of work. Any permanent change proposed to be made should be brought to the notice of the Branch Officer concerned.

Administration Section

31. (i) This Section deals with:

- (a) Questions relating to the administration and cadre control of the Department viz recruitment, appointment, promotions, confirmations, transfers, pay fixation, discipline and encashment of leave.
- (b) Cases relating to the general policy and procedure of audit.
- (c) The departmental Examinations like Section Officers Grade Examination, Revenue Audit, Confirmatory etc.
- (d) Training Programme.
- (e) Confidential matters
- (ii) Tour programme of Director General.

The Tour programme of the Director General of Audit in respect of each calendar year should be numbered serially and should be sent sufficiently in advance to the Comptroller & Auditor General. The purpose of tour should invariably be specified in the copy of tour programme sent to Secretary to the CAG of India.

(Authority: CAG Letter No.4145-GE-I/37-73 dated 12.6.73 and 3047-GE/327-52, dated 3.6.53 file No.A.Admn/18/52 and 18/73).

Budget Section

32. This Section deals with:

- (i) Matters relating to Budget, expenditure statements, reconciliation etc.
- (ii) Pension and gratuity etc.
- (iii) All loans and advances (other than G.P.Fund) like HBA, Car, Scooter, Cycle, Floods etc.
- (iv) Pay fixation cases and anomalies of pay fixation of departmental employees under Fundamental Rules.
- (v) Monthly D.O

A monthly D.O. letter may be sent by the Director General to the Comptroller and Auditor General indicating important activities of the Defence Services, important irregularities and matters relating to Administration etc. (with copies to Deputy C.As.G. and Addl. Deputy C.As.G.). In respect of serious and interesting cases of fraud and forgery a separate formal report should also be made to the C.A.G. To enable the Director General to select the material for his monthly D.O., a Register will be maintained in the section in two parts - Part I will include a list of new activities/new projects undertaken by Ministry of Defence and Part II will include items reported by the Command Officers to enable a watch and inclusion in the monthly D.O. if and when considered appropriate.

(CAG's D.O. No. Ps/731 dated 30.12.50 - Instructional Order No.1 dated 26.6.61 and CAG. No.326 - Admn/13/61 dated 31.1.61)

Establishment Section

33. (i) This Section deals with:

- (a) Establishment and staff matters of Headquarters office.
- (b) G.P.F. advances and C.D.S. final payments.
- (c) Office library and old records.
- (d) Hindi Cell
- (e) TA/DA adjustment bill for all categories of officers/staff.
- (f) Medical Claims

(ii) Supply of Books and Corrections

The orders of Deputy Director of Audit/Director of Audit should be obtained whenever a new book is required to be purchased for official use. A register titled Register of Corrections is required to be maintained to watch that amendments to the books in use in the office are received regularly when issued and to ensure that the publications are brought up-to-date. The register is to be submitted to the Branch Officer for information once every month.

Note: One copy of all publications (having financial bearing) issued by the Ministry of Defence, as well as correction thereto, has to be supplied to C&AG by this office.

(C.A.G No.765-Admn/39/49 dated 14.4.49, D.A.D.S No.5136/Public/2/49 dated 8.3.1949 O. O. Part II No. 14 dated 30/10/88)

Hindi Cell

34. This Section deals with:

- (a) Coordination of work relating to implementation of Policy of Government in regard to use of Hindi in Official work.
- (b) Preparation and submission of all statistical reports/returns in connection with the use of Hindi in the Department.
- (c) Hindi translation of Departmental Manuals as and when necessary.
- (d) Hindi translation of the Report of the Comptroller & Auditor General of India, Union Government (Defence Services).
- (e) Organisation of Hindi Workshop for the staff to enable them to transact official work in Hindi, as and when considered necessary.
- (f) Assistance to Sections in the Headquarters office to progressively

switch over to use Hindi in day-to-day official work.

- (g) Vetting of out-going Hindi letters.
- (h) Working of sub-PAO and Pre-Audit of bills in respect of Director General of Audit, Defence Services, Principal Director of Audit (Air Force and Navy) and Deputy Director of Audit, Defence Services, Delhi Cantt. in HQ office.

(Procedural Office Order No.2. cI.22.3.78 DAD.S. file No.AAdmn/8/77-78 and D.A.D.S. O.O.Pt.1. No.10 dated 20.3.81-File No. A-Admn /8/81).

Audit Group Section

35. In the assigned areas, each Audit Group will be responsible for:

- (a) Scrutiny and follow up of Policy documents, codes, manuals, regulations, instructions, orders and standard operating procedures (SOPs) issued under the authority of Ministry of Defence, Army Headquarters, Controller General of Defence Accounts, DRDO Headquarters and DGDE etc.
- (b) Scrutiny of Defence Services Estimates (Vol. I & II) and Ministry of Defence (Civil) Grant and Annual Report of Ministry of Defence
- (c) Study and follow up of reports submitted by Parliamentary Standing Committee on Defence, Government's reply to Parliamentary Questions, reports of in-house committees constituted by MOD/AHQ/Other Directorates and reports appearing in Professional Defence Journals/News Papers etc.
- (d) To maintain Directorate-wise guard files on key subjects dealt with by individual Directorates
- (e) Audit of sanctions issued by Government of India and subordinate Headquarters Formations (Army Headquarters, DRDO Headquarters, CGDA Headquarters, DGDE Headquarters)
- (f) Scrutiny of contract agreements/supply orders/ATs entered into by Government of India/Army Headquarters etc.
- (g) Updating of background material in respect of Army Headquarters, Directorates by collecting latest orders and ATNs from Report and Appropriation Section.
- (h) Disposal of references received from Report, Appropriation, Coordination, other Audit Groups and ECPA Sections and Command Offices.
- (i) Undertaking risk analysis in terms of activities, programmes, procedures, transactions, accounting code heads, auditee units, vendors, suppliers and its periodic communication to Command Offices.
- (j) Examination of LTAR files of the Command Offices as envisaged in this office letter No. 3328/A.Coord/137/2002 dated 27.1.2003
- (k) Certification of Defence Appropriation Accounts (MES Chapter, Military Farms Chapter) and annual CSD accounts

- (l) Local Audit of Ministry of Defence and other Headquarters Formations under Ministry of Defence. The auditee units for local audit would be PAO/CDA, DDO and Budget centers allocated budget under different accounting code heads as per records of PCDA, New Delhi.
- (m) To propose amendments in Defence Audit Manual in the assigned functional areas.
- (n) To prepare half yearly/annual audit programme for approval by the Director General of Audit Defence Services.

Audit Follow up

The observations based on scrutiny of papers (codes, manuals, indents, sanctions, contracts, supply order etc.) received/obtained from Ministry of Defence/Headquarters Formations will be issued in the form of Audit Memos. The issue and disposal of Audit Memos will be watched by maintaining sectional Audit Memos Register in the prescribed format. Similarly the observations based on Local Audit of Ministry of Defence and other units mentioned in Annexure-‘A’ will be issued in the form of Local Test Audit Report (LTAR). The issue and disposal of items in LTAR will be watched through sectional LTAR Register.

A comprehensive audit of Ministry of Defence (DDO, PAO, MOD Sections) by Audit Group-V will be undertaken in July every year when annual budget gets finalized and the reports of Parliamentary Standing Committee on Defence about Defence Grants are available. Based on the above comprehensive audit, an Inspection Report (LTAR) may be issued. This opportunity may also be utilized to collect important reports and balance orders/circulars issued by MOD in the last one year. Subsequent to annual audit of MOD, the local audit of AHQ Directorates/ISOs by concerned Audit Group sections may be undertaken in a planned manner taking into account the inputs from MOD files, PCDA’s Data Base, review of Command Offices’ LTAR files and strategic audit plan. The periodicity of audit of different Directorates will be decided separately based on risk factors determined and expenditure figures available with PCDA New Delhi /Defence Services Estimates (Volume II).

The distribution of the work among audit group sections is given in Annexure-‘A’ to this chapter.

Efficiency –cum- Performance Audit Section

36. The duties of ECPA were mainly planning, processing, progressing and finalising the reviews. The duties of ECPA section has changed almost entirely with the introduction of Performance Audit in the IA&AD. All the performance audits are now required to be carried out strictly as per the *New performance auditing guidelines* finalized by the CAG’s office in May 2004.

The charter of duties of ECPA section is appended below:

- (a) All work relating to the new performance audit regime;
- (b) Preparation of action plan for implementation of the strategic plan of the CAG and its follow up;

- (c) Planning of performance audits for each year including arranging of pilot study of topics proposed for performance audit, risk assessment of the topic, submission of proposals to CAG's office for ADAI's approval of the topic for performance audit as per the new *performance auditing guidelines*;
- (d) Preparation of performance audit implementation guidelines as per para 3.45 of the new *performance auditing guidelines* for topics approved by the ADAI for performance audit;
- (e) Arranging entry conferences, exit conferences for performance audits, setting audit criteria for the selected topics and communication of the criteria to the entity for acceptance;
- (f) Setting up of audit criteria for the selected topics and communication of the criteria to the entity for acceptance.
- (g) Planning of field work of performance audits and its monitoring, through mid term workshops and follow up;
- (h) Drafting of consolidated performance audit reports, its issue to the Ministry and the CAG's office, revision of the performance audit reports based on ADAI's remarks and the Ministry's reply;
- (i) Preparation of pre-bond copy and bond copy of the performance audit reports approved by the ADAI for submission to CAG, action for printing of the report after its approval by the CAG, and submission of the printed Report to the CAG;
- (j) Laying of the Report in the parliament and thereafter its distribution to various Departments/offices;
- (k) Propose performance audit reports for selection by the PAC, prepare questionnaire on the Report for examination by the PAC, vetting of Ministry's replies to the questionnaire, attending PAC meeting for discussion of performance audit reports and all follow up on PAC selected cases;
- (l) Examination and vetting of Ministry's ATN on performance audit reports;
- (m) Preparation of Audit plan for Army audit maintaining required level of audit time for performance audit;
- (n) Action on press clippings relating to themes/projects.
- (o) All correspondence with CAG's office with respect to the Defence Audit (Army wing) on audit and report matters.

Appropriation Audit Section

37. This Section deals with the scrutiny of following accounts and other items of work as given below:

- (a) Consequent upon audit scrutiny of Appropriation Accounts, preparation of Chapter-I on Financial aspects for its inclusion in the Audit Report, Defence Services and preparation of Draft Paragraphs containing observations on the Appropriation Accounts, Defence Services for inclusion in the Civil Report No. 1 prepared by the office of the Director General of Audit, Central Revenues.

- (b) Vetting of Head-wise Appropriation Accounts in respect of grants relating to “Ministry of Defence Civil” (The expenditure relating to Ministry of Defence is met from the Civil Estimates). Detailed instructions are given in Appendix-II.
- (c) Vetting of Head-wise Appropriation Accounts in respect of grants relating to “Defence Pensions”.
- (d) Vetting of material relating to Union Government Finance Accounts, pertaining to Defence Services and Civil and its further rendition to DGACR office for inclusion in the Union Government Finance Accounts prepared by CGA, Ministry of Finance.
- (e) Vetting of Defence Services portion of Combined Finance & Revenue Accounts’. Detailed instructions are given in Appendix-III.
- (f) Vetting of Statement of Central Transactions (SCT) and their rendition to office of the DGACR and Controller General of Accounts, Ministry of Finance respectively. Detailed instructions are given in Appendix-III.
- (g) Vetting of “Action Taken Notes” against paragraphs on Appropriation Accounts, Defence Services included in the Civil Report No. 1 prepared by the DGACR office.
- (h) Vetting of ATNs against PAC’s recommendations.
- (i) Vetting of CGDA certificate on the basis of AACs received from COs.
- (j) Charged Expenditure Reports, Review of Balances etc.
- (k) Vetting of Correction Slips proposing amendments to ‘Classification Hand Book’ and ‘Pamphlet of RD&R’, heads received from CGDA/MOD.
- (l) Vetting of allocation of expenditure on Joint Cipher Bureau (JCB) between Civil Estimates and Defence Services Estimates.
- (m) Certification of Net Proceeds of Taxes on Income and Estate duty on property.
- (n) Defence Services Budget Estimates and Allotment. At the beginning of the year, after the Annual Financial Statement referred to in Art. 112(i) of the Constitution of India has been presented, it should be seen:
 - 1) that the figures given in the Demands for Grants and the Annual Financial Statement tally with the details in the Defence Services Estimates;
 - 2) that the original allotments made by the Controlling Officers at Service Headquarters to local controlling authorities are within the amount under the head concerned;
 - 3) that the re-appropriations carried out towards the close of the year in respect of the locally controlled heads are in order. This check should be exercised with reference to the sanctions to final allotments accorded by the authorities at Service

Headquarters These sanctions specify the sanctioned final allotment and the manner of their distribution; and

- 4) that the results of the year's working as embodied in the Appropriation Accounts do not reveal any defect in the machinery of financial control.
- (o) Scrutiny of Quarterly Reports relating to cash losses, stores losses, infructuous expenditure, ex-gratia payments etc. for inclusion in the Appropriation Accounts received in Headquarters office from Command Officers duly test checked. These reports are scrutinised with reference to the detailed annotations (Government sanctions, statement of cases, delay Reports etc.) received from the Ministry.
- (p) Scrutiny of statement pertaining to Appropriation Accounts except those relating to Annual review of MES Expenditure, C.S:D. Accounts, losses in Border Roads and Military Farms which shall be dealt with by concerned Audit Group Sections.

Report Section

38. This Section deals with the preparation of the Report of the Comptroller and Auditor General of India, Union Government (Defence Services). This Section is also responsible for the scrutiny of all Ministry of Defence and Ministry of Finance (Defence) papers dealing with the Public Accounts Committee's recommendations emanating from the points included in the Report of the Comptroller and Auditor General of India, Union Government (Defence Services). Detailed instructions for the compilation of this Report are given in Appendix I to this Manual.

Detailed charter of duties in respect of Report Section is given below:

- (a) Planning for DP work for Audit Report, Defence Services (Army).
- (b) Scrutiny of Draft Paragraphs in respect of all Command Offices under Army wing, all Audit Groups of Headquarters and draft paras received from Pr. Director of Audit Washington and London.
- (c) Processing the draft paragraphs for 1st Journey for Audit Report Defence Services.
- (d) Revision of draft paragraphs on receipt of remarks of CAG's office as well as Ministry's reply on the 1st Journey draft paragraphs.
- (e) Preparation of pre-bond copy as well as bond-copy of Audit Report, Defence Services as per time schedule fixed by CAG's office.
- (f) Preparation of Report of C&AG of India, Union Government Defence Services (Army & Ordnance Factories).
- (g) Report analysis and in-house comments for future action.
- (h) Printing of Audit Report, Union Government (Defence Services).
- (i) Submission of the Audit Report to the C&AG of India.
- (j) Laying of Audit Report in the Parliament.
- (k) Distribution of Audit Reports to various Departments/ offices.

- (l) Selection of Audit Paras for examination by Public Accounts Committee and preparation of questionnaire on them.
- (m) Attending the meeting of PACs on oral evidence of Audit Paras selected by PAC.
- (n) Examination and vetting of Action Taken Notes received from Ministry.
- (o) Submission of Reports pertaining to ATNs.
- (p) Correspondence on press clippings with COs/CAG.
- (q) All correspondence with CAG's office with respect to the Defence Audit (Army wing) on audit and report matters.

Co-ordination Section

39. This section deals with the following:

- (a) Pursuance of Inspection Reports of the Director of Inspection of the C&AG of India.
- (b) Internal Audit of the Command/Branch Offices and pursuance of the Inspection Reports.
- (c) Reports on Quarterly list of important points raised in test audit, reports on Major Financial and Accounting irregularities.
- (d) The work relating to the quantum of Audit as applied in Audit Department, Defence Services, and preparation of Arrear Report.
- (e) Work relating to C&AG's (DPC) Act, 1971.
- (f) Scrutiny of Local Test Audit programmes, Central Test Audit Programme and watching the progress of Audit
- (g) Scrutiny/approval of CO's monthly supervision programmes for the local audits and watching actual Tour as well as submission of Tour Notes.
- (h) Scrutiny of Quarterly Progress Reports of Local Test Audit Parties received from Command Offices.
- (i) To watch the clearance of old outstanding LTAR items and to render the report of outstanding LTARs/ Paras.
- (j) Scrutiny of orders received from Ministry of Finance/CAG etc. regarding TA/LTC etc.
- (k) To deal with the cases of sanction of Air Journey and cases of sanction/clarification of TA/LTC claim.
- (l) Scrutiny of Monthly Reports of Central Test Audit of each Section of Controller of Defence Account's office received from the Command offices.
- (m) Scrutiny, consolidation and submission of Activity Report to CAG of India.

- (n) Correspondence regarding AG's Conference and follow-up action on the decision taken by C&AG office.
- (o) Correspondence regarding convening of *Adhoc* Committee Meeting by Army Authorities.
- (p) Brief notes on C&AG's visit to field offices of IA&AD.
- (q) Audit Plan/quarterly Audit Plan (Report). Implementation of Audit Plan
- (r) Minutes of Meeting with DG and arrangement of COs conference.
- (s) Audit of Defence Pension paid in Nepal.
- (t) Ranking and performance of IA&AD office.
- (u) Work relating to Data Base on autonomous bodies.
- (v) To co-ordinate other works in Headquarters office as and when directed which are numerous.

EDP Cell

40. This section deals with the following:

- (i) Capacity building:
 - (a) To familiarise itself with standard software and packages obtained from C&AG office/sister organisations within IA&AD or from open market.
 - (b) To develop in-house application softwares /packages relevant to this office.
 - (c) To conduct in-house training for staff members of this office as and when required.
 - (d) To assess the knowledge and skills gained by staff sponsored for various EDP trainings in different training institutes for utilization.
- (ii) To undertake all functions so as to act as nodal office for computerization as per Headquarters office DO No. 102-EDP/43-97 dated 13/2/97 & letter No. 2199-EDP/41-2001 dated 23/12/2002.
- (iii) Constant updation of Data and application Software;
- (iv) Development of expertise in IT Audit;
- (v) Setting up and maintenance of LAN and to ensure data security;
- (vi) Assistance to Establishment/Budget section and Report Section;
 - a) in procurement and maintenance of hardware.
 - b) formulation of budget proposals regarding purchase of IT products.
 - c) Word Processing and formatting of Audit Reports.
- (vii) Any other related tasks which may be entrusted to cell by DG/Directors.

Audit of Sanctions, Requisitioning of papers, Files to be submitted to Director General for orders and Scrutiny of orders introducing new allowances or new forms of recurring expenditure or modifications to orders in force dealing with these subjects

- 41.(i)(a) Sanctions of the Ministries of Defence and Defence (Finance) except those relating to Ordnance and Ordnance Equipment Factories and relating to Air Force & Navy are audited in Headquarters Office. Regulations, Codes and Manuals and Services Instructions are also scrutinised in Headquarters Office.

Sanctions pertaining to Ordnance and Ordnance Equipment Factories are audited by the Principal Director of Audit (Ordnance Factories) Kolkata and sanctions pertaining to the Air Force and the Navy are audited by the Principal Director of Audit (Air Force/Navy) New Delhi.

- (b) The audit of provisioning of stores centrally provisioned in the various branches of the Defence Services (except of DGOF & of Air Force/Navy) is carried out by the Headquarters Office.
- (c) Schemes/projects are also scrutinised to see how far the targets set up and benefits anticipated from these schemes/projects at the time of sanction have actually been achieved vis-a-vis the cost incurred.

Requisitioning of papers

- (ii) (a) Copies of all Ministry of Defence and Ministry of Defence (Finance) letters conveying sanctions of the Government of India as well as all important circular letters of general interest issued by CGDA are sent to the office of the Director General of Audit, Defence Services. On receipt of the circulars, if it is felt that the matter needs to be scrutinised in audit, a request for papers should be addressed to the concerned section of Ministry of Defence/authority concerned on requisition to be signed by Gazetted Officer of the section dealing with such papers. Before calling for the papers, brief reasons based on which the files are proposed to be requisitioned should be noted.
- (b) Files dealing with policy matter may be called for only where it is considered absolutely necessary. Orders of Director General of Audit Defence Services /Director/ Deputy Director of Audit should be taken to requisition such files for scrutiny. Similarly, files containing matters of such secrecy as may not be in public or national interest to disclose in the Audit Report should be obtained and examined at the level of Director General. Instructions contained in CAG's office secret No.1115- TAI (RGL)/110-76 dated 21.11.78 circulated under D.A.D.S. office secret No.4593/A.Admn/21/ dated 21.12.78 should be followed.
- (c) Papers leading to the conclusion of secret contract agreements concluded by the Ministry of Defence may be called for by the

respective Audit Sections (as and when a copy of the agreement is received in the Section) for examination.

- (d) The files on receipt will be examined in the Section concerned and submitted to the Gazetted Officers for orders, with a factual statement of case as revealed from the files received. It is open to the Gazetted Officers concerned to submit at their discretion any case to the Director / Deputy Director of Audit who at his discretion may either send up the papers to the Director General for approval or orders or send up to him cases involving points of principle for information after issue. If any points are raised as a result of the examination of the relevant file, the Ministry of Defence or the Ministry of Defence (Finance) should be addressed in the matter. Normally all queries relating to the internal audit or accounting procedure and interpretation of orders having a financial bearing are to be referred to the Ministry of Defence (Finance). Further facts which come to notice subsequently through correspondence etc. should be added to the statement of case referred to above together with the source of information so that a perusal of the statement of case at any time will give up-to-date factual information.

(DADS office order Part I No.6 dated 18.6.58)

- (e) Audit sections will maintain a register indicating particulars of Government sanction authorising relaxation of rules in respect of individual Government servants or their dependents for examination.

(DADS O.O. Part I No.1 dated 11.4.1961)

Files to be submitted to Director General for orders

- (iii) (a) Files called for with reference to Director General's orders should be submitted to him for orders in dak stage:
- (b) All files from the office of the Comptroller and Auditor General would generally be submitted to the Director General for orders. If any enquiry has to be made or any information has to be obtained from the Ministry of Defence, Services HQs. and Command Officers etc. for purposes of disposal of files, it should be done by the Branch Officer-in-charge of the section concerned.
- (c) Final orders of the Director General will be obtained on cases relating to the Report of the Comptroller & Auditor General of India, Union Government (Defence Services) after necessary preliminary information has been collected.
- (d) All important cases where the propriety of the orders issued by the Government of India with the concurrence of Finance is being challenged should be put up to the Director General for orders.

(DAD.S.O.O.Pt.1 No.4 dated 24th May 1952)

- (e) Files after having been seen by the Director General should be returned to the Sections concerned through the Director/Deputy Director and Audit Officers.

(DAD.S.O.O. No.33 dated 26th July 1937, File - A/39/37).

(iv) Apart from seeing that the orders are as agreed to by the Ministry of Defence (Finance) and that sanction is sufficient, the most important side of this work would be to see, through the agency of Statutory Audit, that such orders have been correctly applied. The Audit Section should direct the attention of Command Officers to seeing that items of expenditure arising from such orders or modifications of orders, receive special examination.

(v) Scrutiny of cases of frauds, losses and write off

The objects to be kept in view in this scrutiny are:

- (a) To trace to its source the cause of the loss.
- (b) To insist on individual responsibility being fixed wherever possible.
- (c) To obviate recurrence by suggesting remedial action, or deterrent disciplinary action, when such a suggestion is called for.

The following questions must be put in applying this scrutiny:

- 1) Is it indicative of a system fault?
- 2) What is the fault?
- 3) Has it since been remedied?
- 4) Is it likely to be prevalent in other offices also?
- 5) If the system itself is sound, in what respect was it not followed, thus facilitating the loss, fraud etc.?
- 6) Has there been failure of audit?
- 7) When should audit have discovered the fault?
- 8) When did audit discover the fault?
- 9) What action should have been taken by Audit on discovering the fault?
- 10) What action was actually taken?

Note: Enquiries regarding disciplinary action in cases on which a Government order has already been passed, should be addressed to the Defence Ministry or to the Ministry of Defence (Finance) as the case may be and not to the concerned Branch of Service Headquarters

(vi) Scrutiny of Codes, Regulations etc

The scrutiny of all Regulations, Codes and Standing Orders and amendments thereto issued by the Government of India, Ministry of Defence or other authorities subordinate to them devolves on the Director General. The scrutiny should be exercised in terms of Para 2.2.14 MSO (Audit). The scrutiny should be conducted as far as possible before the final issue of the Code or Regulation, on the basis of a resume of changes furnished by the Secretary, Ministry of Defence (Finance) and should be supplemented by a test check of the entire Code or Regulation so as to ensure that no important rule or change in rule has escaped audit scrutiny. The important items of work that should be done in this connection are:

- (a) Scrutiny of codes, regulations and standing orders and amendments thereto,

- (b) Scrutiny of Army Instructions, Army Orders, and amendments thereto.
- (c) Examination of all un-official cases and orders relating to amendments and interpretation of rules and audit and accounting procedure.

(vii) For the purpose of scrutiny of Codes, Regulations and Standing Orders and amendments thereto, the Auditor dealing with the indents for books etc. in the Estt Section will on receipt of new Regulations, Codes etc. or amendments thereto give to the Audit Section concerned one copy thereof for examination and comments if any.

(O.O. Pt. I. No.6 dated 17-5-1962)

(viii) All Army Instructions and corrections thereto should be examined as they are issued. During such examination, special attention must be paid to the adequacy of the sanction and also to the necessity for issuing special warnings for conducting Test Audit, either to see the manner in which effect is given to a particular order or the practical results of the issue of a particular order as shown in expenditure audit.

(ix) Army Orders, which have direct financial effect must be scrutinised in the same way as Army Instructions, it being remembered that while the Service Instructions etc. are orders by the Defence Ministry of the Government of India; Army Orders are Orders by the Service Chief. Where any Army Order is based on an Army Instruction, care should be taken to see that it is in accordance with the Army Instructions.

(x) For this purpose, Establishment Section will maintain a Register of Receipts to watch that they are received regularly. One copy of the Instructions/Orders will be circulated to all audit sections through a transit book in batches after they have been seen by GOs, for examination/scrutiny by the audit section concerned. Audit sections will maintain a Register of Service Instructions/Orders received for circulation and record therein every month a certificate to the effect that the Instructions etc. have been examined and action taken where necessary.

(xi) List of important AIs/AOs is mentioned in Appendix II Vol. I Part 'C' to this Manual.

(O.O Pt I.No.3 dated 16-9-60 as amended and as .Pt I. No.19 dated -12-68)

(xii) Scale Audit

A report on the scale audit is received annually by the Director General from the CO Pune in respect of Army Orders of Government issued to regularise excesses in the authorised strengths of the fighting services should be examined to see whether any large excess requires investigation in audit.

(xiii) Audit of the disposal of surplus and obsolete stores

The quarterly statements of surplus and obsolete stores received from the Deputy Financial Adviser (B) should be scrutinised to ensure that there are no rash purchases and hasty discards. This scrutiny is conducted in the Services Headquarters by the Audit Groups Section in respect of stores provisioned by them, at Depots by the COs in respect of Depot provisioned items. The scrutiny should be conducted on the more important items, selection being made with reference to the amount involved, and any point noticed should be taken up with the Ministry of Defence

(Finance). Any important case which may come to light should be reported to the Comptroller and Auditor General of India. A brief summary of the important items should be submitted to the C & A.G. of India annually i.e. after all the four quarterly statements have been scrutinised.

(xiv) Audit of Defence Pension in Nepal

Audit of Defence Pension paid in Nepal will be audited by Headquarters office by adopting following drills:-

- (a) Periodicity-Biennial.
- (b) 80 mandays/20 working days each for 2 LTA Parties to conduct the audit.
- (c) Quantum of Audit-Cash Account
 - (i) General check for the entire period to be covered under audit.
 - (ii) Details check of one months account for each year.
- (d) Pension Cards - 5% of total pension cards for each year.
Speed- 50 cards per manday
- (e) LTARs will be sent to DDA, DS, CC, Allahabad for pursuing the reports.

(Authority- C&AG of India approval dated 27.2.2001 received under DGADS endorsement No.28/A-Coord/154/manual/2002-03 dated 29.10.2003) for LTAR Authority- C&AG's Order dated 27.2.2001.

42. Blank.

ANNEXURE – ‘A’
[Referred to in Para 35]

Distribution of Audit Entities

Wing	Audit Group	Directorate	Branch
ISO	I	CMO	
AHQ	I	DDG PPO	MGO
AHQ	I	MGO	MGO
AHQ	I	DDG EM(A)	MGO
AHQ	I	DDG EM(B)	MGO
AHQ	I	HQ Tech Gp EME	MGO
AHQ	I	DGOS	MGO
AHQ	I	DG EME	MGO
ISO	I	DGQA	
AHQ	II	AGI	AG
AHQ	II	Addl DG C&W	AG
AHQ	II	Addl DGPS	AG
AHQ	II	Addl DG D&V	AG
AHQ	II	Addl DG Mov	QMG
AHQ	II	Addl DG Rtg	AG
AHQ	II	DGST	QMG
ISO	II	IS, S&AB	
AHQ	II	MS	MS
AHQ	II	Addl DGDS	AG
AHQ	II	DDG Canteen services	QMG
AHQ	II	DG(D&CW)	AG
AHQ	II	Addl DGMP	AG
AHQ	II	JAG	AG
ISO	II	DGR	
AHQ	II	DDG Mil Farms	QMG
AHQ	II	Addl DG APS	QMG
AHQ	II	DDG Pioneer	QMG
AHQ	II	Central Org. ECHS	AG
AHQ	II	Addl DG RV	QMG
AHQ	II	AWHO	AG
AHQ	II	AG	AG
AHQ	II	DG(MP&PS)	AG
AHQ	II	Addl DGMNS	AG
AHQ	II	DGDS	AG
AHQ	II	TRI-Pay service & staff	AG
AHQ	II	QMG	QMG
AHQ	II	Addl DG OL	QMG
AHQ	II	Provost Marshal	AG
AHQ	II	DGMS(Army)	AG
AHQ	III	Addl DG WE	GS
AHQ	III	IFA	GS

AHQ	III	DCOAS(Plg&Sys)	GS
Wing	Audit Group	Directorate	Branch
AHQ	III	DG Inf	GS
AHQ	III	DG Rashtriya Rifles	GS
AHQ	III	Addl DG Army Aviation	GS
AHQ	III	Addl DG FP	GS
AHQ	III	President ASEC	GS
AHQ	III	DCOAS(Trg & Cord)	GS
AHQ	III	DGMT	GS
AHQ	III	HQ 41 ARTY. DIV	GS
AHQ	III	Project Rhino & Panther	GS
AHQ	III	DDG Mgt Studies	GS
AHQ	III	Project Prithvi/Pinaka	GS
AHQ	III	Addl DG TAC-C31	GS
AHQ	III	DDG DSC	GS
ISO	III	CDA(R&D)	
AHQ	III	PMO BSS	GS
AHQ	III	Liaison Team ARTRAC	GS
ISO	III	SFC	
ISO	III	IDS	
ISO	III	CIN CAN	
AHQ	III	DDG PMO Plan Aren	GS
AHQ	III	DG Arty	GS
ISO	III	DS Liaison Cell	
AHQ	III	Army Adventure Wing	GS
AHQ	III	PMO ACCCS	GS
AHQ	III	DG Mech Forces	GS
AHQ	III	Addl DG TA	GS
AHQ	III	Project Arjun (MBT Cell)	GS
ISO	III	Joint Cipher Bureau	
ISO	III	DG SFF	
ISO	III	DRDO Dte	DRDO
AHQ	III	WARDEC	GS
ISO	III	PMO DIPAC	
ISO	III	Cabinet Sectt (Int Wing)	
AHQ	III	Addl DG IS	GS
AHQ	III	Addl DG PP	GS
ISO	III	JCEC	
AHQ	III	Addl DG SD	GS
AHQ	III	Addl DG Adm & Cord	GS
AHQ	III	HQ 40 ARTY. DIV	GS
AHQ	III	Addl DG CAB	GS
AHQ	III	PAMS Cell	GS
ISO	III	DGAFMS	
ISO	III	Cabinet Sectt (Mil Wing)	
ISO	III	DG DPS	COSC
AHQ	III	DDG Mil Survey	GS
AHQ	III	Project Nag	GS

AHQ	III	Project Akash/Trishul	GS
Wing	Audit Group	Directorate	Branch
AHQ	III	PMO CIDSS	GS
AHQ	III	DGMI	GS
AHQ	III	PMO DCM	GS
AHQ	III	Addl DG SI	GS
AHQ	III	DGMO	GS
AHQ	III	SO-in-C	GS
AHQ	III	ADC & RS	GS
ISO	IV	DG Works (AF&N)	E-in-C
ISO	IV	ADG Pers	E-in-C
ISO	IV	DGNCC	
ISO	IV	CDA(BR)	
ISO	IV	DGDE	
ISO	IV	Addl DG ESP	E-in-C
ISO	IV	NDC	
ISO	IV	DG MAP	QMG
AHQ	IV	Addl DG LWE	QMG
AHQ	IV	Addl DG TE	QMG
ISO	IV	E-in-C	E-in-C
ISO	IV	Addl DG ES	E-in-C
ISO	IV	Addl DG Engr (Pers)	E-in-C
ISO	IV	DG Works	E-in-C
ISO	IV	DGBR	
MOD	V	MOD(DDO)	
ISO	V	AO DAD(PAO)	
ISO	V	CGDA	
ISO	V	PCDA New Delhi	

CHAPTER 4

GENERAL DUTIES OF COMMAND OFFICERS AND SENIOR AUDIT OFFICERS/ AUDIT OFFICERS WHO ARE HEADS OF OFFICES

General Duties

43. The Command Officers and Senior Audit Officers/Audit Officers who are Heads of offices are responsible for the smooth functioning of their offices and the efficient conduct of Audit. Their duties include the following:

- (i) They should examine carefully the principles, methods and procedures followed in the maintenance of the Accounts by the Executive and Defence Accounts Department and bring to the notice of the Director General those points which merit his special attention.
- (ii) The Command Officers should personally supervise the local test audits of the accounts of important depots, units and formations in their audit areas at least once, during the currency of audit
(DADS No.2684/A-Admn/22/KW/Vol.II/54 dated 28.9.54).
- (iii) They and their Subordinate Officers, during their visits to Defence Units and formations should, after contacting the military authorities concerned, make it a point of seeing those organisations, projects and depots personally, so as to gain first hand knowledge about their practical working.
(DADS Confidential DO No. 226/C dated 1st June 1944)
- (iv) They should control and supervise effectively the work of the various test audit parties under them by drawing up suitable detailed programme of work and seeing that they are adhered to, or departed from only with prior permission for sufficiently valid reasons.
- (v) They should ensure that the work done by the audit parties is adequately and sufficiently supervised by them and their Audit Officers so as to conform to the percentage of supervision prescribed from time to time.
- (vi) They should personally go through all test audit reports and consolidate all general types of irregularities to be looked for in all formations of a similar nature and take up such questions of a general nature with the Command Headquarters through the Controller of Defence Accounts suggesting remedial measures.
- (vii) Command Officers should regularly and periodically meet the Defence authorities at Command/Area/Sub Area Headquarters to discuss important audit objections direct with them after intimating sufficiently in advance the points that they would like to discuss. Discussions may also cover important objections raised in internal audit.
(DO No.2777/AC - 29/65/KW dated 31.7.65)
- (viii) They should take an active interest in the standard of central audit work and should apply as much time as available to an actual review of this work. They should also personally inspect the central audit groups periodically to ensure that audit is being carried out on correct lines

and progress is satisfactory.

- (ix) They should personally scrutinise the Registers of Financial Irregularities as well as the Reports on the Major Financial and Accounting Irregularities. They should ensure that sanctions issued by authorities subordinate to the Government of India are received regularly and scrutinised at suitable intervals.
- (x) Besides guiding the staff in local audit parties, the Supervising Officers should do important items of original audit work as per orders and examine personally, with reference to the initial documents, all important points raised by the staff. Performance - cum - efficiency audits of schemes or projects and reviews of schemes or programme selected for inclusion in the Report of the Comptroller & Auditor General of India, Union Government (DS) should be supervised at the level of Command Officers.

(DADS Confidential NO.465/Rep/11177-78 dated 10.11.78, CAG's office NO.792-Rep1294-78 dated 23/24.8.78)

- (xi) They should examine all cases of serious irregularities reported in the Annual Audit Certificate of the Controllers of Defence Accounts and furnish full details thereof including disciplinary aspect of the cases to the Director General of Audit, Defence Services while forwarding the certificate. Cases reported which figure in the Local Test Audit Report should be linked and action proposed for preparation of draft paragraph with specific reasons should be intimated to the Headquarters Office.
- (xii) The CO will send his tour programme to HQ office so as to reach in HQ positively by 20th of the preceding month for Director General's approval in advance. He will not leave the station without the prior approval of Director General of Audit. In no case *ex post facto* sanction will be granted.
- (xiii) Simultaneous supervision of CO and AO/Sr.AO in the same unit and during same period should be avoided as far as possible. However, where simultaneous supervision is essential, supervision of CO should not exceed a period of two days.

(DGADS No.42/A.Coord/22/prog-General/95-96 dated 11.4.96 & DGADS No.2046/A.Coord/ 220/Gen-Prog/95-2002)

- (xiv) No TA (Tour) claim of Command Officer may be entertained without the approval of the tour programme by the DGADS.

(Authority: DGADS letter No.497/A.Coord/22/Prog-General/95-96 dated 13.6.96)

- (xv) All important communication, reports and returns meant for HQ office should be sent under the signature of Command Officer i.e. Director/Deputy Director.

(DGADS No.1101/A-Coord/22/Gen/97-98 dated 13.8.97)

- (xvi) Command Officer should devise a control mechanism with the aim of providing prescribed full SGO supervision to important units/formations and draft their programme with full sense of responsibility and ensure its execution.

(Para 5 of DGADS No.2578/A.coord/22/2002-03/Gen-Prog dated 18.11.2002)

(xvii) The Group Officers should supervise field parties for at least 7(seven) days in a month. If not necessary programme should not exceed 7 (seven) days in a month except in the case of CO having dual charge. As far as possible tour programme should not include half working day. If convenient, Saturday/Sunday should be utilized for transit. To avoid ex-post facto sanction by the DGADS, tour programme of the officer should be submitted well in advance so as to reach Headquarter Office before 20th of the preceding month in which journey is to be undertaken. He should inspect as many parties as possible. Whenever, a 'Review' is in operation, at least 50 per cent supervision time should be for the Review Party. CO must supervise review parties in number of spells i.e. both during feasibility studies and also during actual execution of reviews. Keeping in view the list of units worth to supervise, the visit to the units already supervised in preceding year may be avoided. As far as possible CO should supervise the unit on close of audit so that the results of audit can be seen and contribution to audit efforts can be given. COs should not restrict their supervision to contract and purchases of Rs.1 crore and above. In the absence of 1 crore and above contracts and purchases, they should examine other materially important contracts and purchases which may be of lesser money value.

The Group Officer is also required to make his own contribution to the Audit Report.

(C&AG letter no. 79-Audit (Aud. Plg)/9-96 dated 1 February 1996, DGADS No. 1999/A.Coord/108/GO's-Super/Guard file dated 7 October 2003, DGADS No.6931/A.Coord/81/GO's Supervision/99-2000 dated 30.9.2004 and No.9453/A.Coord/22/ Gen.)

(xviii) Each CO should exploit the system of Ad-hoc Committees extensively for expeditious clearance of outstanding Audit objections with greater emphasis on clearance of oldest objections on priority. Frequency and effectiveness of such meetings has been marked as one of the parameters for evaluation/ranking of Command Offices by Headquarters Office (para 72 also refers).

(DGA DS No.8564/A. Coord/81/96-97/Vol.IV dated 4/2/05)

Responsibility for correctness of payment and Accounting

44. The responsibility for correct payment and accounting rests with the Defence Accounts Department and the Command Officer is chiefly entrusted with the task of scrutinising the transactions, to see if the payment and the accounting have been correct, His objections, if any, should, therefore, be addressed to the Defence Accounts Department for necessary action. In the course of the local test audit of the accounts of units and formations, if the Command Officer or one of his officers, gets a direct opportunity of tendering help and advice to the Executive, it should be freely but carefully tendered in purely 'personal' capacity in all matters regarding which there can be no possible difference of opinion between the Test Audit and Defence Accounts Department. In other cases, it should be tendered through the Defence Accounts Department and not direct to the Executive. It is to be remembered that the

responsibility of the Defence Accounts Department remains undivided and they are, therefore, the authorities chiefly to be addressed.

References outside the Department

45. Command Officers should not make references outside the Department in cases involving interpretation of rules of audit and accounts procedure without obtaining the prior approval of the Director General/Principal Directors concerned. This should not, however, be taken to mean that no reference can be made to Controller of Defence Accounts and Officers Commanding Units in connection with the objections taken in test audit.

(DADS No. 1899/D/402/27 dated 14.10.1929 and No.570/A.66/35 dated 13.6.1936).

Cases referred to the Headquarters Office

46. When cases are referred by Command Officers to the Director General of Audit, Defence Services, the letter should be self-contained and should mention all the points at issue. Although copies of correspondence might be forwarded, these should be merely to support the statements made in the covering letter or to furnish fuller details than those given in the letter.

(DADS No. 2478/A-Admn/9/49 dated 1st September 1949)

Cases for inclusion in the Director General's Monthly DO letter to Comptroller and Auditor General

47. (i) To enable the Director General of Audit, Defence Services to have a proper appreciation of the financial administration in the different Commands and the quality of work done by Test Audit Staff, a DO letter giving details of important irregularities noticed during test audit, which are considered fit for the Report of the Comptroller & Auditor General of India, Union Government (DS) or for Director General's monthly DO to Comptroller and Auditor General should be sent bimonthly i.e. once in two months by each Command Officer to the Director General for his personal information so as to reach him by the 10th of that month. Important irregularities detected by internal audit authorities which come to the notice of test audit either through the quarterly report of the Controllers regarding the Major Financial and Accounting Irregularities or through the Registers of Financial Irregularities maintained in different sections of the Controller's Office or from any other source, should also be included in the DO. The source from which the Information about the Irregularity has been obtained, year or the years to which it relates and the money value thereof should be indicated in each case. Any important development in the accounting or administrative set up of the Defence Services which deserves to be brought to the notice of the C&AG should also be included.

(ii) The DO should mention about points referred to Controllers of Defence Accounts for being reported to higher administrative authorities, whether any administrative authorities were there at the places of tours undertaken by Command Officers and whether any cases were discussed with them and also about the welfare activities.

(iii) If there is no case for mention in the DO letter, a 'NIL' Report should be addressed to the Director (Reports) by name.

iv) Cases requiring further action in Headquarters Office should be reported officially irrespective of the fact whether such cases have already been included in the bimonthly DO or not.

v) Progress of cases reported through earlier bimonthly DO letters should in addition be intimated in duplicate in the proforma prescribed in Form DGADS-104; the case being arranged under categories 'MES', 'Pension', 'Pay', 'Stores', and 'other than MES'.

vi) Cases included in the DO letter which are fit for the Report of the C&AG of India, Union Government (Defence Services) should be processed expeditiously and draft paras should be sent to the appropriate authorities for comment so that they may not age through protracted correspondence. Progress made in the clearance of outstanding audit objections should also be indicated in the bimonthly DO letter.

(DADS Confidential DO No. 226/C dated 1.6.44, No.1750/AAdmn/160/155 dated 15.7.55, No.1514/A-Admn/160157 dated 24.7.57, No.2606/A-Admn/160/66 dated 27.8.66, No.6107/ A-Admn /160/67/Gen dated 25.3.67, No.4477/A-A~mn/ 103178-iv dated 12.12.78).

Preparation of Central Test Audit Programmes

48. The Central Test Audit will be divided into two parts:

- (a) The certification audit of all CDAs is to be conducted during 1st July to 30th September by CTA Section. The scope of certification audit as outlined in above letter includes:
- i) Scrutiny of financial statements like Review of Balances (ROB), Statement of Central Transactions (SCT), Annual review of MES expenditure, Financial review on the accounts of Military Farms and Annual accounts of CSD etc.
 - ii) Scrutiny of MFAI statements and Half-yearly Internal Audit Reports and Annual Audit Certificate.
 - iii) General review of CDA sections including system of internal control and monitoring. This would involve scrutiny of inspection reports issued by various report and returns rendered by each CDA section.
 - iv) Scrutiny of codes, manuals and standard operating procedure (SOP) issued by HQ Command and lower formations.
 - v) Scrutiny of sanctions issued by Command HQ and lower formations.
- (b) Concurrent Audit will be carried out by four different LTA Parties on quarterly basis as per following schedule:

<u>Period of payment/accounts</u>	<u>Schedule for concurrent audit</u> (50 mandays per quarter)
April to June	September
July to September	December
October to December	March
January to March	June

Henceforth, all Central Test Audit will be conducted on the basis of risk analysis and statistical sampling of vouchers/transactions under various areas of accounts (Class of transactions or Sections e.g. “M” Section, “E” Section etc.). For the purpose, each Command Office will have a CTA Section headed by an EDP trained SO/AAO. This Section will draw up an annual CTA plan for each CDA, whereby suitable sample of vouchers to be audited under each Area/Head of accounts will be determined based on the risk involved and volume of transactions and provide the audit plan (sampling plan) and follow up support to the LTA parties for the conduct of Concurrent Audit. The sampling will be done using the IDEA package. The annual sampling plan for each CDA will be approved by the Headquarters (CTA Wing) along with the audit programme which is required to be sent to the Director General of Audit for his approval well in advance but not later than the 5th of June each year.

Note: 1. The audit of Functional CsDA i.e. CDA (Fund) Meerut, CDA(O) Pune, CDA (CSD) Mumbai and CDA (P) Allahabad will be done in accordance with the instructions issued by DGADS in respect of these Functional CsDA from time to time.

(DGADS letters No.6910/A.Coord/42/ATP/2004-05 dated 29.9.04, No.9020/A.Coord/A-2/Norms/2002-04 dated 04.03.2005, ‘Minutes of Command Officers’ Conference 2005 circulated under DGA DS letter no.9896-A/A.Coord/142/COC/2003-04 dated 29 Apr 2005, No.10353/ A.Coord/ 42/ ATP /2005-06 dated -7.06.2005 and DGA DS letter no.11956/A.Coord/A-2 Norms/2002-03/Vol-III dated 25th October 2005)

Detailed Programme of work

49. (i) After the time programmes have been approved by the Director General, the detailed programme of work for the guidance of the Central Test Audit staff should be prepared in the Commands. The programmes should, as far as possible, be treated as confidential until the test audit is actually commenced.

(ii) The detailed programme should indicate:

- (a) Name of the Section
- (b) Dates of audit as per approved time programme
- (c) Dates of commencement and completion of audit, if there is any deviation from the approved programme.
- (d) Mandays allotted for the audit of the Section as a whole.
- (e) Period of account selected for audit.
- (f) Total number of vouchers etc. included in the account at (e) above.
- (g) Total amount booked in the sectional compilation for the period selected for audit.
- (h) Prescribed quantum of audit as per approved time programme.
- (i) Reduced quantum of audit proposed, if any, with reasons.
- (j) Number of vouchers etc. to be test audited on the basis of (h) and (j) above.
- (k) A brief summary giving the general information of the work done in the section, rules, regulations, Government and Controller General of Defence Accounts' Orders, Army Instructions etc. to be

studied, the audit checks to be applied and special enquiries to be carried out.

Note: The Summary may be maintained as 'Standing Introduction' and duly amended from time to time with reference to Government Orders, letters of the C&AG of India and Controller General of Defence Accounts etc.

- (l) Distribution of work among the staff

Progress of Audit

50. The Assistant Audit Officer / Section Officer (Audit)/ Supervisor in charge of Central Test Audit should record in brief the actual work in each section together with the mandays put on each type of work done which should be submitted to the Command Officer every month. Audit personnel at different levels are to be involved in clearly defined areas of work so that accountability and identification of their contribution in terms of quality and quantity can be ensured. Clear-cut targets have to be fixed annually. Important documents maintained in various sections of the offices of different Controllers of Defence Accounts which are taken up in Central Test Audit and method of distribution of original work / review among Reviewing Senior AO/AO, AAO / SO (A) / Supervisor and Senior Auditor and Auditors comprising the audit team have been laid down in detail for adherence. The paid vouchers and documents are subject to Central Audit / Review work with reference to speed and quantum prescribed by C&AG / DGADS. On completion of the audit, each member of the Central Test Audit team would record a certificate that duties assigned to him/her have actually been completed. A suitable record of review of work done at the level of Senior AO/AO/AAO in charge / SO (A) in charge / Supervisor in charge CTA should also be maintained in the form of a register.

(DADS No. 345/A.Admn/32/60 dated 25.4.80, No.607/A.Admn/103/63 dated 28.4.63 & No.3968/A.Admn/18/83 dated 22.12.86).

Progress Report

51.(i) The Progress Report of the work done from the 11th of a month to the, 10th of the following month should be submitted by the Assistant Audit Officer / Section Officer (Audit) /Supervisor-in-charge of the Central Test Audit Group to the Command Officer by the 15th of each month in the form prescribed by him. The AAO/SO (A) / Supervisor is personally responsible to see that no arrears in his group are omitted to be shown therein.

(ii) A Progress Report of work done should be sent to the Director General of Audit soon after the completion of the test audit of each section of the Controller's office in Form DGADS-105.

(DADS No.200/A-125/37 dated 29th April 1938 and Office Order Part I No.5 dated 11th January 1949, endorsed under No.4424/A- Admn/20/49 dated 11th January 1949).

52. Blank

Special Enquiries

53. All Special enquiries or special work ordered by the Director General or by the Command Officers to be carried out in test audit will be noted in a register (to be maintained in two parts for 'permanent' and 'temporary' enquiries) and its execution as well as the results achieved, watched and reported.

Observation Lists, Objection Statements, Pursuit of Objections and Settlement.

54. (i) Objections raised by the test audit staff are in the first instance embodied in informal Observation lists which are sent to the Assistant Accounts Officer / Section Officer / Officer-in-Charge of each section under test audit and these are replied to in writing by him. Observation lists should be sent at such short intervals as considered fit with reference to the progress of the work. As far as possible they should not either be unwieldy or numerous. In making out observation lists it should be ensured that facts of the case have been clearly and exactly stated. Care should be taken to ensure that the observations are specific and to the point, and not made merely to elicit volumes of information without any clear purpose. When the reply is received, it should be verified whether the reply meets the objection adequately. The observation lists should be ordinarily received back with replies on the fifth day after they have been received by the staff of the Controller of Defence Accounts. AAO/ SO (A) /Supervisor test audit should bring to the notice of the AAO/ SO / Officer-in-Charge of CDA's Office, delays in replying to observation lists. If such delays persist, they must at once report the matter to the Command Officer.

(ii) AAO / SO(A) /Supervisor of the Central audit should as far as possible arrange with the AAO / SO of section in the Office of the CDA for discussions at convenient intervals of the points noticed by him, with a view to settling quickly the less important observations and to obtain all relevant particulars regarding the more important ones.

Preparation of Objection Statements

55. (i) Within 15 days of completion of audit, formal objection statements should be drawn up. Separate objection statements should be prepared for each section of the office of the CDA. The objection statements should be drawn up in two parts:

- (a) the objection statement proper, and
- (b) a test audit note.

(ii) Cases of such mistake only, which involve any important principle or procedure, actual loss or overpayment or risk of future loss or overpayment and deviation from financial rules and standards of financial propriety, should be included in the objection statement. Every objection raised in test audit having a monetary value not exceeding Rs.2500/- should be specifically brought to the notice of the Command Officer who may retain it at his discretion. Care should be taken that no objection with petty monetary value is raised unless:

- (a) a general principle or rule is involved, the continued violation of which will lead to large cumulative losses to the Government
- (b) the amount represents an overpayment to or short recovery from a Government servant who is still in service and
- (c) the amount, though small, raises a suspicion of fraud or embezzlement.

(DADS No.2683/A-Admn/21/55 dated 16th September 1955)

(iii) Mistakes of a trifling or casual nature, which do not involve irregularities of the nature mentioned above, should be separately communicated to the PCDA/CDA in the form of a test audit note, the final disposal of which need not be watched. Instructions contained in para 69 apply to objection statements also.

(iv) Audit objections of an administrative nature raising policy issues which have to be decided only by the Defence Ministry / Services Headquarters / Border Roads Development Board should not be included in Central Test Audit Objection Statements. Such cases should be referred to Headquarters Office for being taken up with the Defence Ministry / Services Headquarters /BRDB if found necessary.

(DADS No.4057/A~1A52 dated 22.11.52 8IId DADS No. 2459/AC-BR/11J89JKW.1 dated 24.7.88)

Objection Statements - Issue and Pursuit thereof

56. (i) The AAO/SO(A)/ Supervisor in charge of Central Test Audit should draw up the draft Central Test Audit Objection Statements for finalisation by the Senior AO/AO in charge and submission to the Command Officer for approval. Objections, which are considered suitable for being processed for the Report of the C&AG of India, Union Government (Defence Services) should be clearly indicated therein by the symbol "Audit Report". The language used should invariably be polite and inoffensive. The bonafides of the officers concerned should not be questioned even by implication. Where an objection is of sufficient importance or is likely to develop into one or where the personal conduct of any senior officer is likely to be subsequently impugned, the draft should be approved by the Command Officer or by a Senior Audit Officer.

(C&AG's DO letter No. Nil dated 23rd October 1956 and DADS Endorsement. No. 4487/Rep/18/54 dated 7th November 1956 and 3968/A-Admn/ 218/83 dated 22.12.84).

(ii) After the draft of the Central Test Audit Objection statement in respect of a section has been approved, fair copies duly signed by the Gazetted Officer are sent to the PCDA/CDA. Replies should be received within one month from the date of issue of the statement except those for 'E' (works) section for which replies should be furnished within two months from the date of receipt. As soon as the Central Test Audit Objection Statement is issued, it should be noted in a Register for watching disposal of objection statements as prescribed in Form DGADS-107 - maintained by each AAO/SO (A) / Supervisor for his group. Information regarding items marked 'Audit Report' should also be briefly recorded in this register to ensure special attention being paid to the disposal of such items. After receipt of replies from the PCDA/CDA, the Central Audit AAO/SO (A)/Supervisor should submit draft rejoinders to the Gazetted Officer concerned for his approval.

Note: The name of the Sr. Audit Officer/Audit Officer who supervised an audit and of the AAO / SO (A) / Supervisor and Senior Auditor / Auditor who carried out the audit should be noted in the office copies of the objection statements.

(iii) Central Test Audit Objection Statements should ordinarily be issued within 15 days of the completion of audit. When the audit of a section extends over more than a month and a half, the objection statement may, at the discretion of the Command Officer, be issued in parts, each part embodying the results of audit for a month or part thereof.

(iv) As far as possible the Central Test Audit Objection Statement should be

settled within six months from the date of issue. The Command Officer should have periodical (at least once a month) meeting with the Controllers with a view to analysing the outstanding test audit objections and ensuring their early settlement. The Command Officers should also draw special attention of the Controllers concerned, half yearly, to objections outstanding for over six months in order to ensure vigorous pursuit of the objections. A record/note of the cases reviewed and discussed at the meeting should be kept. Central Test Audit Objection Statements remaining unsettled for one year or more from the date of their issue together with copy of the relevant record/notes should be submitted to the Director General during his inspection. Heavy arrears in the settlement of objection statements should be reported to Headquarters Office in State of Work Report.

(DADS No.2424/D/Store/57/48-11 dated 28.8.51).

(v) Whenever objections are raised regarding overpayments or under-recoveries in a number of cases and included in one item, a complete statement showing the number of cases involved and the amount, if known, should be attached to the objection statement. In the office copy of the objection statement, a note regarding the number of cases examined in audit, and the number of cases where the irregularity was noticed should be kept for future reference.

(DADS No.1300/A-Admn/21/49 dated the 24th June 1949).

Objection referred to Higher Administrative Authorities to be reported to Headquarters

57. When any objection, which is important enough to deserve mention in the Report of the C&AG of India, Union Government (DS) is referred by the local authorities (including PCDA/CDA) to the authorities at the Army Headquarters (including CGDA), brief particulars thereof including the number and date of the reference to the Army Headquarters etc. should be intimated to the Director General of Audit as early as possible. If the objection is not important enough, the procedure laid down in the next para should be followed:

(DADS No.2395/A-Admn/30/42, dated the 16th August 1944)

- (i) When a test audit objection has not been accepted or explained satisfactorily within three months from the date of its issue and the Command Officer has reason to be dissatisfied with the handling of the objection in the Office of CDA, he should bring the matter to the personal notice of the CDA and obtain his remarks. If the remarks of the Controller are not considered satisfactory by the Command Officer, he should refer the case to the Director General of Audit Defence Services together with the remarks of the Controller. The Director General will then consider the desirability of referring the matter to the CGDA for suitable action for its speedy settlement.
- (ii) More important test audit objections for which replies are delayed by the administrative authorities or the replies furnished by them are not satisfactory, should be suggested for inclusion by the CDA in his quarterly report on the Major Financial and Accounting Irregularities.

(CGDA'S No.10472/AT-V dated 5th December 1952. DADS No.4631/Rep/34/51/KW dated 24th December 1952).

Settlement of Objections

58. After Test Audit is satisfied that the CDA has accepted an Objection relating to an irregular disbursement and is taking proper action, the objection should be treated as settled so far as the Audit Department is concerned. The results of the action need not be watched by the Test Audit unless either:

- (a) The case is considered to be one which may require mention in the Report of the C&AG of India, Union Government (Defence Services) in which case it will be dealt with as in para 59 below or
- (b) Recovery or regularisation of an appreciable amount is involved.

Note: This para relates only to Irregular disbursements and the intention is to treat only the unimportant objections as settled when the CDA has given a reply that the objection has been accepted and is being pursued in Internal Audit. So far as important objections are concerned the objections should not be treated as closed unless the officer is satisfied that adequate and suitable action has been taken on the objection for recovery / regularisation.

Objections which provide potential material for comment in the Report of the C&AG of India, Union Government (DS)

59. (i) When an objection is considered to be potential material for the Report of the C&AG of India, Union Government (DS) the Command Officer should prepare a draft paragraph and forward it to the Controller concerned for verification of facts and intimation of the remedial / preventive measures and the disciplinary action taken, if any. An advance copy of the draft paragraph together with a factual statement of the case, copies of all marginal references, other relevant papers and list of important questions/ issues arising out of the draft paragraph, which might be taken up by the PAC with the Ministry Department concerned should also be sent to the Headquarters office in duplicate. Audit comments should be summed up in the concluding para of the draft paragraph. (Appendix- I also refers). After the receipt of the Controller's reply, the draft paragraph should be amended, if necessary, and the amendments together with a copy of the Controller's remarks should be sent to the Director General of Audit, Defence Services. One copy of the draft paragraph should also be sent to the unit/formation concerned and Command Headquarters direct to facilitate speedy verification of facts stated in the draft paragraph. While forwarding the draft paragraph to the CDA, it should be specifically mentioned that a copy of the draft paragraph has been sent direct to the Command Headquarters.

(DADS No.497/Rep/58 dated 5.5.58, 1059/REP/28/61 dated 15.6.60 and Confidential No.83/Rep/4/76-77 dated 28.6.78).

(ii) When commenting on the adequacy or otherwise of the disciplinary action taken, Command Officers should bear in mind the provisions of paragraph 2.2.26 and 2.2.27 of CAG'S MSO (Audit) Edn.2002 In connection with the preparations of draft paras and their transmission to the Director General of Audit Defence Services instructions contained in Appendix I should be followed.

(iii) Irregularities relating to misappropriation of cash and stores, detected in internal audit need not be considered for preparation of draft paragraphs unless they present very important and interesting features that they may attract attention of the PAC.

(DADS Confidential No.987/DP/85/72-73 dated 10.12.73).

Quarterly List of Important Points

60. (i) To enable the Director General to have a proper appreciation of the financial administration in the different offices and the quality of the work done by the Test Audit Staff and to have an up-to-date information as to the important points raised in test audit, either from the point of view of audit report or for purposes of investigation in other offices, quarterly lists (in duplicate) of such points raised during the quarters ending March, June, September and December should be sent to the Director General of Audit, Defence Services by the 5th of the month following the quarter. These quarterly reports should be drawn up in two parts, separately for points relating to:

- (a) Pay and allowances, pension and quasi-commercial concerns (farms and bakeries) and
- (b) Stores (other than quasi-commercial concerns) and MES

(ii) The quarterly lists should also be accompanied by statements in duplicate showing progress of points included in previous reports. Nil reports are also to be sent.

(DADS No. 1069/A-Admn/21 /50 dated 7th June 1950).

Note: In regard to objections which are passed on by Originating CO to Co-coordinating COs for pursuit the former will furnish extract of points included in the Quarterly Reports to the latter who will be responsible for intimating future progress in respect thereof to the Director General in the normal manner.

(DADS No.5348/A-Admn/25/51 dated 28th February 1951).

61 Blank

Duties of Local Test Audit Party

62. (i) General

The Party is entrusted with the audit locally of cash and stores accounts and other documents maintained by Units and Formations, the audit of which cannot be conducted by the Central Test Audit Section. This work is carried out through Local Test Audit Parties each consisting of either two AAOs / Section Officers (Audit) / Supervisors and one Auditor or two AAOs / SO (A) /Supervisors or one AAO /SO (A) Supervisor and two auditors depending on the nature of audit to be undertaken and availability of staff. Where the audit involves considerable time, the strength of the auditors may be increased to three in respect of parties headed by one AAO /SO / Supervisor.

(ii) The audit conducted by the LTA Parties is supervised by a Branch Officer. In the cases of parties undertaking audit of Border Roads, concurrent gazetted supervision is done by a Senior Audit Officer /Audit Officer. The supervising officer should invariably discuss with the Officer Commanding and other executive heads all cases of irregularities noticed in the course of audit of the unit / formation and should make every effort to settle as many objections as possible on the spot. He should take particular care to clinch all the issues involved and in the case of important objections likely to find a place in the Audit Report, he should collect all relevant information and take attested copies of the documents likely to be useful for the Audit Report and for pursuing the matter with higher authorities.

(iii) The supervising officer should also investigate and discuss with the officer commanding the unit/formation and other executive heads the objections outstanding in the previous Local Test Audit Reports as well as any point brought to the notice of the Local Test Audit Parties by the Central Test Audit Sections in the main office with a view to expediting their settlement.

(C&AG's letter No.1307/Admn/1/383-85 dated 24th June 55 - File Rep.18/54/111 and 2585/Admn/1/1955 dated 19th December 1955 File Rep. 15/54/111 and DADS No.4979/Rep.15/54-111 dated 2nd March 1956 and No.3999/Rep/18/54 dated 22nd December 1955)

Note:1 When a supervising officer is not available, the objection should be discussed with the officer commanding by the AAO/SO(A)/Supervisor in charge of the Audit Party. This should happen only in the case of relatively unimportant units/formations.

(DADS No.4979/15/54-111 dated 2nd March 1956)

Note: 2 A register should be kept to record cases wherein supervising officers could not discuss the results of audit, with the executive authorities during their visits to units and formations together with brief reasons therefor. Cases where supervision was not provided at all need not be entered in the Register. The Register should be submitted for DG's perusal during his inspection visits.

(DADS No.1208/A-Adm/21 /61 dated 6.6.61).

(iv) **Responsibility of Inspection Officer**

The Inspecting Officer will remain responsible for the efficiency of the inspection as a whole. He must guide the members of the party in their work and determine the extent of independent action to be allowed to each of its members with reference to their experience, qualities and capacity to act independently. Based on such judgement, the inspecting officer may permit individual members of the party to issue audit memos themselves and see them in due course after issue. The Inspecting Officer should always keep himself posted with the progress of audit and the observations that have been communicated to the office inspected.

(v) Duties of SAOs/AOs/AAOs/SOs(A)/Senior Auditors & Auditors on tour in respect of transaction audit are listed in Annexure 'A' to this chapter. Whereas general supervision of the work done by a subordinate is part of normal work of supervising officers, this does not absolve a supervising officer from doing original audit work as per prescribed scales. Where no scale is prescribed, it is the duty of all levels of Auditors (including SAO/AO) to devise a method of check in consultation with their Headquarters, which will give assurance to the auditee regarding proper maintenance of its accounts. All this audit work must be documented. Paras 95 and 96 regarding Supervision and Review may also be referred for further guidance.

Local Test Audit Programmes

63. (i) The local audit year would be from the 1st July to 30th June of each year. Half yearly programmes of local test audit should be prepared in Form DGADS-109 and forwarded for the approval of the DGADS by 25th May/November for periods covering 1st July to 31st December and 1st January to 30th June respectively.

(DADS Secret NO.6789/A-Admn/32/65 dated 19.2.64 para IV of 'Minutes' circulated under DGA DS letter No.9896/A/A/Coord/142/COC/2003-04 dated 29-04-2005 and DGADS letter no. 10487/A-Coord/142/CO Conf/2003-2004 dated 16/06/2005)

(ii) The local test audit programmes for each half year should be accompanied

by a skeleton programme for the next half year. A statistical chart in Form DGADS-110 should be forwarded and the total estimated cost of the programme for the financial year separately for Gazetted officers and establishment intimated. To watch the progress of local audit according to the approved programme and disposal of the reports thereon a register should be kept in Form DGADS-107.

(DADS part I office order No.4 dated the 1st December 1948 endorsement. No. 3887/A-Admn/21/48 dated 4th December 1948, DADS No.4602/A- Admn/21/47 dated 20th March 1947 and No.5019/A-Admn/21/49 dated 2nd March 1949).

Points to be borne in mind in preparation of Programme

64. The following points should be specially borne in mind:

(i) The programme should be drawn up with due regard to the categorization of auditee units based on risk assessment (i.e. 'High Risk', 'Medium Risk' and 'Low Risk') and instructions on 'Performance Audit'. Fifty(50) per cent of the available working days are to be used for "Performance Audit" in a period of two/three years and balance working days may be utilized for transaction and certification audit. The remaining Mandays available will be distributed among high risk, medium risk and low risk auditee units in the ratio 70:20:10.

('Minutes of Command Officers' Conference 2005 circulated under DGA DS letter no.9896-A/A/Coord/142/COC/2003-04 dated 29 Apr 2005 and DGA DS letters no.10487 and 10488/A.Coord/142/COC-Conf/2003-04 dated 16 June 2005)

(ii) In working out the cost of the tours it should be ensured that it is within the allotment sanctioned. If any excess is anticipated this should be specially and prominently brought to the notice of the Director General while forwarding the programme.

(iii) Petty Units and formations located in the remote localities are not, however, worth a visit by the regular party but can be inspected cursorily by an officer if touring in the vicinity, and some of them may not be worth even that much attention.

(iv) The programme should be drawn in such a manner that all probable audits are combined ensuring at the same time that parties are not retained at one station for unduly long periods. In addition, stations selected for inspection should be so grouped and so timed that expenditure on travelling allowances is minimised. Further the visits of different parties to the same station should be synchronised as to minimise the number of visits by the supervising officer to that station in connection with the supervision of audit. Attempts should also be made to frame programme in a manner that transit is taken on holiday so that the maximum time is available for actual audit.

(v) The party which audits the administrative offices (such as CEs/ CWEs in case of MES Audits) should also carry out the audit of units / formations subordinate to them (i.e. GEs/BSOs etc.) to pick up threads, coordinate data and develop cases more effectively to improve the content and quality of reports. Expertise should be developed in case of GOs supervision also and similar type of units/formations should as far as possible be given for supervision to same officer so that experience gained in one unit /formation can with advantage be utilised in similar type of unit / formation elsewhere.

(vi) While preparing the programmes climatic conditions of the places to be visited should be kept in view wherever possible.

(DADS No.4672/A-Admn/21/55 dated 10th February 1955)

(vii) To enable the Command Officers to select the units for local test audit and watch the progress of audit of stationary units, Register of auditable units should be maintained in Form DGADS-111.

(DADS Part I Office Order No.4 dated 1.12.48 and endorsement. No.3887/A-Admn/21/48 dated 4.12.48)

(viii) The approved programme should be closely worked out and Director General's prior approval taken as far as possible, if for any reason important deviations are anticipated.

(DADS No.974/A-Admn/23/48 dated 26th May 1948)

(ix) Command Officers monthly tour programmes showing dates of departure from Headquarters, dates of arrival at and departure from outstations, period of halt and address at outstation, including postal zone number and telegraphic address, if any should be sent to the DGADS so as to reach him by 20th of preceding month of that to which it relates. Any unforeseen changes occurring during the month should be intimated immediately.

(DADS No.674/Admn/21/49 dated 17th May 1949, 1982/ A-Admn/21/49 dated 4th August 1949, 1989/A-Admn/21/51 dated 31st July 1951 and 127/A-Admn/21/55 dated 11th April 1955, 1382/Bud/40/89-90 dated 27.7.90.

(x) The mandays of a local audit party with two AAOs / Section Officers (Audit)/Supervisors and one Auditor should be determined with reference to the posted strength of the party.

(DADS No.841/A-Admn/32/73-77/KW dated 22.5.79)

(xi) In case of important formations the Supervising Officer should pay a visit at the closing stage of audit for inspection, supervision of audit and discussion of important points with the executive. If the period of audit extends for a month or more, more than one visit should normally be made in respect of important units and the visit should be sufficiently long to allow the inspecting officer time to give directions to staff. In the case of small formations, the result of audit may be discussed with the executive after completion of audit, if this should become necessary.

(DADS No.4115/A-Admn/22/VIII/47 dated 18th December 1948 and DADS No.4078/A-Admn/21/52 dated the 24th November 1952)

(xii) Command Officers and Sr. Audit Officers/Audit Officers should spend at least 07 days (excluding time spent in transit) and 20 days respectively (including time spent in transit) on supervision of local test audit of units / formations undertaken by parties as per gazetted supervision prescribed. Any Deviation in the approved programme of the COs / Supervising Officer due to grant of leave etc. should invariably be mentioned in the remarks column of the monthly statement of Supervision. Shortfalls in quantum of supervision for any reason are required to be submitted to DGA for ex-post-facto approval. The quarterly progress report of audit should be supported by a statement showing time actually spent by COs/Supervising Officers on supervision of various units and formations in a quarter against supervision required to be provided as per quantum prescribed with reasons for shortfalls as in Form DGADS-112.

(DADS letter No.2839/A-Admn/32/73/79/KW dated 10.9.79 DADS No.2789/A-Bud/43/85-86 dated 19.9.85 and DGADS letter No. 1 021/A-Coord/22/90-91/Prog/Gen dated 3-7-91)

(xiii) A statement in Form DGADS-113 showing the outstations to be visited by the Local Test Audit Parties during a month should be sent to the D.G.A.D.S. every month so as to reach him by the 25th of the preceding month.

(DADS No. 1548/A-Admn/21 150 dated 5.7.1950 and 21/A-Admn/21J50 dated 30.10.1950)

Audit Intimations

65. Intimation of visits to units and formations should be sent in prescribed form (Form DGADS-114) at least three weeks in advance of tours.

Period covered by Audit

66. (i) The test audit should be conducted as far as possible with reference to the work already done by the Local Audit Officer of the Defence Accounts Department. The accounts to be subjected to test audit should be selected on the spot with reference to the date of accounts. In exceptional cases, the accounts not already subjected to audit by local audit staff of the Defence Accounts Department may, if necessary, be taken up.

(DADS No.2591/A-Admn/21/49 dated 6th September 1949)

(ii) The general scrutiny of accounts should, however, cover the period up to the month preceding that in which the audit takes place.

(DADS No.1016/A-Admn/21 /56 dated 30th May 1956)

(iii) In addition to detailed check of one month's accounts as prescribed, general scrutiny of accounts should cover the period up to the month preceding that in which the audit takes place.

(DGADS No.4231/A.Coord/106/2002-03 dated 7.3.2003)

Audit Procedure

67. (i) In order that inspection personnel in local test audit parties are involved in clearly defined areas of work so that accountability and identification of contribution in terms of quality and quantity is ensured, a proforma indicating in detail the allocation of work among the various members of the party (sl no.9 of Form DGADS – 100 regarding 'Top Sheet' refers) should be prepared under the signature of the AAO/SO(A)/Supervisor in charge of the party and the supervising officers, as prescribed for each type of formation. On completion of the audit each member of the Inspection Party will record a certificate on the prescribed proforma (Form DGADS-102) that duties assigned to him/her have actually been completed, which would be countersigned by supervising officer.

(ii) Detailed process of audit work is prescribed in Part 'C' of this volume.

(DADS No.4470/A-Admn/218!83 dated 21.12.84 and DADS No.5126/A-Admn/218/83 dated 6/12/85)

(ii) A register is required to be maintained by AAO/SO (A)/Supervisor in charge of each Local Test Audit to record details of items of work done by Sr. Auditors/Auditors, documents test checked by them as per quantum prescribed and these are required to be submitted to the Reviewing GO. Reviewing GOs should while scrutinising the register see whether the quantum of test check exercised is considered adequate.

(iii) (DADS confidential No.2513/A-Admn/21/79 dated 20.8.79)

Observation lists and local test audit reports

68. (i) As the test audit progresses, the defects and irregularities, if any noticed, should be put down in the form of a rough observation list in half margin.

Preliminary Slips

(ii) These are issued essentially to elicit further information/ clarification based on initial examination of records. The initial observations must, therefore, be formulated in a language which does not imply unnecessary indication of an adversarial position.

(DGADS New Delhi Circular letter No.3050/A-Admn/ 8/91,Misc. dated 24.12-1991)

(iii) Replies to the observations issued as and when received should be studied and facts stated in the reply requiring verifications duly carried out so that before the date fixed for discussion of the observation lists with the unit authorities the views of audit is fixed up. Discussion should be held by the RGO with the CO of the unit or an officer detailed by CO on his behalf to discuss the observations and 'minutes of discussion' (duly signed by both parties) reflecting the results of discussion duly drawn up. Over and above this, the rough observation lists should be discussed with the Local Audit Officer of the Defence Accounts Department, if that officer happens to be at the station at the time of test audit.

Note (1) Observations raised in local audit in connection with the Stamp Accounts of Units and Formations should be communicated to the executive officers concerned and settled with them direct and not through the Defence Accounts Department as these accounts are not checked by the local Audit Officers.

(DADS No.1886/TA/6/4/34 dated 24th February 1934)

Note (2) Observations raised in local audit in connection with the audit of provisioning of stores should be communicated to the executive officers concerned and settled with them direct and not through the Defence Accounts Departments as the provisioning data are not checked by the local Audit Officers.

(iv) Where important initial records, e.g. cash book, pass books and security registers, etc, are not maintained properly, it will not be sufficient for Audit merely to state in the observation List/Test Audit Note/ LTAR that such records were not maintained properly. The improper maintenance or non-maintenance of important initial records having a direct bearing on cash or other Government transactions should be a matter for special examination. The audit officer and local audit party should in such cases, besides mentioning the technical defects and short-comings in keeping the documents, also make an intelligent probe to see if the defective maintenance/non-maintenance is camouflaged to hide fraud or misappropriation.

(CAG Office DO No.2405-Admn.III/479-60 dated 5.12.60 and DADS No.9384/A-Admn/21/60 dated 11.1.61 (file A-Admn/32/73-79/K.W) DGADS New Delhi circular No.3050/A-Admn/8/91 dated 24.12.91)

Preparation of Local Test Audit Report

69. (i) The Local Test Audit Report should be drawn up in three parts Following format should be adopted while drafting the LTARs by all the parties for the inspection to be undertaken from July 2001. The heading should be Local Test Audit Report of the accounts of for theperiod/year.

Part I will contain the following:-

- (a) Name of the Head of the organization during the period of audit covered by Audit.
- (b) Name of the Audit Officer inspecting the office.
- (c) Period covered by Audit
- (d) Period of Audit i.e. dates of audit.
- (e) Budget and expenditure and the dates of audit of the organization for the last 3 years.
- (f) Aims and objectives of the organization should be given.
- (g) Outstanding Inspection Reports and paras (year wise)
- (h) Important projects or work undertaken by the organization/office (where necessary annexure should be given).

Part II (a) should contain serious irregularities. Part II (b) should contain other irregularities and Part-II (c) should contain Test Audit Note.

It has also been observed by the ADAI (Def.) that in some cases half margins (i.e. Preliminary observation slips/observation lists) are not dated by the Audit parties.

(DGADS No.633/A.Coord/106/2001-02 dated 25.6.2001)

The report proper should again be divided into two parts - Part I (a) introductory depicting outstanding objections from previous reports in brief, LTAR no. and date and the subject thereof; Part I (b) containing important objections which require action on the part of the administrative/executive authorities to set right the irregularities immediately and where delay may prove detrimental to the interest of the State; Part II consisting of other major irregularities. The Test Audit Note will contain minor irregularities. The results of the discussion with the Officer Commanding the unit and the local Audit Officer (if available) should be given due weight while finalising the draft local Test Audit Reports / Notes.

(DADS Nos. 1470/AC/29/65/KW dated 3.6.65 and 2531/AC-29/65/KW dated 20.7.65) amended vide para 6.1.20 (MSO (Audit) Rev.2002.)

(ii) Material for inclusion in the Local Test Audit Report based on actual work done and observation lists raised and replies furnished duly arranged in proper sequence would be submitted by the Head of the Audit Party to the Supervising officer for final drafting of the Local Test Audit Report and approval of the Command Officer.

(C&AG DO No.388-Admn/55 dated 9.12.55 DADS DO No.3999/Rep-18/54 dated 22.12.55 and DADS No.4470/A-Admn/218/83 dated 21.12.84) and Para 6.1.20 of C&AG MSO (Audit) Rev. 2002)

(iii) While drafting the LTA Reports the following instructions should be borne in mind -

- (a) (1) The items (objections) specially meant for Part II Section A of the Report should be self contained in respect of all matters with which they deal. The actual amount involved in the irregularity / loss covered by the item should be worked out and clearly stated in the objection. Suggestions like the "loss or over payment involved should be worked out and recovered" should be strictly avoided.

- (2) Quite often while attempting or editing draft paragraph for the Report of the C&AG of India, Union Government (DS), it becomes difficult for the Command Officers to proceed with the draft paragraph because of missing links in the facts and arguments in original objections of the LTAR on which the draft paragraphs are based. The information which is required for the draft paragraph cannot be obtained except by a reference to the local records again by field parties which may not be at that point of time auditing the accounts of the units/formations concerned and the processing of the draft paragraph may have to be postponed. Such a situation should not be allowed to arise by the Supervising GOs. The comments in the LTAR should be based on facts and not on inferences and the sequence of events should be in order as to complete the chain leading to the conclusions.
- (b) Only important and worthwhile objections should be included in the LTA Reports. Minor points and merely technical objections should be included in the Test Audit Notes and allowed to be pursued to finality in internal audit situated at a station. Where, as a result of discussion, action to rectify or set right the irregularity is promised, the objections need not be included in the Local Test Audit Reports but may appear only in the Local Test Audit Notes, unless it seems essential in such cases to watch the disciplinary and remedial action taken to avoid recurrence of similar irregularities. Except cases of magnitude, items accepted by the internal audit before the issue of the report need be included only in the Test Audit Note. Similarly, individual irregularities due to clerical error etc. should be detailed in the Test Audit Note and only the comment of the Gazetted Officer of any defect, if any, in procedure etc need be mentioned in the report. Objections which call for information necessary to judge whether there is any point involved should not be included in the report but the information should be obtained otherwise and after examination, if any point arises then only it may be included in the report. The inspecting staff should make every effort to get complete information on the spot during the course of their audit for purpose of shaping the objection properly before leaving a unit. Vague and indefinite objection should be avoided. The objections should be precise, the nature of the irregularities alleged should be clearly stated and further action required should be indicated in definite terms. The instructions contained in paragraphs 55 & 56 regarding the drafting of the objection statements also apply in the case of Local Test Audit Reports.

(DADS letter No.49/A-Admn/21/53 dated 8th October 1953 and 4979/Rep/15/54-III dated 2nd March 1956)

- (c) Although a Test Audit Note does not require a reply, it should be verified in subsequent audit that adequate notice was taken

of the matters contained in it.

- (d) The procedural irregularities in respect of which the OC Unit/Formation had held out assurances about following correct procedure in future, and which as a result were not included in the LTAR or LTAN should be noted conspicuously for verification in subsequent audit. Over payments accepted and agreed to be recovered need not be pursued through reports but noted in a Register of points to be watched in subsequent audit.

(CAG's No.276-Audit 11/64-89 dated 25.2.91 endorsed under DGA DS No. 3822/A-Coord/81/82-86 dated 19.3.91)

- (e) (1) Audit objections of an administrative nature raising policy issues which have to, be decided only by the Defence Ministry or the Services Headquarters or BRDB etc. should not be included in the LTA Reports. Such cases should be referred to the Director General so that the cases may be taken up with the Defence Ministry or Services Headquarters or BRDB as the case may be.

- (2) These orders would apply mutatis mutandis to suggestions involving a change in rules made by the Government of India or necessitating the issue of general orders by the Government of India. Such suggestions should not be made by Command Officers to the Controllers of Defence Accounts concerned but should be referred to the Director General of Audit, Defence Services for being taken up with the Ministry of Defence, Ministry of Finance (Defence) if necessary.

(DADS Memo No.4875/A-Admn/21154 dated 16th January 1954). .

- (f) (1) Draft inspection report should be completed before the inspecting SAO/AO leaves the office inspected and the officer in charge (Head of office or any other officer acting on his behalf) should invariably be given the opportunity of reading and discussing it. Such discussion should take place during the period of Audit. However, in any case the inspection report should be issued within 30 days from the date of completion of audit even if no discussion takes place in exceptional cases. The Inspection Report should be as brief as possible, but the points raised in it should be pursued until finally settled. The Test Audit Note does not require a reply in detail, but it should be verified at a subsequent inspection that adequate notice was taken of it.

- (2) Settlement of outstanding paragraphs of earlier inspection reports is one of the important duties of an Inspection Officer. The discussion and settlement of such outstanding objections in respect of offices situated at a station visited by an Inspection Party but which are not selected for inspection should as far as possible be done by the inspecting officer during his stay at that station.

- (3) The Inspection Report forwarded by the Inspecting officer is to be scrutinized and edited in Headquarters After approval by the Group Officer in HQ/CO the edited Inspection Report is to be issued to the Head of the Office concerned with a copy to the next higher authority.
- (g) One way of reducing this delay is through the use of computers for typing of LTARs which can be done by the party itself. Further, while sending the report to Headquarters office, the delayed/old cases may be shown in the monthly reports, till issue of LTARs.
- (DADS letter No.4057/A-Admn/21/52 dated 22nd November 1952 and letter No.2452/ACBR/11/69/KW.1 dated 21.7.69)
- (h) When objections are raised regarding outstanding recoveries etc., a statement showing the particular, documents on which the objections are based and the amounts involved should be included in the Local Test Audit Report. In the office copy of the Report, a note regarding the number of documents checked in audit and number of documents in which the irregularity was noticed as also the official responsible for the irregularity should be kept.
- (j) Irregularities should be categorised and grouped together wherever possible. It should be more helpful to indicate the nature of the defect in the title to a para instead of the Regimental Number and name of the individual in case of the audit of IRLAs.
- (k) Cases which are sub-judice should not be mentioned in such a way as to prejudice the claim or defence in the court of law.
- (l) When a general defect is noticed, the number of cases examined and percentage of defective cases discovered should be mentioned in the report.
- (m) Cases taken up by internal audit should normally be excluded from the report of the C&AG of India, Union Government (Defence Services), unless for specific reasons it is decided to include certain cases in the Report of the CAG. In such cases the facts should be acknowledged in the report itself.
- (n) To enable the Controller of Defence Accounts to deal simultaneously with the various objections and to ensure prompt replies thereto, objections in a Report should be grouped in several parts, each part containing objections which a particular section or agency (e.g. Local Audit Officer) has to deal.
- (o) The name of the Officer who supervised an audit and that of the AAO /SO (A)/ Supervisors and Senior Auditors / Auditors who carried out the audit should be noted in the office copies of Local Test Audit Reports.

(DADS No.3868/A-Admn/21/53 dated 11th November 1953)

- (p) Local Test Audit Reports issued are called for at random by Director General to test check and assess the quality of contribution made at all levels and based on such test check, appropriate directions are given. Command Officers should maintain a register to record such directions. The register so maintained should be made available to the Inspection parties of Director General of Inspection.

(DADS No.531 /A-Coord /14/89-90 dated 17.5.89).

(iv) (a) Internal check of Railway warrants other than those issued to Service Officers (see Sub-Clause (b) below) and Credit Notes is carried out by the Controller of Accounts (Factories). Objections pertaining to these should be embodied in a separate Local Test Audit Report/Note according to the importance of the objections and the Local Test Audit Report/Note should be sent in triplicate to the Principal Director of Audit (OF), Calcutta who will be responsible for their clearance.

(b) Internal check of Railway Warrants issued to individual Service Officers including Officers of the Nursing Services whether for the conveyance of self or for the conveyance of personal luggage (as distinct from warrants issued to officers moving with bodies of troops under para 50 (d) Travel Regulations) and form 'D' is done by the Pay Controllers as under:

Army	- Controller of Defence Accounts (Officers), Poona.
Navy	- Controller of Defence Accounts (Navy), Mumbai
Air Force	- Controller of Defence Accounts (Air Force), New Delhi

(c) Extracts of objections pertaining to such Railway warrants should, therefore, be sent in triplicate to the respective Command Officers for clearance and reporting of important cases to the Director General of Audit.

Note: Errors in counterfoils involving recoveries and not involving recoveries should be brought to the notice of the issuing officer. If the Local Audit Officer has already carried out a check of counterfoil in question, a copy of the objection statement should be sent to the Controller of Defence Accounts.

(v) Consequent upon re-organisation of Other Ranks Controllers Organisation with effect from 1.11.94, the issue of LTARs and their further pursuance in respect of PAO (ORs) will be done by respective Command Office under whose audit jurisdiction the particular PAO (ORs) falls. The LTA Report in respect of IRLAs of personnel of Army Postal Services Corps is to be issued to the Director of Accounts (Postal) Nagpur. In respect of LTARs on the accounts of the Depots formations of Canteen Stores Department, Audit Officer, Defence Services CSD Headquarters Mumbai will be dealing with the LTARs on such formations and their finalisation and pursuit. Accordingly LTARs on formations of CSD are to be sent to the Sr. AO, RA Cell, CSD Headquarters for transmission to the CDA, CSD.

(DADS No.5774/A-Admn/227/85 dated 30.1.86 and No.2547/A-Admn/227/92-98 dated 19.2.98)

(vi) The LTARs on Army and MES units will be dealt with direct with the CDA concerned by the Command Officer conducting the audits.

(vii) In cases where no irregularity worth mentioning in LTAR/LTAN is noticed as a result of audit of units/formations, 'Nil' Reports are not to be issued to CDA, as it might create an impression that the unit / formation inspected was entirely

free from any accounting or financial irregularity. In such cases a note should, however, be kept in the audit progress register.

(DADS No. 3595/A-Admn/21/65111 dated 17.10.66)

(viii) The LTAR along with an informative forwarding memo for quality control has been examined in the light of issuance of MSO (Audit)-Second Edition 2002 and Auditing Standards. Accordingly, it is ordered that each draft LTAR will have to be accompanied by a Top Sheet in Form DGADS-100, Auditee Profile Update in Form DGADS-101, Work Completion Certificate in Form DGADS-102 and Defence Audit Manual amendment proposal in Form DGADS-103. It is also ordered that Auditee Identity No. and SUS No., if applicable, should be mentioned in all reports and returns like half yearly programme, audit progress quarterly report etc.

(Top Sheet O.O. Part No.70 dated 18.11.2004)

Issue of Local Test Audit Reports

70. (i) Three copies of the Local Test Audit Report / Local Test Audit Note should be prepared. The original LTAR (both parts I & II part I (a) and part I (b) duly signed by the Gazetted officer should be issued to the Officers Commanding the Units/ Formations audited with a copy being endorsed simultaneously to the CDA. It should be made clear to the Units / Formations that it would be their responsibility and in their interest, in order to avoid correspondence with their higher formation, to furnish replies to test audit reports as indicated in the LTARs with copies to the CDA concerned. Attention of the units audited should also be drawn to those paras where replies should be furnished with the concurrence of the CDA concerned.

(DGA DS No. 2017/A-Admn/154/90-91 dated 15.10.90)

(ii) In respect of objections included in Local Test Audit Report on MES formations relating to sanctions issued by authorities lower than the Government of India, extracts thereof should be endorsed to the authority who had issued the sanction for their remarks. A copy of the objections so extracted should also be endorsed to the command officer DGADS, Pr. DA (AF&N) or Pr. DAOF and concerned officers under PDA (AF&N) and PDAOF as the case may be for their information.

Period within which LTARs should be issued

71. (i) The Local Test Audit Reports and Note should be issued within 30 days from the date of completion of audit irrespective of whether the discussion on draft LTAR between the inspecting SAO/AO and the officer in charge (Head of office or any other officer acting on his behalf) takes place or not. In order to ensure that the laid down time schedule is adhered to and also to exercise proper control over receipt and issue of LTARs a register should be maintained in prescribed form (Form DGADS-115 refers)

(DADS No. 2291/A-Coord/34/83-86 dated 1.9.86 and No. 728/A-Coord/Insp/84-85 dated 27.5.88)

(ii) Audit files relating to preceding two audits and all outstanding LTARs should be sent to the Local Test Audit Parties to enable examination and discussion of outstanding items as indicated in para 62 (iii) above.

(DADS No. 5048/AC-29/65/KW dated 12.12.1968)

(iii) For achieving the desired result, the Command Officers should ensure:-

- (a) That the register is maintained in the prescribed form and regularly submitted to him, the reasons for delayed cases, if any, is suitably analysed and remedial action taken urgently.
- (b) That while sending the report to HQ office, the delayed cases, if still persisting, be commented upon on the basis of (i) above, and remedial measures taken be also intimated.
- (c) That LTARs are not delayed due to the general reasons being mentioned in the reports which can be avoided e.g. typing delay can be overcome through proper control and a balanced distribution of work between officials who are supposed to do typing work and assigning targets to them and by checking whether they are doing the quantum of work they are supposed to.
- (d) The Command Officer should also personally get in touch with the Heads of the auditee units through direct correspondence and emphasize the importance of their availability for discussion on the concluding day of inspection. Besides they should also check why Head of the unit was not available and monitor that the reasons given by the party for concluding audit without discussion are properly substantiated.

(DGADS No.2865/A.Coord/34/IR/2002-03 dated 23.12.2002)

Settlement of LTARs

72. (i) Objections included in the LTARs should be expeditiously pursued and be settled as far as practicable within six months from the date of their issue. As regards items included in the L TAR but subsequently left for pursuit in internal audit and items included in the Test Audit Note, it should be ensured that the same are included in the LAO's objection statement of the unit concerned and are being pursued to finality.

(ii) The Command Officers should also draw the special attention of the Controllers concerned, half yearly to objection outstanding for over six months in order to ensure vigorous pursuit of the objection.

(DADS letter No.3139/A-Admn/21 /50 dated 10.10.50).

(iii) Local Test Audit Reports outstanding for more than two years from the date of issue should be reviewed for settlement and committees comprising the CDA or his representative, Command Officer and if necessary the unit officers are to be constituted for monitoring and settlement of the outstanding objections (para 43(xviii) above also refers).

(DADS No. 1918/A-Coord/19/32-86/11 dated 26.9.89)

Officers Responsible for pursuit of Audit Objections

72A. The Command Officer, who issued the report to the CDA or IFA, is responsible for pursuance of the objections and for reporting important cases to the Director General of Audit, Defence Services. He is also responsible for submission of the Annual Reports on the Trading Accounts and Renewal Reserve Fund Accounts of Military Farms to the Director General.

(DADS No.93/A-Admn/46/54 dated 6th April 1954, 3174/A-Admn/46/54 dated

Other special duties

73. The staff should also conduct all special enquiries and investigations required to be carried out locally. The instructions in Para 53 should be followed.

Progress Reports

74. Progress Reports of local test audit work should be sent quarterly in Form DGADS-112 by 25th July, October, January and April indicating extent of Supervision against prescribed quantum with reasons for shortfalls. (Para 64 (xii) above refers)

(DADSN0.4793/A-Admn/21/49 dated 4th February 1949)

Quarterly Report to be submitted to ADAI (Defence)

75. This quarterly report covers the aspect of Audit Plan, Audit of sanctions, supervision by CO, current position of draft paras/ ATNs, CAG inspection report, and note pertaining to performance audit. In addition to above, two more annexures of this report on steps on Computerisation and states of audit on purchases recommended by Defence Procurement Board etc. is submitted to ADAI half yearly in June & December.

Ranking the performance of Audit Offices

76. In 2004, a Ranking System has been devised and implemented by Headquarters office for Audit Offices, which is for inter-year comparison of Audit Offices rather than for inter-state comparison. The objective of this mechanism is to improve the functioning of the Audit Offices and to serve as a benchmark for future improvement.

Parameters adopted for ranking are as follows:

- 1) Quality of Inspection Report
- 2) Quality of Audit Reports
- 3) Quality of Implementation of Audit Plan
- 4) Timely issue of Inspection Reports
- 5) Frequency and effectiveness of Apex and Audit Committee meetings
- 6) Group Officers' inspections and their impact.
- 7) Efforts made in vetting action taken notes.
- 8) Efficiency in dispatch of material for audit reports to concerned functional wing in HQ in terms of specified milestones.
- 9) Training of personnel, particularly.
 - (a) Percentage utilization of slots allotted by RTI
 - (b) Percentage of earmarked training (induction courses/refresher courses)
- 10) Timely issue of Audit Certificate

Each of the ten parameters is considered equally important and carries a maximum of 10 points. Total score of 100 points is divided into the following categories:

- i) 75 to 100 points : Category 'A'
- ii) 50 to 75 points : Category 'B'
- iii) 25 to 50 points : Category 'C'
- iv) 0 to 25 points : Category 'D'

The grading is an annual exercise and will coincide with the audit cycle.

(Authority: CAG letter No.207-Audit (AP)/16-2004 dated 22.11.2004)

Assurance Memos

77. The bond copies of Audit Reports will henceforth be accompanied by Assurance Memos signed by the Principal Audit Officers, which should contain the following declarations:-

- (i) That the Audit Plan for the year has been fully implemented
- (ii) That all observations pointing out lapses in the implementation of systems and procedures and all weakness in the responsibility centers have been discussed with the heads of administrative departments and assurances obtained in regard to corrective measures for arresting potential risks.
- (iii) That all contested evidences have been conclusively handled with reference to the facts at the disposal of audit.
- (iv) That in respect of reviews of schemes, samples have been selected based on risk analysis or risk perception and that the evidence of such exercise is available on record.

Accordingly, after the completion of Audit Plan period for the year, each Command Officer will furnish the above Assurance Memo under his signature in respect of the Audit Plan pertaining to his office, so as to enable DGADS to append the requisite Assurance Memo to the bond copies of the audit Report.

(C&AG's letter no116-Audit (AP)/4-2003 dated 22.8.2003)

- 78. Blank
- 79. Blank
- 80. Blank
- 81. Blank
- 82. Blank

ANNEXURE – ‘A’
[Referred to in Para 62(v)]

CE/CWE/GE Offices

Audit Officer	Assistant Audit Officer/ Section Officers	Senior Auditor/Auditor
1. Review of Cash Book	CE/CWE Offices 1. Cash Accounts	CE/CWE Offices 1. Admn Approval Register 2. Linking of vouchers
2. Review of Register of Contracts	2. Register of Contracts.	3. Progress Reports 4. M.T. Accounts
3. Review of Register of Approval to works.	3. Register of approved contractors	5. Register of Losses 6. Ledgers & registers maintained in all sections.
4. Review of Register of losses	4. Rejected tenders/ Comparative Statement of Tenders.	7. Quotations/ Supply order Register 8. Service Books.
5. Review of Comparative Statement of Tenders/ Rejected tenders.	5. Contracts with case files 66.2/3% of the contracts selected for audit.	9. Annual Return of Electricity/ Water
6. Review of contracts	6. Appropriation Register	10. Contracts with case files 33/1/3% of the contracts selected for audit.
7. Finalisation of special enquiries	7. M.E.Rs.	11. Railway Warrants & credit notes.
8. Review of previous Inspection Reports	8. Special Enquiries	12. Local purchases
9. Drafting of Inspection Reports	9. Review of work done by Auditors.	13. Register of Railway sidings & Platforms.
10. Finalisation of P.C.E. Reports	10. Disposal of previous Inspection Reports.	
11. Review of MERs, Stock verification Reports, Revenue Ledgers, Return of recoveries, occupation & vacation returns, Rent Assessment Ledgers, Contractors Ledgers, Measurement Books, MRs.	11. Review of Internal Audit objection statements	
12. Review of accounts of manufacturing operations.	GE Offices 1. Cash books & connected documents.	GE Offices 1. T.E. Register 2. Linking of vouchers
13. Review of Transfer entries	2. Complete analysis of selected works including examination of planning/ works files.	3. Contractors Ledgers 4. Stores Ledgers – Divisional Stock/Stock Purchase Register

14. Critical examination of schemes/ programmes and issue of guidelines to the Audit Party.	3. Register of Contracts.	5. U.S.Rs Baby Indents 6. Muster rolls
	4. Register of Approved contractors.	7. Suspense Register 8. Consignees I.V. Register
	5. Rejected Tenders/ Comparative Statement of Tenders.	9. Rent Assessment Ledger 10. Register of C.P. Vouchers C.P. bills & paid vouchers
	6. Contracts with case files. (CE/CWE's contracts)	11. Measurement Book Register 12. Ledgers/ registers maintained in E-1/ E5 Sec., M.T. Section
	7. Appropriation Register	13. M.E.S. Transfer Register 14. Ledgers/ register maintenance
	8. M.E.Rs. & construction accounts and quarterly progress reports.	15. Demand Register 16. Meter Reader Book
	9. P.C.E. Audit	17. Railway Claims Register 18. Fan & Meter Register
	10. Security Deposit Register	19. Register of Requisitions 20. Furniture Statement – Form 'E'
	11. Stock Verification Reports	21. R.P.M.B./ R.T.M.B. 22. Consumer Ledgers
	12. Losses	23. Register of Major/ Minor works 24. Muster rolls & work charged
	13. Review of work done by the auditors	25. Contracts with case files (G.E's contracts) 26. Demolition Register
	14. Disposal of previous inspection reports	27. Revenue Ledgers 28. Road/ Metal Register
	15. Review of internal audit objection statements	29. Rent Bills 30. Plant Record books
	16. Schedule of demands	31. Return of Recoveries 32. Bulb Accounts
	17. Final bills – 66 2/3% of the bills selected for audit	33. Occupation/ vacation returns 34. Tools & Plant Register
	18. Works/ Material passing register	35. Local purchases & Register of quotations 36. Workshop accounts
	19. Work diary	37. Register of Barrack damages
	20. Special Enquiries	38. Annual Return of M.E.S. installations.
		39. Final bills 33 1/3% of the bills selected for Audit

		40. R.A.Rs
		41. Material Registers (Projects)
		42. P.S.M.
		43. Services Books
		44. Railway Warrants & Credit Notes
		45. Register of hired bills Buildings.

Ord/Ann Depots

Audit Officer	Assistant Audit Officer/Section Officers	Senior Auditor Auditor
* Review of cash book and connected documents.	1. Cash Books & connected documents	1. Railway claims 2. Linking of vouchers
* Review of Provision review cards and indents	2. Loss statements	3. Loan Register 4. Verification of castings, opening & closing balances
* Review of Stock taking reports, discrepancy reports, Loss statements, local purchases, payment Register, Loan issues, Work orders, adjustment vouchers, I.P. Bills	3. Stock taking Reports & Discrepancy Reports	5. Sample Loan Register 6. Accounts Cards/ Store ledgers, other the those allotted to Sr. Auditors
* Review of Stock account cards/ ledgers	4. Provision Reviews/ Indents 66-2/3% of the indents selected for audit	7. Payment Registers 8. M.T. Accounts including P.O.L. accounting
* Review of previous Inspection Reports	5. Local purchases/ Supply Orders	9. Railway Warrants Credit notes 10. A-in-U Ledgers
* Finalisation of special enquiries	6. Depot Contingent Register	11. Work Orders 12. Ration Accounts or Unit equipment ledgers/ Accounts
* Drafting of Inspection Report	7. Review of work done by the Auditors	13. Services books of Civilians 14. Index Cards – RSS and Salvage group
	8. Review of Internal Audit objection statements	15. Accounts Cards/ Store ledgers in respect of costly and important items. 16. Hire transactions
	9. Disposal of previous Inspection Reports	17. I.P. bills
	10. Special Enquiries	18. Adjustment vouchers
		19. Provision Reviews/ Indents – 33 1/3% of the indents selected for Audit

		20. Expenditure Stores ledgers and expense stores requisitions
		21. Control Registers
		22. Sale Accounts

EME FORMATIONS

Audit Officer	Assistant Audit Officer/Section Officers	Senior Auditor Auditor
1. Review of Cash book & other connected documents	1. Cash Accounts & connected documents	1. Work orders 2. Linking of vouchers
2. Review of Repair programmes, work orders, Job folders, local purchases, Stock taking reports, Man -hour statistical returns, Loss statements, disposal of stores, cannibalization of stores.	2. Repair programmes	3. Job folders 4. Expense Stores
3. Finalisation of P.C.E. reports and special enquiry reports	3. Register of Work orders, Payment & Experimental work orders	5. Deposit Repairs 6. A-in-U Ledgers
4. Review of previous Inspection Reports	4. Job folders	7. Cannibalisation of Stores 8. Ration and P.O.L. Accounts
5. Drafting of Inspection Reports	5. Local purchases	9. Disposal of Stores 10. Equipment and Clothing Ledgers
	6. Stock taking Reports	11. Payment repairs 12. M.T. Accounts
	7. Monthly man hour statistical returns	13. Check rolls & Tempy. Labour bills 14. Other ledgers/ registers.
	8. Loss statement Register and Loss Statements, Survey Boards/ Discrepancy/ Condemnation reports	15. Railway Warrants and credit notes
	9. P.C.E. Reports	16. Railway Claims
	10. Review of work done by Auditors	17. Monetary Grant Register
	11. Disposal of previous Inspection Reports	18. Service Books

	12. Review of Internal Audit objection statements	
	13. Special Enquiries.	

MILITARY HOSPITALS

Audit Officer	Assistant Audit Officer/Section Officers	Senior Auditor Auditor
* Review of Cash Book and connected documents	1. Cash Book and connected documents	1. Expense Book Medical Stores 2. Linking of voucher
* Review of local purchases, hospital stoppage rolls, Stock taking reports, admission and discharge book, expense books of drugs and medicines, etc. Stock ledgers/ registers, loss statement.	2. Hospital Admission and discharge book	3. Expense book – Locally purchased stores. 4. Ration & Packing Material returns
* Review of previous Inspection Reports	3. Local purchases	5. 'X' Ray Medical Equipment Ledger. 6. Hospital Clothing ledgers
* Finalisation of special enquiries	4. Hospital Stoppage rolls.	7. 'X' Ray Expense Book. 8. Medical & Surgical Equipment ledgers.
* Drafting of Inspection Reports.	5. Stock taking reports	9. Register of 'X' Ray Examination 10. Expense books ASC, AOC Stores
	6. Loss Statements	11. Register of work done on payment. 12. Gift Equipment less (Red Cross Stores)
	7. Special Enquiries	13. Expense Book – Laboratory 14. Anti Malaria Expense Book
	8. Review of work done by Auditors	15. Register of Chemical & Bacteriological Examinations 16. Laboratory Medical and Instrument Ledger.
	9. Review of internal Audit objection statement.	17. Railway Claim Register. 18. M.T.Accounts & P.O. Accounts
	10. Disposal of previous Inspection Reports	19. Railway Warrants & Credit Notes. 20. Loan Ledger
		21. Family Planning Ledgers.

		22. Q.M. Stores Ledgers registers.
		23. Service Books
		24. Diet Sheets, Ward requisitions for diet and extras.

ASC (SUPPLY DEPOTS)

Audit Officer	Assistant Audit Officer/Section Officers	Senior Auditor Auditor
* Review of Cash Book & connected documents	1. Cash Book and connected documents	1. Payment issue Accounts. 2. Linking of vouchers
* Review of Depot contingent returns, Stock Verification reports, Loss statements, inter-services transactions, local purchases, stock ledgers	2. Depot Contingent Register	3. Store of Officers Payment ledger. 4. Verifications of castings, opening and closing balances
* Review of contracts	3. Stock verification Reports, Discrepancy Reports	5. Railway claims 6. Ration Returns.
* Finalisation of special enquiries	4. Loss statements	7. Fresh Fruits Group Ledgers 8. Unit Equipment Ledger and Clothing Ledgers.
* Review of previous inspection Reports	5. Inter services issue transactions	9. Loan ledger 10. E.T.G. Ledger
* Drafting of Inspection reports	6. Contractors.	11. Basic Group Ledger 12. M.T. & P.O.L. Accounts
	7. Local purchases	13. Necessary Group Ledger 14. Expendable stores ledgers
	8. Special enquiries	15. Hospital Group Ledger 16. Grain Group ledger
	9. Disposal of previous Inspection reports.	17. Railway Warrants & Credit Notes. 18. Fodder Group Ledger
	10. Review of internal Audit objections	19. Check rolls 20. Fuel Group Ledger
	11. Review of Work done by Auditors.	21. Surplus, obsolete and waste stores. 22. Butchery Group Ledger.
		23. Labour distribution Register 24. Salvage and P.M. Ledgers.
		25. Inspection Register 26. Hygiene Chemicals Group Ledger
		27. Service Books 28. Conservancy stores.

MILITARY FARMS

Audit Officer	Assistant Audit Officer/Section Officers	Senior Auditor Auditor
1. Review of Cash Book & connected documents	1. Cash book & connected documents.	1. Inventory of Lands & bldgs. 2. Linking of Vouchers
2. Review of Journal, Rate list of stores, local purchases, wages Books, Dairy Stock Sheets, Coupon sales, Stores accounts, Fine Register, issue orders Book, U.P.I. Books, Weigh Books, Stack & Silo Register, Land and cultivation Register, Team Registers, Register of Attendance or Work done, Ration and forage returns, Stock taking reports, Register of losses.	2. Coupon Register	3. Inventory of Plants & Machinery. 4. Sample Ledger
3. Finalisation of Special enquiries	3. Register of Security Deposit	5. Sales ledger/ Credit Saka Register/ Invoice Book 6. Register of Book
4. Review of previous Inspection Report	4. Contingent bills.	7. Wages Books 8. Office U.P.I.
5. Drafting of Inspection Reports	5. Demand/ Advance Register	9. Railway Warrant Ledger 10. Register of Electricity & Water
6. Review of Annual Accounts	6. Loss Statement Registers.	11. Revenue Ledger 12. Ammunition Ledger
	7. Stock Verification Reports.	13. Rent Assessment Ledger 14. U.P.I. M.T., Workshop & Plant & Machinery
	8. Contractors	15. Service Books 16. M.T. Accounts
	9. Local purchases	17. Journal Cultivation Section 18. Tractor Log Book, Engine Log Book
	10. Rate list of stores.	19. Admn. Classified ledger. 20. Maniure Register
	11. Dairy Stock Sheets	Cultivation Section 21. Land & Cultivation Register. 22. Seed Register
	12. Fine Register	23. Team Register

		24. U.P.I Cultivation
	13. Register of Attendance or work done.	25. Weigh Book for Green fodder 26. Ration & Fodder Statement for bullocks
	14. Review of work done by the Auditors	27. Issue Register Green fodder 28. Lease Land Register
	15. Disposal of previous Inspection Reports	29. Expenditure Register. 30. Register of
	16. Review of internal Audit objection statements	31. Classified Ledger. Store Section 32. I.D.B./O.D.B.
	17. Special enquiries	Fodder & Stock Yard Section 33. Classified Ledger 34. Stock Ledger
	18. P.C.E. Audit	35. U.P.I. Stock Yard 36. Veterinary Ledger
	19. Annual Accounts – Balance sheet, Details of fixed assets, Depreciation fund Accounts, Profit & Loss Account, Capital Account, R.R. Fund Account.	37. Weigh Books 38. U.P.I. Stores
		39. Expenditure Register 40. Register of Work Machinery
		41. Fodder Stores Return 42. U.P.I. Stores
		43. Stack and Silo Register. 44. Engine Log Book
		Cattle Yard Section 45. Classified ledger 46. R/17
		47. Milk Record Book 48. Weight Book Dry
		49. D.H.S. Buffs. 50. Expenditure Register
		51. Ration & Fodder Statements
		52. Inventory & Live Stock
		53. R/17.
		54. L.S.R. Buffs
		55. Expenditure Ledger
		56. U.P.I. Cattle Yard
		57. Annual Accounts

OTHER FORMATIONS / OFFICES

Audit Officer	Assistant Audit Officer/Section Officers	Senior Auditor Auditor
* Review of Cash Book and connected documents	1. Cash books and connected documents.	1. Pay & Mess Books 2. Linking of vouchers
* General review of loss statements, Stock verification/ discrepancy reports, local purchases, contracts, condemnation board Proceedings, Ration returns, M.T. a/c, Ledgers & registers, Service Books, etc.	2. Register of Losses and Loss Statements.	3. Railway Warrants & credit notes. 4. Unit Equipment Ledgers.
* Finalisation of special Enquiries.	3. Stock Verification Reports	5. Ration and forage Returns 6. M.T. Accounts
* Review of previous Inspection Reports	4. Local purchases	7. Service Books 8. Clothing Accounts/ Ledgers
* Drafting of Inspection Reports	5. Contractors.	9. Expendable Stores Ledgers 10. Amenity Stores Ledgers
	6. Condemnation Board Proceedings.	11. Compulsory Deposit Scheme and connected documents 12. Educational Training Grant Ledgers.
	7. Road moves sanction Register	13. Deserter Register 14. Register of used & waste oil
	8. Review of work done by Auditors	15. Land Register and Accounts 16. Register of Animals
	9. Disposal of previous Inspection Reports.	17. Stores for officers – Cash Payment issue. 18. Register off Stores for conservancy purposes.
	10. Review of Internal Audit objection statements.	19. Repair Books 20. Medical/ Vety. Stores Ledger
	11. Special Enquiries	21. Telephone & Trunk Call Register 22. Ordnance Stores Ledgers
		23. Station Stores Ledgers
		24. Salvage Stores Ledgers
		25. Fuel for lighting, warming and drying purposes Register.

Note: Review includes both check of work done by others as well as original test check as per scale. In this connection para 96 regarding 'Review' may also be referred.

CHAPTER-5

GENERAL PRINCIPLES AND AUDIT METHODOLOGY

General

83. SAI India performs its audit functions in harmony with the Auditing Standards promulgated by it, which are consistent with the INTOSAI Auditing Standards. SAI India Auditing Standards 4.9 in Chapter 1 (corresponding INTOSAI Auditing Standards 1.0.38) defines the scope of audit as under:

“The term ‘Audit’ includes financial audit, regularity audit and performance audit”. It further adds that in pursuance of the constitutional responsibility, the SAI is empowered to decide the nature, scope, extent, and quantum of audit to be conducted by him or on his behalf (refer Sections 23 and 24 of CAG (DPC) Act, 1971).

84. According to INTOSAI Auditing Standards 1.0.39 Regularity audit embraces:

- a) attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements;
- b) attestation of financial accountability of the government administration as a whole;
- c) audit of financial systems and transactions including an evaluation of compliance with applicable statutes and regulations;
- d) audit of internal control and internal audit functions;
- e) audit of the probity and propriety of administrative decisions taken within the audited entity; and
- f) reporting of any other matters arising from or relating to the audit that the SAI considers should be disclosed.

85. Further INTOSAI Auditing Standards 1.0.40 defines the Performance audit as under:

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

- (a) audit of the economy of administrative activities in accordance with sound administrative principles and practices, and management policies;
- (b) 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
- (c) 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.”

In other words, Performance auditing is an independent assessment or examination of the extent to which an entity, programme or organisation operates efficiently and effectively, with due regard to economy.

86. In practice, there can be an overlap between regularity and performance auditing, and in such cases, classification of a particular audit will depend on the

primary purpose of that audit. Regularity audit embraces attestation of financial accountability involving expression of opinion on financial statements, audit of financial systems and transactions, including an evaluation of compliance with applicable statutes and regulations, audit of internal control and internal audit functions and audit of probity and propriety of administrative decisions taken within the audited entity.

There are different ideas where the basis of performance auditing is concerned. Performance auditing promotes public accountability and is an aid to good governance. It also encompasses the concept of traditional regularity audit consisting of financial, compliance and propriety audits. Compliance audits deal with adherence to rules and laws. Propriety refers to the concept of the best practice in management of public sector programmes/activities - public funds should not be misused by the managers for personal benefit and expenditure on programmes should not exceed what the occasion demands. Performance auditors should utilise these techniques in the course of their audit, wherever applicable.

Comparison of Financial Audit and Performance Audit:

The 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	<ul style="list-style-type: none"> • Generally covers a financial period (annual, biennial, etc.); • Coverage is for the whole of the entity for the period; and • Time bound- audit to be completed by a stipulated time. 	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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 laws, regulations and rules. 	<ul style="list-style-type: none"> • Audit of economy, efficiency and effectiveness; • Assessment of compliance to 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.

Features	Regularity Audit	Performance Audit
Evidence	<ul style="list-style-type: none"> • Financial statements per se, accounting documents, etc.; • Transaction documents; • Conclusive nature of evidence; • Materiality by amount; and • Budgetary assumptions and appropriation authorisations, etc. 	<ul style="list-style-type: none"> • 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: of laws, social sciences, economics, development studies, public affairs, science, and technology, etc.
Approach and methodology	More or less standardised: manual generally forms the entire basis.	Varies widely from subject to subject; Manual generally serves as basis framework.
Assessment criteria	Standardised (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	<ul style="list-style-type: none"> • Opinion on the financial statements; • Generally opinion on financial statements in standardised 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. 	<ul style="list-style-type: none"> • 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 on each subject of performance audits. • Wide-ranging in nature, open to interpretations and subjective judgement.
Overlap	<ul style="list-style-type: none"> • Financial audits do not generally include the elements of performance audits. 	<ul style="list-style-type: none"> • There can be overlap in the sense that the performance audit may encompass techniques / methodologies applied to financial audit.

AUDIT PLANNING

Introduction

87. Adequate planning of the audit helps in ensuring that all significant entities and programmes, which are vulnerable to risks, are covered, available resources are optimally utilized for conducting the audits and the work is completed expeditiously. Operational planning of the individual audits is the most critical

process for securing a high standard of audit. A good audit planning will ensure a focused field work by the audit team and also facilitate monitoring and review of the progress of audit by senior audit functionaries.

While the primary objective of regularity (financial) audit is an expression of an opinion on the financial statements involving examination of and evaluation of financial records, regularity (compliance) audit or transaction audit is primarily concerned with compliance with laws and regulations and with the probity and propriety of administrative decisions taken within the audited entity. In performance auditing, on the other hand, objectives are usually expressed in terms of questions about performance i.e. achievement of economy, efficiency and effectiveness of an entity/programme/activity under audit.

INTOSAI Auditing Standards

The field standards for planning enshrined in the INTOSAI Auditing Standards (INTOSAI Auditing Standards, p.51 & 52) state:

“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”.

In planning an audit, the auditor should:

- Identify important aspects of the environment in which the audited entity operates;
- Develop an understanding of the accountability relationships;
- Consider the form, content and users of audit opinions, conclusions or reports;
- Specify the audit objectives and the tests necessary to meet them;
- Identify key management systems and controls and carry out a preliminary assessment to identify both their strengths and weaknesses;
- Determine the materiality of matters;
- Review the internal audit of the auditee and its work programme;
- Assess the extent of reliance that might be placed on other auditors i.e. internal auditors;
- Determine the most efficient and effective audit approach; and
- Provide for appropriate documentation of the audit plan and for the proposed fieldwork. SAI may revise the plan during the audit when necessary”.

Audit Objectives, Scope and Methodology

In planning the audit, the most important process is defining the audit objectives. The objectives are what the audit is intended to accomplish. The scope of the audit is linked to the audit objectives and the SAI should design the methodology in such a fashion as to provide sufficient, competent and relevant evidence to achieve the objectives of the audit

Planning for Annual Financial Audit

The following steps are important in planning for financial audit:

- The auditor needs to be familiarized with law, form of accounts, scope of audit, authority etc.
- The auditor should examine the latest accounts and estimates or budget and consider their effect on audit.
- The auditor should review matters for attention from previous year's audit & consider the accounting & auditing problems likely to occur.
- Decisions on materiality, risk assessment (*see Appendix-VI*), level of assurance required, sampling methods (*see Appendix-V*), scope of analytical review & audit approach (Systems Based Approach or Direct Substantive Testing) (*see Appendix-IV*) have to be taken.
- Any significant event or changes within the auditee or governing framework occurred since previous year e.g. new account codes, new heads of account, computerization, new legislation etc. which is likely to affect audit have to be kept in view.
- The auditor has to keep in mind the objective of gathering reasonable & relevant evidence to support his opinion & conclusions.
- The auditor should have sufficient understanding of internal control to plan the audit. (*see Appendix-VII*)
- The auditor should consider the possible reliance to be placed upon internal audit & in that case how the work is to be supervised.
- The audits should be designed to provide assurance of detecting fraud, material misstatements resulting from material illegal acts. (*see Appendix-VIII and IX*)
- The auditor's responsibility to consider fraud and error, susceptibility of entity to material misstatements in the financial statements resulting from fraud, error and the planned responses to identified risks should be discussed at the team planning meeting.

Preparation of Annual Audit plan

The audit team should determine the appropriate materiality level, carry out risk assessment, determine the most appropriate audit approach and prepare the necessary planning document for the financial audit.

Electronic database of audited entity profiles

Data base and knowledge repositories on audit and audited entity are the foundation of audit planning as this helps in assessing risk and materiality. Well-built database and portfolio files on audited entities and all audit related information provide proper direction and thrust to audit. SAI may ensure that the building up an electronic database and knowledge repositories is made a special component of the annual audit plan. The electronic database on auditee profile may contain:

- Budget profile of the auditee - growth in budget during the last five years;
- Expenditure and revenue or income profile;
- Employee profile of the audited entity;
- Profiles of projects/schemes/programmes and major objectives of the auditee;
- Profile on major contracts finalized during the last five years;

- Industry-specific profiles (where SAI is auditing state owned enterprises)-organisation set-up, capital structure, main operations, financial and economic objectives of the entity, pricing policy, marketing of the product, import of key raw materials, international situation, pricing in the international market;
- Relevant portions of the Audit Act(s) and the Acts or legislative provisions governing the entity, relevant excerpts from the audit manuals and policy instructions;
- All important minutes and decisions of the entity top management;
- Latest international best practices on auditing and accounting;
- Guidance notes issued by the relevant professional bodies on accounting/auditing matters;
- Previous audit plans;
- Results of past Audit;
- Information on follow-up action on all previous audit reports
- Cases on fraud and embezzlement with financial implications;
- Past risk indicators for financial and performance audit - absence of internal audit, non-reconciliation, control failures; and
- Any other important information

Some of the information can be culled from internet, newspapers, magazines, past audit files and by issuing questionnaires to the audited units, etc. Other possible sources are: press releases about the entity or the project/scheme, key economic indicators, industry journals, discussions with management and specialists, etc. The database may be revised at regular intervals. A dedicated unit would be normally required for this function.

Investigative Audit

Investigative audit focuses on risks to securing financial objectives. Investigative audit is a security net to address those risks. Investigative audit tends to concentrate on the standards of financial management, implementation of internal control regimes and electronic service delivery. Investigative audit is a valuable part of the audit toolkit, because it focuses on the risks that threaten achievement, and whether those risks have matured.

Investigative audit that focuses on the risks of fraud and corruption may also be referred to as forensic audit. Such audits examine how systems can be reinforced for fraud prevention and detection. Forensic audit is appropriate where there is a risk of fraudulent claims for expenditure, fraudulent provision of services to an organisation or fraud and evasion of revenue payments. SAI may need to develop necessary policy guidelines, including an appropriate risk assessment model, for forensic audit.

Quality Assurance in planning the audit

The quality assurance of the planning of the individual audit can be achieved through:

- Compliance to the standards, guidelines and instructions;
- Comprehensive data and information and knowledge of the subject/topic of audit, the legal framework of audit etc.

- Guidelines, policies and procedures which focus on transparent assessment of skill, knowledge and competence of audit staff and matching the skill and knowledge required for audit;
- Review of the planning by top SAI management; and
- Independent review of the entire planning process of regularity (financial and compliance) and performance audits.

While conducting audit quality assurance review of the planning process, it should be seen whether the planning process was:

- i. based on sound judgments;
- ii. comprehensive;
- iii. performed and reviewed by suitably experienced staff;
- iv. timely; and
- v. appropriately documented.

STAFFING FOR THE AUDIT

88. Audit work can only be done effectively when audit personnel are competent and dedicated to their assigned tasks. A successful audit engagement largely depends on the professionalism of the people tasked to perform the job. This requirement has put serious attention to the process of staffing the audit functions. Every audit engagement is a coordinated effort by a group of auditors working together to produce the desired results.

The knowledge, abilities, and skills of auditors are significant elements in the completion of efficient and relevant audit assignments. Equally important is the proper development and training of the audit workforce to enable them to maximize their talents and potentials. The audit teams should have collective knowledge of their subject matter and auditing proficiency necessary to fulfill the requirements of the audit.

INTOSAI Auditing Standards (INTOSAI Auditing Standards, p.37 & 38) state:

“The SAI should adopt policies and procedures to support the skills and experience available within the SAI and identify those skills which are absent; provide a good distribution of skills to auditing tasks and a sufficient number of persons for the audit; and have proper planning and supervision to achieve its goals at the required level of due care and concern.

Resources required to undertake each audit need to be assessed so that suitably skilled staff may be assigned to the work and a control placed on staff resources to be applied to the audit.

The extent to which academic attainments should be related specifically to the audit task varies with the type of auditing undertaken. It is not necessary that each auditor possesses competence in all aspects of the audit mandate. However, policies and procedures governing the assignment of personnel to audit tasks should aim at deploying personnel who have the auditing skills required by the nature of the audit task so that the team involved on a particular audit collectively possesses the necessary skills and expertise.”

Characteristics of audit team

Successful audit teams will have the following characteristics:

- the knowledge, skills, experience and expertise necessary to successfully complete the audit;
- independence and objectivity
- a commitment to each other to support an environment where coaching, information sharing, and ongoing communication are the responsibility of every one; and
- a commitment to executing the audit plan in an efficient and effective manner.

The audit team should identify at an early stage in the planning process if specialized or technical skills, required to complete the audits, are not available with the audit team. The early identification will allow the necessary lead time to acquire suitable staff from within the office or seek experts outside.

Skill & knowledge of audit personnel

In the context of both performance and financial audits, the audit team should have:

- knowledge of performance audit concepts and techniques and the ability to apply the knowledge; for financial audit, sound and up-to-date knowledge of accounting, including the accounting standards and the accounting policies of the organisations audited;
- knowledge of Information Technology (IT) and IT audit would also be essential; auditors and the supervisors managing the audit should ensure that they have a sufficient understanding of the IT related aspects of the audit work performed, the results achieved and the conclusions reached. IT audit specialists may be associated with the audit team depending on the complexity of the entity's IT systems and extent of knowledge of IT available with the audit team. An Information Technology Specialist should be a member of the audit teams for all entities with Enterprise Resource Planning or other significant computer systems.
- experience and technical skills to effectively deal with the subject matter of the audit;
- knowledge of the entity; and
- a sound knowledge of the functioning of the government, various programmes and schemes launched by the government and an overall knowledge of the government environment.

The audit team should have the benefit of drawing services of subject matter experts and other knowledgeable groups or individuals available within the organisation, where it may be necessary to obtain expert advice, particularly when the audit team lacks the necessary specialized knowledge. If skills are not available internally, SAI may take a decision to hire the services of an outside expert.

Procedures in assigning audit staff

Using the profiles of auditors and the schedule of audit engagement, the staff should be identified based on the needed competence, knowledge and skills in the audit work to be engaged in and the audit work assigned. The role of each member of the audit should be clearly defined. The following factors should be taken into consideration in making assignments of individuals:

- Staffing and timing requirements of the specific audit.

- Evaluations of the qualifications of personnel as to experience, position, background, and special expertise.
- The planned supervision and involvement by supervisory personnel.
- Appropriate consideration to be given, in assigning personnel, to both continuity and rotation to provide for efficient conduct of the audit and the perspective of other personnel with different experience and backgrounds. (Adapted from the Internal Standards on Auditing 220 Quality Control for audit work, Appendix - VI. Assignment- paragraph-2)

Independence, Integrity and Due Care

Independence from the audited entity and other outside interest groups is indispensable for auditors. Independence requires that the SAI and members of the audit team be free of any hindrances to their independence that could impair their impartiality in carrying out their work, making judgments, forming opinions and conclusions or making recommendations. Auditors should strive not only to be independent of audited entities and other interested groups, but also to be objective in dealing with the issues and topics under review.

Auditors should not disclose information obtained in the auditing process to third parties, either orally or in writing, except for the purpose of meeting the SAI's statutory or other identified responsibilities as part of the SAI's normal procedures or in accordance with relevant laws.

Integrity is the core value of a 'Code of Ethics'. Auditors have a duty to adhere to high standards of behavior (e.g. honesty and candidness) in the course of their work and their relationships with the staff of the audited entities. An SAI should develop and promulgate to its staff a Code of Professional Ethics that is applicable to the institution and to its employees. This Code would help instill in the organisation a culture of professional in audit work that is conducive to quality in the audit product. Matters commonly discussed in an SAI Code of Ethics relate to Trust, Confidentiality, Credibility; Integrity; Independence, Objectivity, Impartiality, Political Neutrality; Conflicts of Interest; Professional Secrecy; Competence; and Professional Development (reference INTOSAI Code of Ethics).

Due care requires the auditors to carry out their audit work diligently, conscientiously and with proper rigour. It requires that the audit work be performed in accordance with auditing standards and SAI policy instructions. Due care also requires that those supervising and reviewing the audit work exercise similar vigilance.

INFORMATION TECHNOLOGY TOOLS

89. Information technology (IT) is being increasingly used within government entities in planning, execution and monitoring of operations and is also now a key component of government entities business strategic and core business processing activities. IT is being increasingly used as an important audit tool for improving audit quality.

The value of good IT systems is that they can be an efficient and effective programme delivery mechanism, provide a range of additional services with greater efficiency, security and control and at a cheaper cost than are available from manual systems. However, there are an increasingly range of IT vulnerabilities and the IT systems also have the potential to result in major systemic errors. As a consequence,

the confidentiality, integrity, availability and reliability of computerized data and of the systems that process, maintain and report these data are a major concern to audit. IT auditors evaluate the effectiveness and efficiency of IT controls in information systems and related operations to ensure they are operating as intended.

The approach towards auditing in an IT environment should involve the following inter-related processes:

- obtain an understanding of the entities' IT systems and determine their significance to the audit objective;
- identify the extent of IT systems auditing required to achieve the audit objective (e.g. audit of systems development; audit of environment and applications controls) and employ specialist IT auditors to undertake the task; and
- develop and use appropriate Computer Assisted Audit Techniques and Tools (CAATTs) to facilitate the audit.

Computer Assisted Audit Techniques and Tools (CAATTs)

Computer Assisted Audit Techniques and Tools are computer-based tools and techniques which permit auditors to increase their productivity as well that of the audit function in gathering audit evidence by exploiting the power and speed of computer. CAATTs have the ability to improve the range and quality of audit. CAATTs can be used for both sampling of system transaction data and for testing the system as a whole. CAATTs tools can be developed to:

- access and extract information from auditee databases;
- total, summarise, sort, compare and select from large volumes of data in accordance with specified criteria;
- tabulate, check and perform calculations on the data;
- perform sampling, statistical processing and analysis;
- provide reports designed to meet particular audit needs; and
- facilitate audit planning and control e.g. electronic audit working papers that support effective indexing, review and reporting.

Types of CAATTs

CAATTs can be split into two discreet areas of operation namely to validate programmes/systems and to analyse data files. CAATTs used to analyse data files are primarily used on data files. Of course, results of data analysis can indirectly help the auditor to reach conclusions regarding the quality of programmes.

CAATTs used to analyse data files:

File interrogation software involves various tests performed on a data file by using Structured Query Language (SQL) statements, writing programmes specific to the system being audited or by using generalized audit software. With resource constraints, it may not often be feasible to develop specific programmes for every system that will extract, manipulate and report data required for audit purposes. For this reason, generalized audit software has been developed that is capable of handling a wide variety of different systems. The generalized audit software is a powerful tool that can add tremendously to the auditor's efficiency with minimum IT-skill

requirement. In addition, specialized audit software packages are available that are oriented towards a specific industry in which an auditor works.

Information Technology has opened up new opportunities for standardizing and upgrading audit procedures. **Appendix-‘VII’** contains some of the more important considerations to be kept in view while auditing in IT environment.

OTHER TOOLS AND GUIDANCE

90. All important guidance, tools and other specialized material relating to both financial and performance audits may be made available through the office Intranet site, which should be updated at regular intervals.

SAI may have a ‘Knowledge Management Group’ to help implement knowledge-based initiatives, with the objective to make progress in the following areas:

- Knowledge about how to do the work, including continued support of methodology, audit tools and techniques;
- Knowledge about the SAI, including an organizational database, and expanded knowledge of the organisation delivered through the intranet; and
- Knowledge about current developments in the areas of auditing.

Good Practice Guides

To ensure uniformity and consistently high quality, SAI may develop elaborate good practice guides for each discipline/branch of audit. The documented global good practices on audit methodology, tools and techniques may be used as benchmarks for improvements in audit quality.

CONDUCTING THE AUDIT

91. This section contains the practices and procedures to be followed by the audit team in carrying out financial and performance audits. These are dealt with separately. Broadly, the process of audit includes entry conference, determination of the audit approach, developing and executing the audit test programme and finally developing audit opinions, findings and recommendations.

Annual Audit Execution - Financial Audit

SAI should have in place appropriate audit methodology, procedures and policies to guide practical operations of audit which should result in efficient audit approaches that produce sufficient, appropriate audit evidence at the appropriate time. This would enable the SAI to meet its reporting responsibilities. SAI should have a system where the significant matters are communicated through out the audit process between audit teams and management of the audit entities.

Financial audit approach (Adapted from ‘Audit-21’ - Financial Audit Methodology followed in NAO, UK)

The Key stages are:

- **Understanding the entity** its main activities, the accounting and the management information system, including the accounting and internal controls systems, information systems and application controls. It also

includes understanding the external environment and the framework of authorities.

- **Determining materiality and assessing material risk areas** -ensures that audit is concentrated on the important issues.
- **Review of the Control Framework**-focus on key risk areas which management's controls do not cover effectively.
- **Perform audit procedures to maximize audit efficiency and effectiveness**-tests of control supplemented by analytical procedures and other substantive testing procedures. The extent of substantive testing depends upon the completeness and effectiveness of the system of internal controls.
- **Evaluate results and form an audit opinion on the financial statements** -to combine results from all audit procedures on controls, analytical procedures and other substantive procedures to form an overall conclusion about the likely presence of material error. This involves qualitative and quantitative assessments.
- **Reporting**

Risk-based approach in financial auditing

The starting point is SAI's assessment of risk for the entity as a whole and for individual account areas. Where risks of material misstatement have been identified, the audit managers should look to test controls that have been identified as mitigating the risks.

Where no risks of material misstatement have been identified, the audit team should still look to test controls relevant to the account area to provide the majority of audit assurance.

Beyond controls testing, the balance of reassurance will come from substantive procedures, including analytical procedures.

Substantive assurance may be required at three different levels:

- Focused Substantive procedures are substantive procedures that the audit team should perform if a risk has been identified that could lead to potential material misstatement and where the audit cannot rely on mitigating controls to address the risk.
- Standard Substantive Procedures is the level of substantive procedures the audit team should perform if risks have not been identified that could lead to material misstatement and where the audit does not plan to rely on controls.
- Minimum Substantive Procedures is the level of substantive procedure the audit team should perform if it planned to take assurance from mitigating controls (where there are risks of material misstatement) or from other controls (where there are not risks of material misstatement).

SAI's quality management process for financial audit should encompass the following: (Adapted from 'Audit-21' - Financial Audit Methodology, NAO, UK)

- More team based approach to audit, with greater involvement of all the team members to determine and assess risks and responses, rather than the conventional hierarchical approach; the audit approach should be more leadership oriented than departmentally driven.

- As part of the audit process, the need to ensure that the SAI meets the increasing pace of change of technology-the use of IT and latest and appropriate audit support software.
- The emphasis on improving the service the SAI provides to the audited entity and greater assurance to the legislature.
- The holistic focus on the entire organization, rather than merely on the financial statements.
- The shift from a procedure-driven audit approach to process-oriented approach.

CONSULTATION AND ADVICE

INTOSAI Standards (INTOSAI Auditing Standards, P.38 & 48) state:

92. It should be open to the SAI to acquire specialized skills from external sources if the successful carrying out of an audit so requires in order that the audit findings, conclusions and recommendations are perceptive and soundly based and reflect an adequate understanding of the subject area of the audit. It is for the SAI to judge, in its particular circumstances, to what extent its requirements are best met by in-house expertise as against employment of outside experts.

If the SAI employs external experts as consultants it must exercise due care to assure itself of the consultants' competence and aptitude for the particular tasks involved. This standard applies also where outside auditors are engaged on contract with the SAI. In addition care must be taken to ensure that audit contracts include adequate provision for the SAI to determine the planning, the audit scope, the performing, and the reporting on the audit.

Should the SAI, in the performance of its functions, need to seek advice from specialists external to the SAI, the standards for exercise of due care in such arrangements have a bearing also on the maintenance of quality of performance. Obtaining advice from an external expert does not relieve the SAI of responsibility for the opinions formed or conclusions reached on the audit task.

Consultation and advice through out the audit

An important element of every audit, be it performance or financial, is the informal and formal consultation that takes place within the audit teams and between audit teams and office specialists. When dealing with complex, unusual or unfamiliar issues, audit teams are expected to refer to authoritative literature and/or seek the assistance of in-house experts and/or individuals or groups from outside the office with appropriate competence, judgment and authority. SAI may maintain a reference library for all technical literature for the audit teams to consult. Performance audits are often complex exercises requiring a wide range of skills, expertise and experience to be completed cost-effectively. These audits also require considerable judgment at all stages of the audit. The requirement to have an Audit Forum, Quality Reviewer and the support of specialists and subject matter experts ensures that appropriate advice and assistance are available to the audit teams.

SAI should ensure that the staff with appropriate skills is selected for each audit. It is up to the SAI management to judge to what extent the SAI's requirements would be fulfilled by in-house expertise or employment of outside experts. An audit

organisation may need to rely on specialists and experts to help ensure that it has the requisite knowledge, skills and experience for tasks required for an audit engagement. Experts and specialists may have expertise in subjects such as law, statistics, economics, accounting, budgeting issues, social and other sciences, engineering, environmental studies, information technology, fraud investigation, specialized audit methodologies, etc.

SAI should take the following steps before engaging the services of an outside expert:

- document transparently the assessment of knowledge and skill required for each audit;
- examine and document how the required skill can be fully met in-house, without compromising the audit quality; and
- follow the due process and procedure in engaging the services of experts/consultants.

EVIDENCE AND DOCUMENTATION

Audit Evidence

93. Audit evidence is information collected and used to support audit findings. Audit conclusions and recommendations stand on the basis of such evidence. Consequently, auditors must give careful thought to the nature and amount of evidence they collect. The auditor should obtain sufficient and appropriate audit evidence to be able to draw reasonable conclusions and audit opinion.

INTOSAI Auditing Standards (INTOSAI Auditing Standards, p.57) state:

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

The standards further prescribe inter-alia that (i) data collection and sampling techniques should be carefully chosen; (ii) the auditors should have a sound understanding of techniques and procedures such as inspection, observation, enquiry and confirmation, to collect audit evidence; and (iii) the evidence should be competent, relevant and reasonable.

Quality of Audit Evidence

Competent

The evidence must be valid, reliable, accurate and complete. The reliability of audit evidence is influenced by its source: internal or external, and by its nature: visual, documentary or oral. While the reliability of audit evidence is dependent on individual circumstances, the following generalizations will help in assessing the reliability of audit evidence:

- audit evidence from external sources (for example, confirmation received from third party) is more reliable than that generated internally;
- audit evidence generated internally is more reliable when the related accounting and internal control systems are effective;
- audit evidence obtained directly by the auditor is more reliable than that obtained from the entity;

- audit evidence in the form of documents and written representations is more reliable than oral representations;
- oral evidence, which is corroborated in writing, is more reliable than oral evidence alone;
- photocopies being less reliable evidence than the originals, the source of photocopies should be obtained by noting the source and as far as possible, the photocopies should be certified; and
- evidence, which is accepted by the entity, is always reliable.

Relevant

The evidence must have a logical, sensible and important relationship to the issue being addressed.

Sufficiency and appropriateness are interrelated and apply to audit evidence obtained from both tests of control and substantive procedures. Sufficiency is the measure of quantity of audit evidence while appropriateness is the measure of quality of audit evidence and its relevance to assertion and its reliability.

In forming the audit opinion, the auditor does not ordinarily examine all of the information available because conclusions can be reached about an account balance, class of transactions or control by way of using judgmental or statistical sampling procedures.

The auditor's judgment as to what is sufficient and appropriate audit evidence is influenced by such factors as the:

- Auditor's assessment of the nature and level of inherent risk at both the financial statement level and the account balance or class of transaction level.
- Nature of the accounting and internal control systems and the assessment of control risk.
- Materiality of the item being examined.
- Experience gained during previous audits.
- Results of audit procedures, including fraud or error which may have been found.
- Source and reliability of information available.

Types of Audit Evidence

Physical Evidence

Physical evidence is obtained by observing: photographs, charts, maps, graphs or other pictorial representations, etc. are some examples. Physical evidence involves direct inspection or observation of people, property or events like observing inventory management of stores and stock, counting cash, etc to verify the existing of a tangible asset. It is desirable to corroborate the physical evidence by getting the acceptance of such evidence by the entity.

Testimonial Evidence

Testimonial evidence describes the receipt of a written or oral response obtained from witnesses through interview and questionnaires, from an independent third party verifying the accuracy of information that was requested by the auditor. Since the testimonial evidence comes from independent sources, it is highly regarded and is often used.

Documentary Evidence

Documentation is the most common form of evidence. Documentary evidence is the auditor's examination of letters, subject files, contracts, invoices, internal memorandums of the entity, budgets, policy statements and legislations, management reports and reviews, published programme performance data, internal audit reports, accounting records and data gathered during audit. Databases maintained by the entity, independent surveys, evaluation, research, etc. by external sources and written evidence collected in previous audits are important sources of audit evidence.

Analytical evidence

Analytical evidence is derived from other evidence through computations and comparisons to determine whether account balances or other data appear reasonable. Analytical procedures involve a comparison of the value of an actual with the expected values. The objective of this comparison is to identify and investigate the reason for any unusual or unexpected relationship between the actual and expected values.

Evidence may also be gathered by:

- ***Computer assisted audit techniques & Tools (CAATTs)***: Electronic evidence includes all information which is kept in the soft copy, programs and application. Auditors usually extract the evidence using appropriate audit software.
- ***Reperformance of accounting routines***: Reperformance involves checking a sample of the computations and transfers of information made by the client during the period under audit. Rechecking of computations consists of testing the client's arithmetical accuracy.

Compliance and Substantive Evidence

Evidence is sometimes classified into compliance evidence and substantive evidence. Compliance evidence deals with the reliability of internal controls whereas substantive evidence deals with the reliability of the financial statements.

The effectiveness of an audited entity's internal controls is a critical factor at a time when the auditor decides whether to follow an approach of compliance testing of the internal controls or to rely on 'Direct Substantive Testing' (DST). In case the auditor considers that the controls can be relied upon to some degree and that compliance testing should be followed, the auditor may confirm his assessment of the control risk through testing the operation of the controls in practice. If compliance testing is adopted, the quantum of substantive evidence required will be reduced.

Compliance testing may not be enough to support the auditor's opinion. In that case, substantive testing has to be resorted to. If the audit approach is direct substantive testing, the opinion should be based solely on substantive tests of transactions and records.

Evidence analysis

Evidence gathered in the context of audit objectives should be analysed and tested against the audit criteria transparently to arrive at audit observations, conclusions and recommendations. Sound evidence analysis consists, among others, of the following important characteristics:

- it should be logical and self-sustaining;
- the conclusions and interpretations should be convincing; and
- it should support the audit observations.

Sampling techniques

In most performance and financial audits, it may not be possible to examine all units or all data, documents and records. It will, therefore, be necessary that a representative sample be selected. The sampling techniques to be applied will depend upon the nature of data and audit objectives. The central issue in selection of the sample should be that:

- the sample selected is representative of the entire population and that audit findings on the sample apply to the entire population within the defined confidence limits;
- the sample is unbiased and each element of the population has an equal chance of appearing in the sample within the scope of the sampling method selected; and
- the sample size is sufficient to extrapolate the result of audit test to the entire population within the confidence levels.

Audit managers may carry out the sampling themselves, including the statistical sampling or the SAI may employ statistical adviser to assist the audit teams with the selection of the sample. The sampling technique and sample selected may be shared with the entity. However, prior selection of the sample and sharing of the information with the entity impose no restriction on the audit team to limit the audit tests to the sample size only. Statistical sampling and other evidence gathering techniques are explained in more detail in Appendix-‘V’. Other evidence gathering techniques (Adapted from the Peer Review Report on OAG Canada’s VFM practices, 2004) are explained in brief:

- **Survey:** A survey is a technique for gathering specific information from a group of people or an organization. In this technique, a questionnaire is administered to a group of people representative of the larger population. The responses to the questionnaire are analysed and projected to the whole population.
- **Performance Benchmarking:** It uses a range of measures and indicators to compare the performance of organisations. Indicators typically cover resource utilisation, unit costs, efficiency and where possible, quality of service.
- **High level comparisons of an organisation** with some other body having similar functions, activities or programmes. Comparisons are made which cover organizational structures, operational policies, and how each to organisation tackles a specific problem. The emphasis in this approach is on learning from others’ experience and ideas and putting findings in context.
- **Focus groups:** A focus group is a qualitative research technique. It is a selection of some individuals brought together to discuss specific issues in an informal setting. Selected participants are related to the issue in a certain way. The reactions of the group are used to explore attitudes, beliefs, perceptions, and problems or to search for causes of problems and their solution. A facilitator is used to direct the group discussion and to focus attention on the specific aims of the session - this might involve developing practical recommendations.

- **Interviews:** An interview is a question-answer session to elicit specific information.
- **Case studies:** Case study is the examination of a selection of incidents, events, transactions or items in order to understand or examine a programme or activity. It is an in-depth study of individual cases to explore the audit issues. Case studies can also be used to highlight good practices.

Quality assurance in evidence gathering

Quality assurance of evidence is ensured through the following:

- Evidence gathering linked to audit criteria and audit objectives;
- Compliance to the Auditing Standards particularly with reference to the quality of competence, relevance and reasonableness of evidence and to the performance and financial audit guidelines documenting the procedure of evidence gathering;
- transparent sample selection with the help of appropriate sampling technique; and
- supervision, peer review and internal audit and inspection.

Documentation

94. The auditor should document matters which are important in providing evidence to support the audit conclusions and findings and to confirm that the audit was carried out in accordance with relevant SAI standards, which should be aligned to INTOSAI standards. The documentation may be in the form of data stored on paper, film, electronic and other media and provides the link between the audit work and its resultant outputs. The documentation should cover the basis and extent of audit planning, audit methodology, procedures and policies, research design, the audit performance, and the audit results and findings. Proper documentation of evidence is also one of the important measures of quality assurance.

The INTOSAI Auditing Standards (INTOSAI Auditing Standards p. 57 & 58.) state:

‘Auditors should adequately document the audit evidence in working papers, including the basis and extent of the planning, work performed and the findings of the audit.

Adequate documentation is important for several reasons. It will confirm and support the auditor’s opinion and report;

- increase the efficiency and effectiveness of audit;
- serve as a source of information for preparing reports or answering any enquiries from the audited entity or from any other party;
- serve as evidence of the auditor’s compliance with Auditing Standards;
- facilitate planning and supervision;
- help the auditor’s professional development;
- help to ensure that the delegated work has been satisfactorily performed; and
- provide evidence of work done for future reference.’

The auditor should bear in mind that the content and arrangement of the working papers reflect the degree of the auditor’s proficiency, experience and knowledge. Working papers should be sufficiently complete and detailed to enable an

experienced auditor having no previous connection with the audit subsequently to ascertain from them what work was performed to support the conclusions.

Usefulness of good documentation

Good working papers can contribute to the effectiveness of various administrative tasks required for the proper management of an audit assignment like facilitating adequate planning, adequate control over the field work and review and reporting to superiors. The content and arrangement of the working papers reflect the degree of proficiency, experience and knowledge. Documentation is a vital aspect of maintaining professionally acceptable standards of auditing for the following reasons:

- It provides an adequate and defensible basis for audit opinions expressed in the reports;
- Good working papers provide a vital link between the audit examination procedures and the audit report;
- Audit findings can be explained better to the legislative committees;
- It provides link between successive audits;
- It provides a basis for quality assurance reviews; and
- It facilitates the process of approval of the audit report within the SAI.

Characteristics of good quality working papers

All relevant documents and information collected and generated during an audit constitute the working papers. They include the documents recording the audit planning including the audit objectives, determination of criteria, field audit and evidence gathering procedures and evidence analysis, the nature, timing and the extent of audit procedures performed and the audit findings and conclusions. The working papers should encompass the entire process of auditing right from planning to execution and reporting and should serve as a connecting link among them. These should, therefore, be sufficiently complete and detailed to provide a clear trail and understanding of the audit. There is an important necessity of maintaining confidentiality of the working papers and safe custody of the working papers. They should be retained for a period sufficient to meet the professional, legislative and legal requirements.

Some of the broad characteristics of working papers are:

Completeness and accuracy:	Working papers should be complete and accurate to provide support to audit conclusions and recommendations.
Clarity and conciseness:	Working papers should be clear and concise. Any one using them should be able to understand the entire audit process without need for any supplementary examination.
Ease of preparation:	Working papers should be easy to prepare. This may be achieved by using agency-produced documents and reports, pre-printed standard audit stationery and automatically generated standard working paper formats.
Legibility and neatness:	Working papers should be neat and legible.
Relevance:	Working papers should be restricted to matters, which are important, pertinent and useful for the purpose.

Ease of review:	The working papers should contain cross-references to the audit memoranda, discussion papers, audit observation, field audit report etc. to enable SAI audit management to link the working papers to audit conclusions and recommendations.
Organisation and ease of reference:	The working papers may contain an easy to follow index with proper narration for all volumes in an audit summary file and an index for each of the working paper files.

SAI management may use an electronic work paper package that simplifies and enhances the effectiveness of audit documentation process.

Quality assurance of documentation/working papers is ensured through:

- compliance with Auditing Standards;
- compliance with the audit guidelines issued by SAI on performance and financial audits;
- report approval process - verification of the evidence by SAI top management with reference to the audit results; and
- peer review and technical inspection of the audit process and procedures, both financial and performance.

SUPERVISION AND REVIEW

95. A sound system of supervision and review of audits, both financial and performance, is essential for maintaining good quality of audit. Supervision involves directing audit staff and monitoring their work to ensure that the audit objectives are met. Supervision involves assigning responsibilities, providing sufficient guidance to staff members, staying informed about significant problems encountered, reviewing the work performed, overseeing individual development, and coaching, providing periodic feedback & effective on-the-job training.

INTOSAI Auditing Standards (INTOSAI Auditing Standards, p. 53) state:

“The work of the audit staff at each level and audit phase should be properly supervised during the audit and documented work should be reviewed by a senior member of the audit staff.

Supervision is essential to ensure the fulfillment of audit objectives & the maintenance of the quality of the audit work.

Supervision involves ensuring that:

- the members of the audit team have a clear and consistent understanding of the audit plan
- the audit is carried out in accordance with the auditing standards and practices of the SAI
- the audit plan and action steps specified in that plan are followed unless a variation is authorised
- working papers contain evidence adequately supporting all conclusions, recommendations and opinions
- the auditor achieves the stated audit objectives; and
- the audit report includes the audit conclusions, recommendations and opinions, as appropriate”.

Supervisors should satisfy themselves that the staff members clearly understand the work expected of them, the reasons for accomplishing the work and time frame within which the work is to be accomplished. With experienced staff, supervisors may decide the scope of the audit work and leave details to the staff. Where the staff is less experienced, supervisors may have to specify audit procedures to be performed as well as techniques for gathering and analyzing data.

Performance audit being more open to judgement and interpretation requires close and careful supervision. Some of the more important responsibilities of the supervisory officers in relation to performance audit are to ensure:

- that the work, including evidence collection and documentation, is executed in accordance with the auditing standards and the audit plan more particularly, in tune with the audit objectives;
- all significant deviations, where necessary, are made only with prior authorisation of the senior audit management or under intimation to him/her;
- adherence to the best practices contained in the SAI's performance audit guidelines;
- the audit team is provided oral and written guidance in conduct of the audit;
- that confidentiality and integrity of information obtained from the entity, persons and other sources are maintained; and
- that the factual basis of information, descriptions, analyses and recommendations are accurate and they are fair, balanced and well founded, that they are correctly communicated to the entity.

Supervision checklist

The SAI may prepare a standard and detailed checklist which can form a framework for quality assurance review with a view to substantially enhancing the quality of supervision.

Review

96. The INTOSAI Auditing Standards state:

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

- 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;
- All errors, deficiencies and unusual matters have been properly identified, documented and either satisfactorily resolved or brought to the attention of a more senior SAI officer(s); and
- Changes and improvements necessary to the conduct of future audits are identified, recorded and taken into account in later audit plans and in staff development activities.'

A review ensures involvement of higher levels of management with the audit process and provides an assurance that the work has been carried out as per the standards and guidelines. Review of work should be carried out at each stage of audit cycle as under:

- by the audit managers on concurrent basis when the team members conclude a particular stage in the field work;
- by the senior audit functionaries at the time of preparation of audit observations and draft audit reports; and
- by the SAI top management while evaluating draft audit reports and quality checks before approval of the head of the SAI.

Documentation of review process and extent of review

Reviews of audit work should be documented. The nature & extent of review of audit work may vary depending on a number of factors, such as the size of the audit organization, the significance of the work, the risk level and the experience of the staff.

In the case of financial audits, all audits (NAO, UK) should be subject to at least two levels of review before audit certificate is signed. In cases, where there are particular concerns of public interest or audit risk is high or accounts are qualified, a further review may be carried out before the audit certificate is signed.

In respect of important and major performance audit assignments also, multi-level review procedures may be applied as appropriate. However, where performance audit is assessed as ‘no known or minimal potential risk’, the number of layers or review and quality check should be reduced to have the audits completed in a shorter time frame.

Quality Reviewer

A Quality Reviewer, who is an SAI official, may be named for major financial and performance audits in order to provide an enhanced level of quality assurance and could be an instrument for consultation and advice for audit teams. Quality reviewers may be assigned to audits generally perceived to be: of higher risk; complex to conduct or having complex accounting issue; significant or sensitive in nature. Quality reviewers should have significant experience in the office and no direct involvement in the particular audit(s) they are assigned to.

Managerial quality assurance (Australian National Audit Office)

The principal mechanisms of managerial quality assurance are the documentation and systematic review and assessment of what is done. As a part of the managerial quality assurance, Regional Managers (heads of SAI field units) may prepare a report for the head of the SAI and the SAI top management at the end of the year indicating how they discharged their responsibility ensuring the effectiveness of the quality management processes. This report should include a description of the means by which they satisfy themselves regarding the following quality processes:

- assigning audit staff;
- preparing and approving field plans;
- ensuring adequate direction, supervision and review of work at all levels;
- ensuring that working papers comply with SAI auditing standards;
- ensuring that significant audit issues are reported in accordance with SAI policy;
- resolving differences of professional judgment among staff involved in audits;
- on-the-job training of audit staff to assist their development of appropriate skills and competence;

- reviewing audits to ensure that the quality of each audit SAI and other professional standards; and
- Monitoring these general procedures to ensure they are operating effectively.

The report should also provide general comments on the working and professional environment in the SAI field office, together with details of any matters, which significantly affect that environment.

Quality assurance for supervision and review

Review Quality assurance in supervision and review is ensured with the help of the following:

- Adherence to auditing standards and guidelines
- Strict conformity to the prescribed supervision and review system
- Periodic reporting and monitoring during the audit process
- Peer review and technical supervision

REPORTING AND FOLLOW -UP

Audit Reporting

Introduction

97. Audit report is the written communication of the results of the audit undertaken. The audit report is the manifestation of the quality of all audit processes of a SAI. Thus, a SAI is ultimately judged by the quality of its audit report

The audit report should be in writing in order to-

- communicate the results consistently to officials at all levels of government;
- make the results less susceptible to misunderstanding;
- make the results available for public inspection; and
- facilitate follow-up to determine whether appropriate corrective actions have been taken when needed.

The audit report is an important link in ensuring accountability for public resources because it enables the stakeholders including the public to determine whether:

- government resources are managed properly and used in compliance with laws and regulations;
- government programmes are achieving their objectives and intended outcomes; and
- government services are being provided efficiently, economically and effectively.

General Reporting Standards

Audit reporting should comply with applicable laws and regulations, SAI's auditing standards and INTOSAI standards.

INTOSAI Auditing Standards (INTOSAI Standards, p. 61) state:

At the end of each audit, the auditor should prepare a written report, as appropriate, setting out the findings in an appropriate form. The report should be easy to understand and free from vagueness or ambiguity, and include only information,

which is supported by competent and relevant audit evidence. It should be independent, objective, fair and constructive.’

Interim reporting of significant matters may be made to appropriate officials to alert them to matters needing immediate attention and to allow them to correct them before the final report is completed. The audit report should be available promptly for timely use by management, legislative officials and other interested parties.

Characteristics of a good audit report

The audit report should be complete, accurate, objective, convincing, clear and concise as the subject permits

- Complete- should contain all information needed to satisfy the audit objectives, promote an adequate and correct understanding of the matters reported and meet the report content requirements
- Accurate- evidence presented is true and the findings are correctly portrayed.
- Objective- the entire report is balanced in content and tone; should be fair and not misleading, presenting the audit results impartially and guarding against the tendency to exaggerate or overemphasize deficient performance.
- Convincing- the information set forth should be sufficient to convince the readers to recognize the validity of the findings, the reasonableness of the conclusions and the benefit of implementing the recommendations.
- Clear- should be easy to read and understand; written in language as clear and simple as the subject permits. The use of straightforward, non-technical language makes the report simple and reader friendly.
- Concise- should not be longer than necessary to convey and support the message.
- Timely - the report adds value to the entity, if it is timely.
- Constructive - The report should be constructive if it manifests a remedial approach rather than a critical approach and includes appropriate recommendations, as in the case of performance audits.

Contents of audit report

Auditors should report the audit objectives, scope and methodology and the results of the audit which include the findings, conclusion and recommendations. These are explained below:

- In reporting the audit’s objectives, auditors should explain why the audit was made, and what the report is to accomplish. This involves identifying the audit subject and the aspect of performance examined.
- To report the scope of the audit, auditors should describe the depth and coverage of the work conducted to accomplish the objectives.
- To report methodology, auditors should clearly explain the techniques used for evidence gathering and analysis. They should identify significant assumptions made, comparative techniques applied, criteria used, and the sample design and why it was chosen.
- In reporting findings, auditors should include sufficient, competent and relevant information to promote adequate understanding of the matters reported and to provide convincing but fair presentations in proper

perspective. The findings are the results of the audit- the facts established by the evidence relating to the audit objectives.

- Conclusions- should be reported when called for by the audit objectives. Conclusions are logical inferences about the programme based on the auditors' findings. They should be specified and not left for the readers to infer.
- Recommendations- Auditors should report recommendations for actions to correct problem areas and to improve operations. Constructive recommendations can encourage improvements in the conduct of government programmes. Recommendations are most constructive when they are directed at resolving the cause of identified problems, are action-oriented and specific, are addressed to parties that have the authority to act, are feasible, and to the extent practical, are cost-effective.

In addition to the above, following matters have to be reported on and included in the audit report:

Conformity of audit conducted with government auditing standards

The audit report should state that the audit was made in accordance with government auditing standards. The statement should be qualified in situations where the auditor did not follow an applicable standard.

Compliance with laws and regulations

Auditors should report all significant instances of non-compliance and all significant instances of abuse that were found during or in connection with the audit.

Reporting for Audit of Financial Statements

For attest or certification audit, the auditor's opinion on a set of financial statements is generally in a concise, standardized format, which reflects the results of a wide range of tests and other audit work. The basic principles governing reporting for attest audit are:

- The report shall state whether the financial statements are presented in accordance with generally accepted accounting principles
- The report shall identify those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period
- Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.
- The report shall either contain an expression of opinion regarding the financial statements taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons therefore should be stated.

Opinions should be appended to and published with the financial statements to which they relate.

Audit opinions should indicate unambiguously whether it is unqualified or qualified, and if the latter, whether it is qualified in certain respects or is adverse or disclaimer paragraph.

The contents of the audit opinion are:

- **Title:** The opinion should be preceded by a suitable title or heading to help the reader to distinguish it from statements and information issued by others.
- **Signature and date:** The opinion should be properly signed. The inclusion of a date informs the reader that consideration has been given to the effect of events or transactions about which the auditor became aware up to that date.
- **Objectives and scope:** The opinion should include reference to the objectives and scope of the audit. This information establishes the purpose and boundaries of the audit
- **Addressee:** The opinion should identify those to whom it is addressed, as required by the circumstances of the audit engagement and local regulations or practice. This may be unnecessary where formal procedures exist for its delivery.
- **Identification of subject matter:** The opinion should identify the financial statements to which it relates. This includes information such as the name of the audited entity, the date and period covered by the financial statements and the subject matter that has been audited.
- **Legal basis:** Audit opinions should identify the legislation or other authority providing for the audit.
- **Compliance with standards:** Audit opinions should indicate the auditing standards or practices followed in conducting the audit, thus providing the reader with an assurance that the audit has been carried out in accordance with generally accepted procedures.

Reporting for Audit of Financial Operations and other Regularity Audits

For regularity audits, there is a requirement to report as to the compliance of transactions with laws and regulations and to report on the adequacy of systems of internal control. The auditor should also report on significant irregularities, whether perceived or potential, or inconsistency of application of regulations or on fraud and corrupt practices.

Auditors should report the scope of their testing of compliance with laws and regulations and of internal control and present the results of those tests. In presenting the results of such tests, auditors should report fraud, illegal acts or other material non-compliance.

The report on regularity audit may either be a part of the report on the financial statements, or a separate report.

- When auditors report on compliance and internal control over financial reporting in the report on the financial statements, they should include an introduction summarizing key findings in the audit of the financial statements and the related compliance and internal control work.
- When they report separately on compliance with laws and regulations and internal control over financial reporting, the report on the financial statements should state that they are issuing those additional reports.

Reporting for Performance Audit

Performance audit is wide-ranging in nature and is more open to judgment and interpretation. Its coverage is more selective and may be carried out over a cycle of several years, rather than in one financial period, and it does not normally relate to

particular financial or other statements. For performance audits, the auditor shall report on the economy and efficiency with which resources are acquired and used, and the effectiveness with which objectives are met.

The performance audit report should state clearly the objectives and scope of the audit and the audit criteria used. It may include significant criticism of how programmes are implemented and give independent information, advice or assurance as to whether and to what extent economy, efficiency and effectiveness are being or have been achieved.

Auditors should recognize that their judgments are being applied to actions resulting from past management decisions. Care should therefore be exercised in making such judgments. The presentation of weaknesses or critical findings should be in such a way as to encourage correction and to improve systems and guidance within the audited entity. Performance Audit reports should not concentrate solely on criticism of the past but should be constructive.

The auditor's conclusions, recommendations and impact analysis are an important aspect of the audit, and where appropriate are written as a guide for action. Conclusions reached against each audit activity should be brought out clearly. The auditor comments on the policies and programmes and recommends changes designed to result in improvements. Generally, these recommendations suggest what improvements are needed rather than how to achieve them, though circumstances sometimes arise which warrant a specific recommendation, for example to correct a defect in the law in order to bring about an administrative improvement.

Contents of performance audit report

In addition to those enumerated above on the contents of an audit report in general, the following form part of the performance audit report:

- Views of responsible officials- Auditors should report the views of responsible officials of the audited programme concerning auditors' findings, conclusions and recommendations, as well as corrections planned
- Their inclusion ensures that the report is fair, complete and objective.
- If the comments oppose the report's findings, conclusions or recommendations and are not, in the auditor's opinion, valid, the auditors may choose to state their reasons for rejecting them. Conversely, auditors should modify their report if they find the comments valid
- Noteworthy accomplishments- Auditors should also report noteworthy accomplishments. This provides a more fair presentation of the situation.
- The contents of the report should be consistent with the provisions of SAI's Auditing Standards and should provide assurance that audit has been carried out in accordance with generally accepted procedures in compliance with the standards, identify the subject matter viz. areas of performance audits and the legal basis of audit and be complete.
- In addition, SAI may illustrate the audit findings with the use of graphs and charts and improve the visibility of the analysis and findings. Photographs can be used as evidence where they are able to corroborate evidence.

Reporting of Illegal or Fraudulent Acts

SAI may be responsible for reporting illegal acts directly to parties outside the auditee in certain circumstances. The reporting should be to the auditee first and thereafter to the external party specified in the law or the rules. When the law requires reporting directly to investigative bodies, SAI should ask those authorities if reporting those illegal acts in the audit report would compromise investigative or legal proceedings. The auditors should limit their reporting to matters that would not compromise those proceedings such as information that are already part of public record.

Reporting on irregularities or instances of non-compliance with laws or regulations, the auditor should be careful to place his/her findings in the proper perspective. The extent of non-compliance can be related to the number of cases examined or quantified monetarily. Reports on irregularities may be prepared irrespective of a qualification of the auditor's opinion. By their nature, they tend to contain significant criticisms, but in order to be constructive they should also address future remedial actions by incorporating statements by the audited entity or by the auditor, including conclusions or recommendations.

Reporting of Privileged or Confidential Information

In general, the SAI should include in the audit report whatever it sees fit. However, certain information may not be freely disclosed as when the national security or interest is involved. In this situation, the auditor may make a separate unpublished report including such confidential or sensitive material but the same shall only be made available to persons authorized by law or regulations. Alternatively, the SAI may not include such information in the audit report, but, the nature of the information omitted and the requirement that makes the omission necessary should be stated in the report. Consultation with a legal counsel may be necessary

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 SAI top management;
- 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

Follow up procedures on Audit Report

98. The audit reports are essentially a 'means to the end' of improving auditee performance and accountability. This can be achieved through implementation of the audit recommendations. Consistent and systemic follow-up process in the SAI may contribute significantly to effectiveness of audit in bringing systemic improvement in the functioning of the entity.

The auditee management is basically responsible for implementation of audit recommendations. The responsibility of the auditor is to ensure the likelihood of implementation of audit recommendation.

A quality recommendation is one that is:

- Action-oriented- properly-directed, hard-hitting, specific, convincing, significant, positive in tone and content
- Deal with underlying causes- should correct the basic cause of the deficiency
- Feasible- the basis for implementation is workable
- Cost-effective- the benefit to be derived from implementation of the recommendation outweighs the cost for its implementation.

Objectives of the follow-up of SAI's recommendations

- Increasing the effectiveness of audit reports - to increase the probability that the recommendations will be implemented.
- Assisting the legislature - follow-up reports may provide valuable information to the legislative committees
- Achieving improvements in performance of the government programmes
- Evaluating the SAI performance - follow-up programmes and outputs may be a good measure for assessing and evaluating SAI performance.
- Providing an input to the strategic planning of audit by the SAI
- The follow-up programme should be oriented towards compliance with the accepted recommendations with emphasis on encouraging the implementation rather than highlighting the lack of action.

Annual follow-up programme

SAI may prepare annual operational plan for follow-up programme in relation to the audits conducted in the past. The annual follow-up programme should be supported by data on major recommendations made in the past, recommendations stated to have been implemented but not tested through follow-up audit and recommendations not implemented by the entity.

The follow-up activity can be performed by:

- ascertaining the implementation of the recommendations;
- carrying out a desk review, which involves more detailed review of the implementation of the recommendations, but does not involve extensive fieldwork;
- a detailed follow-up review involving comprehensive field work in relation to the recommendations made in the audit report;
- a generic follow-up audit of similar types of significant recommendations in the same or various entities with a view to analysing the common reasons for underperformance

Inventory of recommendations (Performance auditing guidelines, SAI, India)

As the starting point for follow-up procedures, SAI may maintain a comprehensive database of recommendations. The inventory should consist of all recommendations, with appropriate grading under 'vital or critical', 'significant' and 'important'. The database should also contain other relevant information viz. the year of audit report, status of acceptance viz. accepted, partially accepted, not accepted and

not replied, nominal implementation reported by the entity and the time of such reporting, risk associated with non-implementation or poor implementation, besides follow-up reviews. This inventory should be maintained as a permanent database and should be updated regularly, which may assist in audit planning in future.

Quality assurance of the follow-up programmes

Quality assurance of the follow-up programme is provided by:

- compliance to the provisions for follow-up programmes in the audit guidelines;
- supervision by audit managers;
- monitoring by SAI top management; and
- internal quality reviews, evaluation and peer reviews.

CHAPTER 6

PERFORMANCE AUDIT

Definition

99. SAI India performs its audit functions in harmony with the Auditing Standards promulgated by it which are consistent with the INTOSAI Auditing Standards. SAI Auditing Standards 4.9 in Chapter-I (Corresponding INTOSAI Auditing Standard 1.0.38) defines the scope of audit as under:

“The term Audit includes financial audit, regularity audit and performance audit”. It further adds that in pursuance of the constitutional responsibility, the SAI is empowered to decide the nature, scope, extent and quantum of audit to be conducted by it or on its behalf.

100. INTOSAI Auditing Standard 1.0.40 defines the performance audit as under:-

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

- (a) Audit of the economy of administrative activities in accordance with sound administrative principles and practices and management policies.
- (b) 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 in Identified deficiencies and
- (c) Audit of the effectiveness of performance in relation to the achievement of the audited entity and audit of the actual impact of activities compared with the intended impact.

Performance auditing is an independent assessment or examination of the extent to which an entity, programme or organisation operates efficiently and effectively with due regard to economy.

Economy is minimizing the cost of resources used for an activity, having regard to the appropriate quality. Efficiency is the relationship between the output in terms of goods resource or other results and the resource used to produce them. Effectiveness is the extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity.

Objective of Performance Audit

101. Performance auditing has the objective of improving public sector administration and accountability by adding value through an effective programme of performance audit. One of the main objectives of performance auditing is to assist the people’s representatives in exercising effective legislative control & oversight over the policy objectives and their implementation.

Performance Audit & Regularity Audit

102. The performance auditor should be clear that the objective, scope, nature of evidence and reporting in performance audit are different from those in regularity

audits. Some of the major distinguishing features of regularity audits and performance audits are as under:-

Features	Regularity audit	Performance Audit
Scope	<ul style="list-style-type: none"> • Generally covers a financial period (annual, biennial, etc.); • Coverage is for the whole of the entity for the period; and • Time bound-audit to be completed by a stipulated time 	<ul style="list-style-type: none"> • Covers the subject/programme over a period of time • Focused only on a part of the entity's activities/programme; and • Coverage is selective
Objectives	<ul style="list-style-type: none"> • Attestation (opinion on) of financial accountability; • Audit of financial systems; • Existence and control for safeguarding of assets; • Evaluation of financial records; • Audit of propriety of administrative decisions; • Audit of internal control for safeguarding assets and completeness and accuracy of accounts; • Limited to financial matters; • Test for assuring compliance to laws, regulations and rules; and • Conclusion/opinions generally with reference to standardized requirements 	<ul style="list-style-type: none"> • Audit of economy, efficiency and effectiveness; • Audit of internal controls that ensures economy, efficiency and effectiveness, ensuring adherence to management policies, timely and reliable financial and management information; • Extends to non-financial/ governance subjects also; • Assessment of compliance to applicable laws and regulations required in the context of audit objectives; and • Conclusions related to audit objectives set by auditors;
Evidence	<ul style="list-style-type: none"> • Financial statements per se, accounting documents, etc.; • Budgetary assumptions and appropriation authorizations, etc.; • Transaction documents; • Conclusive nature of evidence; • Materiality by amount; 	<ul style="list-style-type: none"> • Variety of forms of evidence; • Quite often qualitative in nature; • Persuasive rather than conclusive; • Evidence related to pre-determined audit objectives • Materiality guided more by the nature or by context rather than amount alone
Academic base	<ul style="list-style-type: none"> • Generally accounting knowledge 	<ul style="list-style-type: none"> • Always knowledge-base: of laws, social sciences, economics, development studies, public affairs, science and technology, etc.
Approach and methodology	<ul style="list-style-type: none"> • More or less standardized: manual generally forms the entire basis 	<ul style="list-style-type: none"> • Varies widely from subject to subject • Manual generally serves as basic framework

Assessment criteria	<ul style="list-style-type: none"> Standardised (suitable to all audits) with little scope for subjectivity. 	<ul style="list-style-type: none"> Widely varying and subjective with ample scope for interpretations and assessment criteria support the audit objectives, which are unique to the subject of performance audit.
Report	<ul style="list-style-type: none"> Opinion on the financial statements; Opinion on compliance to laws, regulations and rules; Generally opinion on financial statements in standardized format; Specific requirement and expectations; and Related to specific financial periods-there is a periodicity of reporting. 	<ul style="list-style-type: none"> Report/conclusions on economy and efficiency with which the resources are acquired and used and the effectiveness with which the objectives are met; Report containing assessment of economy, efficiency and Effectiveness may be presented in variety of forms; Wide-ranging in nature, open to interpretations and subjective Judgement; and Generally separate publications on each subject of performance audits as and when conducted.
Overlap	<ul style="list-style-type: none"> Financial audits do not generally include the elements of performance audits. 	<ul style="list-style-type: none"> There can be overlap in the sense that the performance audit may encompass techniques/ methodologies applied to financial audit

What is a criterion?

103. (i) Audit criteria are reasonable and attainable standards of performance against which economy, efficiency and effectiveness of programmes and activities can be assessed. They reflect a normative (i.e., desirable) control model for the subject matter under audit. They represent good practice- a reasonable and informed person's expectation of 'what should be'.

When criteria are compared with what actually exists (what is) audit findings are generated. Meeting or exceeding the criteria might indicate the 'best practice', but failing to meet the criteria would suggest that improvements could be made. However, in cases of the performance exceeding the criteria uniformly, Accountants General may have to review with a view to reassuring if the criteria consist of significant lower standards.

Characteristics of good criteria

(ii) SAI should be satisfied that suitable criteria have been identified to enable the performance auditors to assess the activities subject to audit and to achieve the audit objectives. Since criteria are crucial to developing audit findings and therefore, addressing the audit objectives, they should be such as to be generally acceptable. Some characteristics of suitable criteria include:

(a) **Reliability:** reliable criteria result in consistent conclusions, when used for assessment in the same circumstances;

(b) **Objectivity:** Objective criteria are free from any bias of the auditor or management;

(c) **Usefulness:** useful criteria result in findings and conclusions that meet users' information need;

(d) **Understandability:** understandable criteria are clearly stated and are not subject to significantly different interpretations;

(e) **Comparability:** comparable criteria are consistent with those used in performance audits of other similar agencies or activities and with those used in previous performance audits;

(f) **Completeness:** completeness refers to the development of all significant criteria appropriate to assessing the performance in the given circumstances; and

(g) **Acceptability:** acceptable criteria are those to which the audited agency, legislature, experts in the field, media and general public are generally agreeable. The higher the degree of acceptance of the criteria, the more effective would be the performance audit.

Role of criteria in performance audit

(iii) Criteria can perform a series of important roles to assist the conduct of a performance audit, as they can:

- Form a common basis for communication within the audit team and with Accountant General concerning the nature of the audit and the audit findings;
- Form a basis for communication with the entity management in that the audit team will often solicit entity management understanding of and concurrence with the criteria and eventual acceptance of audit findings in the light of those criteria;
- Link the audit objectives to the audit test programmes carried out during the implementation phase;
- Form a basis for the data collection phase of the audit, provide a basis on which to build procedures for the collection of audit evidence; and
- Provide the basis for audit findings; help to add form and structure to audit observations.

The degree to which criteria are successful in serving these uses is often determined by their level of details and the form they take. General audit criteria are developed during the preliminary study stage. As the preliminary study progresses, these criteria are usually expanded and made more specific. By the end of the preliminary study, the criteria should be sufficiently detailed to give clear guidance for the implementation stage of the audit, particularly in the development of specific audit programme to test the criteria.

It may be unrealistic to expect that activities, systems or levels of performance relating to economy, efficiency and effectiveness will always fully meet the criteria. It is important to appreciate that satisfactory performance does not mean perfect performance but is based on what a reasonable person would expect, taking into account entity circumstances. The general aim would, however, be to attain the highest-level of performance.

Contents of the report

104. (i) The contents of the report should be consistent with the provisions of SAI'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.

Structure of the report

(ii) 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:** while recommendations 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. Thus, in so far as the entity and the SAI are concerned, the action would revolve around implementation of the recommendations and follow-up respectively. It would, therefore, be desirable to gather all recommendations together.
- **Introduction:** consisting 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:** are the pivots of the performance audit, which set out the reason for undertaking the audit. The entire exercise of performance audit is built around the audit objectives. These should, therefore, be stated in simple and clear terms. It is useful to set out the audit objectives and sub-objectives within each audit objective in the form of complete statement/question;
- **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:** 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 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 should be stated, preferably immediately following the audit findings. The completeness of the report enhances if recommendations(s) with respect to each conclusion is/are kept together with the conclusions. Distinctiveness between the conclusions and recommendations may be achieved through formatting techniques;
- **Lessons learnt and sensitivity to error signals:** Under this caption 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 be 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 Accountant General 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.:** Accountants General are encouraged to illustrate the audit findings with the use of graphs and charts and 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 for bibliography:** containing reference to all published material utilizing in developing the reports.
- Impact evaluation against the expected impact of each performance audit and collectively for all performance audits conducted by the Accountant General shall be carried out annually; and
- The impact evaluation will be carried out with reference to the recommendations accepted and implemented.

Critical technical issues in performance audits

105. 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 (impact);
- Apart from the question whether the things are being done 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, deficiency and effectiveness and include apart from others, integrity and 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;
- Prescience of the risks to programmes or public interest demonstrates the competence of the institutions;
- Performance audits can be carried out posteriori 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.

106. Audit plan and programme - detailed guidelines for conduct of 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; and
- Unless authorised by general or special order, the performance audit guidelines will be approved by SAT top management.

107. 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;
- Accountants General are encouraged to identify secondary/ corroborative sources of evidence and establish means for gathering them with the approval of the SAI 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.

108. Sampling

- The audit findings should be based on objective sampling and the sampling techniques used 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 should be selected to be able to generalist the audit findings and be able to meet the standard of sufficiency.

109. Audit findings

- Audit findings should he developed on, the basis of audit tests carried out on the sample;
- Audit findings should he in the context of the 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.

110. Recommendations and follow-up procedure

- All audit reports must contain recommendations arising out of audit findings 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
- 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.

111. Publication

- Stand-alone volume for each performance audit report;
- Deviation from this only with authorization; and
- Performance audit reports prepared and presented during all legislature round the year as per the pre-determined schedule.

112. Reporting procedures

- The reporting covers all types of reporting and includes discussion papers, audit observations, field audit reports, draft performance audit report and the final report;
- Same standards should be applied on all forms of reporting, except that the discussion papers, audit observations and field audit reports will contain more detailed, including the details of evidence used and evidence testing;
- The style guide is to he followed uniformly;
- Lower levels of reporting viz. discussion papers, audit observations, etc. should be written keeping the objective of next level of report and the final report in view;

- The reporting should be strictly in accountability-centered style by designation only, and
- The prescribed structure of performance audit reports should be followed meticulously.

N.B. - For a complete exposition of the topic refer 'Performance Auditing Guidelines issued by Comptroller & Auditor General of India and

- DGA DS letter no.92/ECPA/136/2004-05 dated 24th June 2005 regarding (i) '*Framing of audit objectives, issue analysis and criteria*' and (ii) '*Check list for assessment of performance audit report*' may also be referred.

CHAPTER 7

Computerized Compilation of Defence Accounts and Audit Checks

Introduction

113. 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. Following the significant advances in the field of information technology, Government organizations have become increasingly dependent on computerized information system to conduct their operations and to process, maintain and report essential information. An effective information system leads the organization to achieve its objective and an efficient information system uses minimum resources for this purpose.

In regards to Ministry of Defence, the CGDA is responsible for all accounting matters and he is the Head of the Defence Accounts Department and functions on behalf of Secretary (Defence Finance) as the Chief Authority in all matters affecting internal audit and accounting in respect of expenditure pertaining to the Defence Services. In discharging the duties, the DAD is responsible for:

- (i) Maintenance of the Pay Accounts of Commissioned Officers and other ranks of Army. As regards Air Force, the Pay Accounts of Officers and Airman are maintained by the Service Organisation known as Air Force Central Accounts Officer, New Delhi subject to post audit by DAD. Similarly, the Pay Accounts of Officers and sailors of the Navy are maintained by the service organization known as Naval Pay Office, Mumbai subject to post audit by DAD.
- (ii) Payment of all charges pertaining to all Armed Forces, Defence Civilians and Ordnance and Clothing Factories, including bills for supplies and services rendered, P&A, Misc. charges, Pensions, works etc.
- (iii) The accounting for and adjustment of receipts and all expenditure pertaining to the Defence Services and supply of compiled figures to all Administrative and Financial Authorities for the purposes of budgeting and control of expenditure.
- (iv) Maintenance of store and manufacturing accounts of Ordnance and Clothing Factories and Naval Dockyards.
- (v) Provision of funds, receiving of monthly statement of receipts and charges, compiling monthly accounts.
- (vi) Maintenance of GPF Accounts of Defence Civilians of Army including DAD employees.

These controls are exercised through Controllers of Defence Accounts by the CGDA. The PCDA/CDA as an Accounts Officer collects accounts of all Receipts and disbursements in his area. It is his duty to see that proper accounts are kept of all those transactions and that due measures are taken for their adjustment without undue delay.

Compilation of Accounts

114. The Consolidated Compilation of Accounts of Receipts and Charges of the Army, Navy, Air Force, Ordnance Factories, MOD (Civil) and the DAD are done on the computer by the EDP Centre at CGDA office, New Delhi. The CDA (R&D) New Delhi utilizing the computer facilities available in CGDA were compiling consolidated accounts of Defence Services till 1994 and thereafter the CGDA office itself has started compilation of accounts (Consolidated) at its EDP Centre. To facilitate him, the Distributed Data Processing (DDP) Centres under the administrative control of various Controllers of Defence Accounts process the "Punching Medium" (PM) received by them from the offices being provided cover by the DDP Centres (Please refer DAD OM Part-XI for details) up to Sectional Compilation level and the Sectional Compilation is sent to the concerned offices for verification of its accuracy. The finally processed CDA/Section/Code wise data files, in duplicate on magnetic Tape/Floppy disc and through NIC NET (E-mail) are sent to EDP Centre, CGDA office for further processing and production of book compilation for all Controllers and All India Consolidated Compilation including various reports.

The various stages of compilation of accounts in Controller's office and further procedure followed in DDP Centres are appended below:

Procedure in Controller offices

Preparation of Punching Media

115. For the purpose of mechanical compilation of accounts, the data shown on original documents which are necessary for preparing the various accounts and statistical abstracts are codified in the document known as 'Punching Medium' which is an extract of certain data pertaining to a voucher which is sent by Controller's offices/sections to the respective DDP Centres to serve as a medium. The coded information in the Punching Medium is then transferred to Magnetic Media. The Punching medium must contain in the form of code numbers, all the data pertaining to every item of voucher which are essential for compilation purposes. These are:

- a) Month's account in which the item is compilable (in two digits)
- b) PCDA/CDA in whose jurisdiction, the transaction occurs (in two digits)
- c) Section of the PCDA/CDA's office which deals with the classification of the item (in four digits)
- d) the kind of voucher in which the item appears (in one digit)
- e) the serial distinguishing number allotted to the vouchers (in four digits)
- f) the nature of transaction i.e., Receipt, minus receipt, charge or minus charge (in one digit)
- g) the classification head to which the item is compilable in seven digits. The first two digits indicate whether transaction is compilable to a RDR Head or (ii) a Service Head, or (iii) a pre-partition transaction, the digits 00, 01,03 represent these transactions, respectively. The next three digits represent the minor head and the last two digits the detailed head. Strokes are inserted between the first two digits next three digits and the last two digits.

h) the amount

Of the aforesaid items, only item no. (v) voucher no. and (viii) amount are expressed in figures and all other items are expressed in words which are translated into Code numbers. The Code numbers allotted to the various data under these heads are given in Annexure-I to Para-3 of DAD OM Part-XI for items (i), (ii), (iii), (iv) and (vi) whereas the code nos. for item (vii) above, are given in the 'Classification Hand Book of DS, Receipts and Charges' and 'Pamphlet of Revenue, Debt and Remittance Heads'. New Code numbers to a Controller office are allotted by the office of the CGDA (EDP Centre) and those to the Sections of a CDA office by the Accounts Section of the concerned CDA. The Section code no. so allotted is intimated by the Accounts Section of the CDA to the concerned DDP Centre who is responsible to compile the PM of that Section code. After the PMs have been prepared, they are checked by SO (A)/AAO and the Officer-in-charge of the Section.

Despatch of original copies of PM and filling-up of office copies

116. After due checks of PM, these are returned to the Section and on having been allotted voucher numbers, the original and duplicate copies of the PM are handed over to the concerned person responsible for despatching reports and returns and the triplicate one is pasted on the voucher. On receipt back of the Daily Payment Sheet from the Disbursement Section, it is verified that the original copies of the PM in respect of all items included therein, and of none else, are despatched to DDP Centre. The duplicate copies of the PM are sent to IO Group attached to the DDP Centre concerned in convenient weekly batches. PM in respect of cash vouchers paid between the 25th and the end of the month are forwarded on the day of payment to the DDP Centre concerned. The last batch should contain very few items as far as possible and must reach the DDP Centre on or before 3rd of the month following that to which it pertains. The PM should be despatched with a forwarding memo duly signed by the SO/AAO of the Section concerned. In case of a break in the continuity of voucher number of one batch of PM and another, a remark explaining the missing voucher number(s) should be made on the forwarding memo.

Amendments to PM

117. Errors discovered in the PM should be amended as stated below:

- a) A transfer entry (class 2 voucher) should be put up writing back the wrong classification and showing the correct one and despatched to the DDP Centre in the usual manner.
- b) Other errors - corrections should be intimated to the DDP Centre by memo.

All corrections required to be carried out in the PM of the vouchers of a particular month should be despatched to reach the DDP Centre not later than the date on which the monthly certificate is due. After the dispatch of last batch of PM pertaining to a particular month's accounts, a monthly voucher certificate to the effect that all the PMs required to be included in that month's accounts have been forwarded is required to be furnished so as to reach the DDP Centre not later than the 5th of the succeeding month.

PM for March (Supplementary) (13)

118. The accounts for March (Supplementary) should in all intents and purposes be regarded as the final accounts for the year as there is a gap of about one and a half month between the closing of accounts of March (Preliminary) and March (Supplementary) and in between after closing the accounts of March (Preliminary), the Accounts Section and all other Sections of the Controllers of Defence Accounts should scrutinize the accounts very carefully. For the discrepancies noticed, if any, the adjusting PM in the month of March (Supplementary) should be prepared and it is ensured that no further adjustments are left to be made thereafter. The adjusting PM should be sent to DDP Centre concerned on a date fixed by CGDA (Normally 3rd week of May), to close the accounts finally in the accounts for March (Supplementary) itself.

PM for March (Supplementary correction) (14)

119. After closing the accounts for March (Supplementary), if any error or fictitious code head which is not operated by the Controller originating the PM is noticed, it is essential that the PM for correction to March Supplementary accounts should be prepared to overcome the accounting problem and dispatched to the Accounts Section of the CDA instead of sending direct to the DDP Centre concerned. The accounts Section is supposed to scrutinize the PM very carefully and any error, if comes to light, should be rectified in consultation with the Section concerned. The original copy of such PM should be sent by the Accounts Section itself to the DDP Centre concerned before the date fixed for closure of March Supplementary Corrections Accounts, which is generally the second/third week of June (the date specified by CGA, Ministry of Finance, Department of Expenditure).

PM for March (Supplementary Correction Manual) (15)

120. All out efforts should be made that no PM for Manual Correction is prepared as the accounts are finally closed in the accounts for March (Supplementary Correction). However, only in case of inescapable and important transactions of large magnitude (Say Re. 1 lakh and above), coming to notice after closing of accounts of March Supplementary Correction and which are considered absolutely necessary by the Controllers of Defence Accounts for inclusion, can be manually incorporated on obtaining the specific sanction of Controller General of Accounts (CGA), Ministry of Finance through CGDA. Such proposals should reach to CGDA office before the fixed date for the purpose which is generally the end of July each year (the date specified by CGDA) and no proposals are entertained thereafter.

Procedure in DDP Centre

121. The various stages of work in DDP Centre relating to 'Compilation of Accounts' are:-

- a) Registration and preliminary check of PM.
- b) Keying in and verification of data.
- c) Batch totalling.
- d) Closing of PM Registers.
- e) Printing, checking and despatch of the printed compilations.

Registration and Preliminary Check of PM

122. On receipt of PM from each Section of a CDA's office, these are split up or combined into convenient batches and each batch is entered in a manuscript register, called as 'PM Register' separately maintained section-wise for each CDA. Separate batches for different classes of vouchers are prepared. The following details will be recorded in the 'PM Register' at this stage in respect of each batch:-

- a) No. and date of forwarding memo of PM.
- b) Date of receipt in DDP Centre.
- c) Batch no.
- d) Class of voucher.
- e) Voucher numbers (From – To).
- f) No. of items (Each entry recorded in the PM is treated as a separate item)
- g) Remarks

The following checks are exercised at the time of registering the PM:

- a) It is checked to verify that the PM actually received agrees in all particulars mentioned in the forwarding memo.
- b) It is checked to verify the continuity of voucher numbers within each batch and from one batch to another in order to ensure that no PM has been left out or lost in transit.
- c) Each batch of PM should not normally contain more than 200 items.

The discrepancy noticed, if any, is required to be resolved in consultation with the CDA concerned.

After the PM batches have been registered, totalled and checked, they will be handed over with a 'Work order' showing the work order No. and date, months to which PM relate, CDA and Section Code no., Batch numbers, No. of vouchers in each batch and total no. of items by the PM registration official to the Data-Entry (DE) Section for keying in of data.

Keying in/verification of Data

123. With effect from 1.4.1996 the financial compilation has been switched over to Fox Pro base from COBOL. Under the Fox Pro System the Code Master file is maintained as per Classification Hand Book and Pamphlet of RDR Heads. Another master file viz. Codesec containing the code heads normally used by the concerned sections of CsDA office is also maintained. These files are updated every month with reference to Correction Slips issued by Accounts Section of CGDA office. By executing Fincomp program the mtrns file is created and the PMs are keyed in under menu Data Entry of the concerned Section. The keyed in PMs are appended to mtrns file. While doing the data entry the system checks the fictitious codes with reference to above code master files and transfers to Suspense Heads. After completion of the data entry the voucher-wise and batch-wise report is printed by going to menu Reports in the *Fincomp* program. The report is checked with reference to PMs by I.O. section and necessary corrections are incorporated in *mtrns* file through updation menu in Fincom Program.

Batch Totalling

124. After the data of all the PM is cleaned, a CDA-wise list of batches indicating the batch number, amount of each batch is printed and provided to the IO Group of DDP Centre to ensure that all the batches have been taken into account correctly. The IO Group of DDP Centre checks the list with reference to the entries in the PM Register in which all the batches are entered. In case, any batch is found missing/duplicated, the corrective measures by preparing change Statement are required to be taken. The IO Group also tallies the amount of batches with the amount written manually on the top list of batch.

The IO Group gives clearance of having taken into account all the PM batches correctly to programmer who takes further action for generating Sectional and Detailed Compilation.

Closing of the Punching Media Register

125. After the batches totals are agreed and PM Register have been signed by the In-charge of the Section in token of the fact of agreement of batch total, the PM Registration official should then check the PM numbers under each Section in the Register with the Monthly Voucher Certificate and discrepancies if any will be settled with the parties concerned. If a certificate in respect of any particular section of a Controllers office is not received by the prescribed date i.e., 3rd of following month, the last voucher no. for each class of voucher received and included in the Compilation will be communicated to the concerned Controller's offices and certificate called for. After the prescribed date (3rd of following month), no PM or amendments thereto will be accepted for inclusion in that month's compilation. All such PM or amendments will be noted for incorporation in the next month's accounts. An endorsement 'certificate received and checked' will be made by the PM Registration official under each Section in the PM Registers. A summary of the totals of each Section will then be prepared for each Controller separately after the printing of Sectional Compilation and a certificate will be given by the AAO in-charge below the summary in the following terms:

- a) certified that the Monthly Voucher Certificates have been checked and reference made, where necessary;
- b) the Sectional totals in the registers and the printed compilation have been agreed.

Printing, checking and Despatch of the Printed Compilations.

126. (i) Controller's Sectional Compilation

After the batch totals are agreed and it is ensured that all the PMs received up to 3rd of the following month to which they pertains, have been accounted for, the Sectional Compilation is printed and passed on to the AAO in-charge to ensure that it contains all the pages and no page is missing and also the printing on each page is correct. The grand totals of Receipts and Charges agree with each other. It is also checked to verify that any corrections made manually in the course of checking have been carried out properly. After the Sectional Compilation have been checked and

corrected, CDA-wise code-wise compilation along with back-up of these on Magnetic Media is also prepared by all DDP Centres.

The DDP Centres forward the original copies of their compilation to CGDA along with the back-up on Magnetic Media (viz., floppy diskette or Magnetic tape) and through NICNET (E-mail) so as to reach the CGDA office on or before 5th of the following month. In the case of accounts pertaining to March (Preliminary), March (Supplementary), March (Supplementary Corrections), these are sent to CGDA on the dates so prescribed by the CGDA. Copies of the Sectional Compilation and Allied reports are also furnished by DDP Centre to the Controller's office/Section concerned by 11th of the following month.

(ii) Detailed Compilation of Vouchers

In addition to the Sectional Compilation, a detailed compilation of PM vouchers is printed and forwarded to the concerned Controllers along with the Sectional Compilation. Before despatch to the Controller concerned, the Detailed Compilation of vouchers is scrutinized with reference to the Sectional Compilation to see that the month, classification code etc are correctly printed and that the total of each classification code in detailed list of vouchers agrees with the amount compiled in the Sectional Compilation.

The detailed compilation of vouchers for classification code heads printed monthly as a matter of routine is required to be forwarded to the concerned Controllers between 12th and 15th of the month following that to which they relate.

Procedure being followed in EDP Centre, CGDA, New Delhi

127. On receipt of data from DDP centres the controls are checked and appended to monthly transaction file. The fictitious code heads are checked and if found the same are transferred to following suspense heads:

Fictitious Service Heads	75/020/61
Fictitious RD&R Heads	29/020/61

The transaction file is updated with previous month's aicprog file i.e. summary file consisting of CDA wise, section wise, code wise, and category wise details from April onwards.

Printing of All India Compilation of Defence Receipts and Charges and Book Compilation of RD&R Heads

(i) Controller's Book Compilation of Revenue, Debt and Remittance Heads

The Revenue, Debt and Remittance Heads Compilation is a compilation showing amounts compiled by a Controller's office as a whole under each RD&R Heads. In order to balance the Book-Compilation, the amounts compiled by a CDA as a whole under Service Heads are converted to certain Heads on aicprog file i.e. the Summary file. This compilation besides showing the amounts compiled during the month also reflects the "Progressive" figures up to that month. After the Book Compilation of each Controller's office has been printed, a few checks are exercised to ensure its correctness. Besides, all the copies of the Book Compilations should be

compared and generally scrutinized to see that the manual corrections, where necessary have been made in all the copies.

The Controller's Book Compilation of RD&R Heads is printed in duplicate. One copy is retained as the office copy and the other one is forwarded to the Controllers of Defence Accounts concerned for further action on the 16th of the following month.

(ii) Consolidated Compilation of All India Defence Services Receipts and Charges

This compilation shows the amounts compiled by all the Controllers under each Service Head during a month as well as progressive amounts up to the end of that month. The totals of each Sub-Head, Minor Head, Sub-Major and Major Heads are also exhibited in this compilation both under the current and progressive amounts column. Before printing the Book Compilation and the Consolidated Compilation of All India, Defence Services Receipts and Charges, the following statements are printed in order to serve as a cross check on the figures appearing in the above compilations:

- a) Statement showing the total of RD&R Heads, Service Heads of Army, Navy, Air Force, Defence Ordnance Factories, Defence Services Research and Development (effective from B.E. 2003-04) and Capital Outlay on Defence Services. These group totals are posted manually in the Statement known as 'Broad-Sheet' which shows the totals for each CDA and total for the month in respect of all Controllers of Defence Accounts in each group of services.
- b) Statement showing the total by Minor Head

On the basis of aforesaid statement, a statement showing totals by minor heads in the month and the progressive total up to the end of that month is also prepared manually. After printing the above statements, the summary tape created will be sorted on classification Code Head (Receipts and Charges separately) and the Consolidated Compilation of All-India Defence Receipts and Charges printed which should agree with reference to the statements referred to above. A copy of the printed compilation is sent to the office of the DGADS among others.

(iii) Consolidated Compilation of Revenue, Debt and Remittance Heads

The Consolidated Compilation of RD&R Heads is printed showing the total amount compiled at the end of the month and total up to the month (Progressive) by all Controllers of Defence Accounts under each RD&R Head. The printed compilation should agree with the statements 2(a) & (b) above. The printed Consolidated Compilation of RD&R Heads is forwarded to all concerned with a copy to DGADS office.

(iv) Analysis of All India Defence Services Receipts and expenditure of Controllers

An analysis of the Consolidated Compilation of All India Defence Services Receipts and Charges is printed to show the current and progressive figures separately for each Controller and under each classification Code Head.

The program has been developed in Foxpro for Computerized Compilation of Accounts by various DDP Centres of Controllers of Defence Accounts and EDP Centre, CGDA, New Delhi.

Audit checks

128. The system provides for the safeguards against possibility of omissions and errors both manual and mechanical. However, the following should be seen in audit to ensure that these are actually observed in practice:

- a) Punching media should be prepared by carbon process and the figures therein should be written neatly and legibly.
- b) The punching media for any class of vouchers in any audit section are serially numbered from the first to the end of the month.
- c) On receipt from each section of a Controller's office, punching media are split up or combined into convenient batches if necessary and the particulars of each batch are then entered in a manuscript register called 'Punching Media Register'. At the time of registering the Punching Media it is verified that those actually received agree in all particulars with those mentioned in the forwarding memo, that the continuity of voucher numbers within each batch and from one batch to another is maintained and that no punching medium has been omitted to be sent or lost in transit. If there is a break in the continuity of voucher numbers in a batch or between one batch and another, the omission relating to the missing voucher number or numbers should be explained with a suitable remark in the forwarding memo. Any discrepancies coming to notice as a result of the above checks are settled by the EDP Centre/Section in communication with the Controllers concerned.
- d) The accuracy of each PM is verified by another operator known as 'verifier' by running a program designed to reveal mistakes, if any, in punching.
- e) The punched and verified PMs of each batch are passed through the tabulating machine in EDP Section and the net total of receipts and charges printed separately are agreed with each other. In case of disagreement all causes of disagreement in the batches are investigated and batches agreed with reference to the Punching media. The agreed batch totals are then recorded in the Punching Media Register. These checks are intended to disclose arithmetical errors in the punching medium, punching medium not sent by Audit sections, incorrect punching and items in the punching medium for which cards are omitted to be punched.
- f) However, in the EDP centre the procedure for location and adjustment of discrepancies is as follows:

The PMs verified during the day are arranged CDA/Section wise and sent to the computer room for batch totalling. These are then run on the computer to see that:

- i) the control total as punched in the control card for a particular batch agrees with the control total developed by the computer from the individual PMs.
 - ii) No fictitious head has been operated. (In EDP Section this is ensured by running a program prepared with reference to the Classification Hand Book of Defence Services Receipts and Charges and Pamphlet of RDR Heads). The agreed batches are programmed to be loaded on a magnetic tape and disagreed batches are listed. All cases of disagreement are investigated and batch agreed. The batch in which fictitious head has been operated is also treated as disagreed one and listed. The amount in the punching medium in which fictitious head is detected by the computer (in EDP Section this is done by checking with specially prepared code list) is compiled provisionally by EDP section/EDP centre to Suspense heads. A list of all fictitious Service/RD&R code heads and the provisional code heads (Suspense heads) to which amounts have been transferred is prepared in duplicate by EDP section/EDP centre and sent to the Controller of Defence Accounts concerned, for carrying out necessary readjustment where necessary.
- g) On receipt of sectional compilations from EDP sections summary cards are verified in respect of each item. The cards are listed on the computer and agreed with the sectional compilation. While listing, the computer also checks whether any fictitious code head was operated and if so, it marks that item accordingly. If any fictitious code head is detected in the sectional compilations received from EDP sections, action as indicated at clause (f) above is taken.
- h) When the monthly compilations are printed, the following agreements are effected:-
- i) between the grand totals of receipts and charges in each sectional compilation and the totals recorded in the punching medium register for that section. In EDP centre the batch number and the total under receipts and charges are printed at the end of the sectional compilation of a particular section. It should be verified therefrom that no total has been omitted or included twice. It should also be verified if the amounts printed against a particular head is correct. Grand total of the amounts shown under receipts and charges separately in the sectional compilation should also agree with each other,
 - ii) between the Cheques and Bills total as recorded in the punching Media Register and that shown in the sectional compilation,
 - iii) between the opening balances of units and formations having cash balances in their accounts and the corresponding closing balances of the previous months,
 - iv) between the section-wise totals of summary cards (punched in respect of each item from the section compilations and verified) and the grand total of the compilation for the section,

- v) between the total of each classification code in detailed list of vouchers (i.e. detailed compilation of vouchers) and the amount compiled in the sectional compilation,
- vi) between the sectional totals in the punching media registers and the printed compilation,
- vii) between the total of current receipts/charges in the Controllers Book compilation of RD&R Heads and the Summary total of Punching Media Register,
- viii) between the total of progressive receipts/charges in the book compilation and the previous months progressive plus the current months receipts/charges less the opening balance for the current month/the closing balance for the last month,
- ix) between the total of the amounts printed in the book compilation in the current months column and the grand total of receipts/charges as struck by the computer,
- x) between the opening balance (i.e. amounts appearing against code No. 0/001/00) in the book compilation and the closing balance of the previous month,
- xi) between the consolidated compilation of All India Defence Services Receipts and Charges and the statement showing totals by minor head,
- xii) between the consolidated compilation of RD&R Heads and the controls printed in the statement known as 'Broad sheet' in which the group totals are posted manually and which shows totals for each CDA as well as total for the month under each group i.e. Army, Navy etc. for all Controllers of Defence Accounts. The grand totals of receipts and charges in the Broad-sheet should also agree with each other. After the monthly compilations are printed, it should be seen whether agreement between the two documents as listed in sub-para (viii) 'a' to 'b' above have been effected by the EDP Centre.

CHAPTER 8
CERTIFICATION OF FINANCE ACCOUNTS AND APPROPRIATION
ACCOUNTS (DEFENCE SERVICES)

(A) General

Introduction

129. The Finance Accounts, covering the Accounts of the Union Government as a whole including transactions of Defence are prepared and signed for each financial year by the Controller General of Accounts and countersigned by the Secretary to the Government of India, Ministry of Finance (Department of Expenditure).

130. The material relating to the Finance Accounts, Defence Services are audited by the DGADS, New Delhi and a certificate rendered to the office of the Director General of Audit, Central Revenues. The DGACR is required to audit the Finance Accounts of the Union Government prepared by the CGA, Ministry of Finance before submission to the C&AG of India for certification and submission to the President of India along with Report thereon in terms of Article 151 of the Constitution of India for being laid before the Parliament.

131. The Appropriation Accounts of Defence Services is prepared by the Secretary (Defence Finance) and countersigned by Secretary (Ministry of Defence). It is audited by the Director General of Audit, Defence Services, New Delhi and a certificate rendered to the C&AG of India, New Delhi along with the copies of the said accounts. The C&AG of India certifies these Accounts in pursuance of the provisions of the Article 149 and 151 of the Constitution of India and C&AG's (DPC) Act 1971 and submits to the President of India along with Report thereon for being laid before the Parliament.

Audit Objectives

132. The objectives of Appropriation Audit are to:

- (i) ascertain whether the money expended has been applied to the services and purposes that the Grants and Appropriations were intended to provide.
- (ii) verify whether the expenditure against each Grant and Appropriation is within the amounts authorised by the legislature, and
- (iii) to check whether the orders of allotment of funds and re-appropriation orders conform to the rules & regulations.

Objective of Certification

133. The main objectives of certifying the annual accounts are:-

- a) to verify whether the accounts prepared are correct and complete in all respects;

- b) to ascertain whether the systems followed in the compilation of accounts leading to the Finance Accounts and Appropriation Accounts are satisfactory and fault free;
- c) to examine whether acceptable Government accounting standards for financial reporting and disclosures have been complied with; and
- d) additionally, in the case of Appropriation Accounts, Defence Services, to verify whether moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been charged or applied.

(B) Finance Accounts

134. The Finance Accounts of the Union Government comprises Accounts of the Central Government as a whole. These Accounts present the accounts of the receipts and outgoings of the Government for the year, together with the financial results disclosed by the Revenue and Capital accounts, the accounts of the public debt and the liabilities and assets of the Government concerned as worked out from the balances recorded in the accounts. The Finance accounts are prepared in two parts:

Part I - Summarised Statements

135. The Statements in this part are intended to give in a summarised form information in regard to:

- (a) Transactions of the year relating to the Consolidated Fund, Contingency Fund and the Public Account.
 - (b) Capital Outlay.
 - (c) Financial results of irrigation schemes.
 - (d) Debt position of the Government including expenditure incurred on the Service of debt.
 - (e) Loans and advances by Government including recoveries in arrears.
 - (f) Guarantees given by Government.
 - (g) Cash balances and investment of cash balances.
 - (h) The balances outstanding in Government accounts at the end of the year grouped under the main broad headings.

Part II - Detailed Accounts and Other Statements

136. The detailed Statements in this part contain:

- a) The Statements of Revenue and Expenditure under different heads expressed as a percentage of total Revenue/Expenditure.
- b) Statement showing the distribution between the Charged and Voted expenditure.
- c) Detailed accounts of revenue by minor heads of accounts.
- d) Detailed accounts of expenditure by minor heads.

- e) Particulars of capital expenditure during and to end of the year.
- f) Particulars of investments of the Government in the shares of Statutory Corporations, Government Companies, other Joint Stock Companies, Co-operative banks and Societies etc. to the end of the year.
- g) Statement showing Capital and other expenditure to the end of the year and the principal sources from which the funds were provided for the expenditure.
- h) Statement of receipts, disbursements and balances under heads of account relating to debt, deposits, remittances and Contingency Fund and Public Account.
- i) Detailed Statement of debt and other interest bearing obligations of Government.
- j) Detailed Statement of loans and advances made by Government.
- k) Particulars of earmarked balances relating to Reserve Funds etc.

Scrutiny and Certification of Finance Accounts

137. The material in the form of various statements for the Finance Accounts relating to Defence Services and Ministry of Defence Civil Grants are prepared by the various Controllers of Defence Accounts and are locally audited/checked by the respective Command Officers. During the scrutiny of Statement Nos. 3,4,5,11 & 13 of Finance Accounts prepared by the Controllers of Defence Account, the following points are generally required to be seen by the Command Offices:

- a) While scrutinising the Statement No. 3 relating to the Loans and Advances by the Union Government to State Governments, Statutory Corporations Government Companies, and Non-Government Institutions etc., the subsidiary registers and the broad sheets maintained in the Accounts Section of the concerned Controller of Defence Accounts office, it should be reviewed to verify whether –
 - (i) payment, on the due dates of the instalments of principal and interest by the loanees is properly monitored;
 - (ii) penal interest has been levied on overdue instalments;
 - (iii) loans paid and repaid and the interest remitted have been properly accounted for;
 - (iv) conditions, if any, prescribed by the sanctioning authority have been fulfilled;
 - (v) any amount paid has been erroneously treated and credited as repayment of the principal when any sum is due on account of unpaid interest;
 - (vi) acknowledgements have been obtained periodically from the debtors in respect of outstanding balances; and
 - (vii) the details reflected in the Statement, tallies with the registers and broad-sheets.
- b) While scrutinising the Statement No. 4 relating to Guarantees given by the Union Government to others, it may be ensured that:

- i) since the guarantees constitute contingent liabilities of Government, the ceilings of such guarantees as fixed by the Government are not exceeded;
 - ii) any general or special orders of the Government prescribing the levy of Guarantee Fee/Commission for giving guarantees are duly observed; and
 - iii) a sound system is in place to maintain proper records of the guarantees given along with their terms and conditions.
- c) The details of Statement Nos. 5 & 13 relating to Summary of Balances and details of Receipts, Disbursements and Balances under heads of Debt, Deposits, Remittances and Contingency Fund should be reviewed to verify whether –
 - i) the figures of all interest bearing advances tally with the respective details of Debt, Deposit and Remittance Head Registers and detailed ledgers/accounts maintained in respect of remittances/suspense heads by the Accounts Section in CDA's office since Statement Nos. 5 & 13 form part of Annual Review of Balances;
 - ii) the opening balance of the year in respect of DDR Heads agree with the closing balance of the respective heads in the preceding year;
 - iii) there are adverse balances. If so, the same may be commented upon;
 - iv) the year-wise and gross break-up of net closing balances under various Suspense Minor Heads tally with the Suspense head registers. The amount lying outstanding under various suspense heads should be commented upon for their early clearance;
 - v) any amount is lying outstanding under the Major Head- Cheques and Bills. If so, the same may be commented for its expeditious clearance;
 - vi) any un-reconciled differences between ledgers and broad-sheets exist. If yes, whether the same have been mentioned in the Explanatory Notes to Statement No. 5;
 - vii) the reasons for the minus transactions are explained;
 - viii) information as to whether the person or persons from whom the balance is owned or due on account of Loans and advances, admits its correctness. If not, where the difference lies, may be called for.
- d) During the scrutiny of the Statement No. 11 relating to Investment of the Union Government in the Statutory Corporation, Government Companies, Other Joint Stock Companies, Co-operative Banks and Societies etc, it may be ensured that:
 - i) the investment details should agree with the details so maintained by the Accounts Section in the subsidiary register and investments so made during the year are duly supported with the Sanction Orders;

- ii) whether the amounts of the investment tally and carried forward correctly in the Capital account;
- iii) whether the figures of investments tally with the figures shown in the Statement of Central Transactions;
- iv) whether the dividend/interest received from the concern organisation on account of investments have been shown as correctly booked as Government receipt in the accounts.

In addition to the above the Command Offices may also refer to the guidelines for preparation of these accounts prescribed by the DAD in their books - the Defence Account Code and DAD OM Part-II (Vol. I) issued by the CGDA.

138. After due checks, the Command Offices should send a copy each of the Statements duly audited to the CGDA and to the office of the DGADS with remarks or otherwise. The CGDA is required to compile and send a consolidated copy each of the various statements relating to Defence Services and Ministry of Defence Civil duly certified.

139. While checking the summarised as well as detailed statements of the Finance Accounts relating to Defence by the Appropriation Audit Section in DGADS, the following points should be kept in view:

Statement No. 1 Summary of Transactions

140. It should be ensured that:

- a) The 'actuals' of receipts and disbursement for the year under report should be compared with the 'actuals' for the previous years to see that there are no major variations between the figures. In case of such variations it should be ensured that these are not due to misclassification. These should also be checked with the budget provision under the relevant major heads.
- b) The figures in the statement are shown in thousands of Rupees and by Major Heads of Accounts.
- c) The receipts and disbursements are shown side by side. The left side of the Statement should contain the figures of revenue receipts whereas in the right side the figures of revenue expenditure should be given.
- d) The 'actuals' for the previous years should be compared with the Finance Accounts of that year whereas the 'actuals' for the year under review should be checked with the detailed statement No. 13.
- e) The totals of each Sector/Sub-Sector should be agreed with the totals of that particular Sector/Sub-Sector shown in the Statement No. 13.
- f) The grand totals of receipts and disbursements after taking into account the figures of opening and closing cash balance should agree.

- g) The figures of Statement No. 1 should tally with the relevant figures of statement Nos. 10, 13 and 15.

Statement No. 3 - Loans and Advances by the Union Government

141. The Statement should show the position of loans and Advances at the close of the year paid by the Union Government to (i) State (ii) Union Territory Governments, (iii) Foreign Government (iv) Government Corporation Non-Government Institutions etc. and (v) Government Servants. The figures in para 1 of the Statement should be checked with the detailed statement No. 15. Para 4 and Para 5 should agree with the materials furnished by the CGDA.

Statement No. 4 - Guarantees given by the Union Government

142. The statement should be checked with the material furnished by the Ministry of Defence. It should be seen that the sums guaranteed outstanding at the end of the year are not more than the maximum amount of guarantee, for which Government have entered into agreement. Where it is not so, the difference should be explained by a foot note. It should also be ensured that the total amount of guarantees as well as the amount involved in guarantees, if any, invoked during the year is reported to the office of the Director General of Audit, Central Revenues for a mention in the Audit Report on the accounts of Union Government.

Statement No. 5 - Summary of Balances

143. Cash Balances of these statements should be checked with the detailed statement No. 13.

Statement No. 11 - Investment of the Union Government in the Statutory Corporation, Government Companies, Other Joint Stock Companies, Co-operative Banks and Societies etc.

144. This statement deals with the Investments of the Union Government in Statutory Corporations, Government Companies, other Joint Stock Companies, Co-operative Banks and Societies etc. up to end of the year. During scrutiny it should be seen that:

- a) The material for this statement is furnished by the CGDA and Ministry of Defence. This should be compared with earlier years' details and financial results of Defence PSUs.
- b) The figures of investment during the year should agree with the figures shown in the respective detailed Appropriation Accounts.
- c) The amount of dividend received and credited to the Government Account during the year should agree with the receipts booked under Major Head "0050-Dividends and Profits".
- d) It should be ensured that the Investments are categorized correctly under the heading Statutory Corporations, Joint Stock Companies etc.
- e) The number of Shares/Debentures and their face value is given in all the cases. The figures of total investment shown against each organisation should agree with the total number of shares/debentures multiplied by

their face value and if it does not agree, reasons therefor must be ascertained and explained.

- f) The latest position of the concern organisation regarding declaration of dividend during the year as well as cumulative loss, if any, is shown in the remarks column of the statement. All other important features regarding the concern organisation should also be explained in the remarks column.

Statement No. 13 - Receipts, Disbursements and Balances under heads of account relating to Debt, Deposits, Remittances and Contingency Fund

145. It should be ensured that:

- a) The material obtained separately from CGDA in the form of RD&R heads compilation should be compared with the figures compiled in the Statement to ensure that the two sets of figures are the same.
- b) The opening balances of the statement should be checked with the closing balances of the previous Finance Account and the difference, if any, is duly explained incorporating auditable foot note and it should be ensured that there is no difference between the closing balance of previous year's Finance Accounts and the opening balance of this year's Finance Accounts.
- c) The total worked out at each stage is correct.
- d) Any proforma correction affecting the closing balance is explained by incorporating a suitable foot note.
- e) There are no adverse balances in the accounts and if there are any, the reasons therefor are explained by giving suitable footnotes.
- f) It should be seen that there is no unauthorized head.
- g) The major heads as well as Minor Heads under each Major Head are arranged in the same chronological order as in the list of Major and Minor Heads of Accounts.
- h) The figures of prior period adjustments should be shown separately under the concerned column of Receipts or Disbursement as the case may be against the relevant Minor Head just below the current transaction figures and their (i.e. prior period) adjustment should be struck separately at all the levels of Major/Sub-Major/Sector/Fund wise etc. in the statement up to the end i.e. up to grand total.

Statement No. 14 - Debt and other Interest bearing obligations of Government

146. It should be ensured that:

- a) The total of each Major Head under all columns agree with the Major Head wise figures shown in Statement No. 13.
- b) The figures of minus balance are explained by giving suitable foot notes.
- c) There are no unauthorised heads.

Statement No. 15 - Loans and Advances showing the amounts advanced and repaid, interest received during the year and the Balances of such Loans and Advances at the commencement and close of the year

147. It should be seen that:-

- a) The total of Major Head figures in this statement should agree with the Major Head figures of the Statement No. 13 agrees with the total of Sector "F-Loans in the Statement No. 5.
- b) The figures of opening balance in the statement agree with closing figures of the previous. The difference, if any, is explained with a suitable note.
- c) The details of Minor Head under Major Head 7601 'Loans and Advances to State Government' should agree with the details in the Statement No. 13.
- d) There is no unauthorised head, and
- e) The minus balances are explained by giving foot notes.

Statement No. 16 Details of Earmarked Balances

148. (i) It should be seen that in respect of composite Major Head like "Depreciation Reserve Funds of Government, the details are shown in this statement. The Major Head wise total of this statement should agree with the Major Head wise total shown in Statement No. 13 where all the Minor Heads relating to one Major Head of statement No. 13 are shown in toto in statement No. 16 by giving therein break up as detailed heads/sub-heads or by exhibiting the Minor Head itself in the shape of earmarked balances.

(ii) In addition to the various checks indicated above, it should be examined whether:

- a) the heads of account shown in the Accounts are authorised ones and the nomenclature thereof conform to the classification contained in the List of Major and Minor Heads of Accounts;
- b) there are any anomalies or obvious mistakes of classification;
- c) wide variations between the revised estimates and the actual expenditure have been properly examined to ensure that there has been no serious misclassification of expenditure;
- d) per contra adjustments have been carried out correctly in all cases;
- e) abnormal transactions of receipts, disbursements or balances have been investigated and rectified or properly explained by foot notes.
- f) the opening balances agree with the closing balances shown in previous year's accounts;
- g) the adverse balances have been adequately explained and the action taken for liquidating these is sufficient;
- h) the figures tally with those contained in the Appropriation Accounts;
- i) the figures exhibited in the summarised statements agree with those in the detailed statements; and
- j) totals shown in the statements are correct;

(iii) Further, advances drawn from the Contingency Fund and their subsequent recoupment should be carefully watched so as to ensure that they are properly accounted for and there is no omission. Any discrepancy between Statements 13 and 14 should also be checked and corrected.

(iv) Further, the detailed guidelines for the submission of material for the Compilation of Union Government Finance Accounts, issued to all Financial Advisers, Controllers, Accountant Generals and Pay and Accounts Officers etc. by the CGA, Ministry of Finance, Department of Expenditure every year should also be taken into account while exercising the checks on the Finance Accounts and points worth commenting should be reported through audit paragraphs in the Audit Report. After vetting the entire material relating to Union Government, Finance Accounts in respect of Ministry of Defence (Civil) and Defence Services received from the CGDA in batches with the approval of DGADS, an Audit Certificate of DGADS as referred to in Annexure-4 to Paragraph 3.16.7 of C&AG's M.S.O. (Audit) (Second Edition 2002) is furnished to the office of the DGACR who is the authority responsible for auditing and getting the Union Government Finance Accounts certified in the following form:-

AUDIT CERTIFICATE

“I certify that the accounts relating to the Defence Services compiled by the various Controllers of Defence Accounts and Controller General of Defence Accounts for incorporation in the Finance Accounts of the Union Government for the year have been examined and audited under my direction in accordance with the requirements of Articles 149 and 151 of the Constitution of India and Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

As a result of test audit carried out under my direction and on consideration of explanations given to me, I certify that, to the best of my knowledge and belief, the accounts and the review of balances have been correctly prepared”.

(C) Appropriation Accounts of the Defence Services

149. The Appropriation Accounts, Defence Services, present the accounts of sums expended during the year, compared with the several sums specified in the Schedules appended to the Appropriation Acts passed under Articles 114 & 115 of the 'Constitution of India'. Appropriation Accounts of the Defence Services consists of the details of following six Demands for Grants/Charged Appropriation:-

- | | |
|----------------------|---|
| 1. Major Head – 2076 | Defence Services – Army |
| 2. Major Head – 2077 | Defence Services – Navy |
| 3. Major Head – 2078 | Defence Services – Air Force |
| 4. Major Head – 2079 | Defence Ordnance Factories |
| 5. Major Head – 2080 | Defence Services-Research & Development
(Introduced w.e.f. Budget Estimates 2003-04) |
| 6. Major Head – 4076 | Capital Outlay on Defence Services |

150. These accounts exhibit the total sanctioned grant/appropriation, actual expenditure and savings/excesses in respect of above mentioned six grants of the Defence Services. Apart from other observations, savings exceeding Rs. 100 crore

and above and excess in a grant/appropriation are also commented upon for which a detailed explanatory note is furnished by the MOD to PAC duly vetted/certified by the Test Audit. Further, in view of circumstances leading to the excesses as mentioned by the MOD in their explanatory note to the excesses, PAC submits its report and initiate regularisation action by the Parliament under Article 115 of the Constitution.

151. Appropriation Accounts of the Defence Services contains following six Sections as under:-

- | | | |
|----|---------------------------|--|
| a) | Section-I | Summary of Appropriation Accounts |
| b) | Section-II | Detailed (Grant-wise) Appropriation Accounts |
| c) | Section- III | Certificate of the Controller General of Defence Accounts |
| d) | Section-IV
Expenditure | Review of Military Engineer Services |
| e) | Section-V | Appendices |
| | <i>Appendix 'A'</i> | Losses of cash |
| | <i>Appendix 'B'</i> | Losses of Stores |
| | <i>Appendix 'C'</i> | Statement of infructuous expenditure |
| | <i>Appendix 'D'</i> | Cases of gifts and transfer of property to Non-Government Organisation |
| f) | Section-VI | Military Farm Accounts etc. |

Scrutiny and Certification of Appropriation Accounts of the Defence Services

152. While conducting the Appropriation Audit of the Accounts in respect of all the six demands for grants of Head-wise Appropriation Accounts: Section-I & II, it is to be seen that:

- a) the number and/or nomenclature of the Grant/Appropriation have been mentioned correctly;
- b) the heads of account mentioned in the Accounts are authorised ones;
- c) the sub-heads have been grouped separately in the 'Revenue' and 'Capital' Sections and 'Charged' and 'Voted' figures have been shown distinctly;
- d) the original provisions, supplementary provisions and amounts re-appropriated or surrendered have been exhibited correctly;
- e) gross figures of expenditure have been adopted in cases where recoveries by debit to heads of account under a different Grant/Appropriation are adjusted in reduction of expenditure;
- f) excesses and savings have been explained in all cases according to the monetary limits prescribed and wanting information, if any, has been called for;
- g) the facts and figures mentioned in various "Notes" are correct;
- h) the grant-wise details of estimates and actual recoveries adjusted in reduction of expenditure have been prepared correctly;

- i) the amounts exhibited in the accounts tally with those shown in the Finance Accounts; and
- j) the amounts shown in the Grant Summary of Appropriation Accounts agree with grant-wise details of recoveries, and reconciliation of the expenditure in the Appropriation Accounts with that reflected in the Finance Accounts has been worked out correctly in the Grant Summary;
- k) Whether all-important variations under the units of appropriation have been explained;
- l) Whether any explanation requires modification or comment as a result of audit;
- m) Whether the re-appropriation of money from one head to another is as per rules in vogue;
- n) Funds should not be appropriated or re-appropriated to meet the expenditure on New Services/New instrument of Services etc;
- o) Whether there is any rush of expenditure in the March, i.e; the closing month of the financial year;
- p) Surrenders have been made in time wherever foreseen without waiting till the end of the financial year to meet the requirements of possible future excesses;
- q) All re-appropriations exceeding the limit of 25 per cent of Budget Estimates or Re. 1 crore or more under a sub head, had the prior approval of Secretary (Expenditure)/Additional Secretary (Expenditure), Ministry of Finance;
- r) Whether all such re-appropriations had been reported to the Parliament along with the last batch of Supplementary Demands for grants for their reflection in the Annexure to the last batch of Supplementary Grants;

153. The object of the Appropriation Accounts is to present the audited accounts of expenditure from the Appropriations for the year with full explanations of all important variations between the final appropriations and the actual expenditure. All major variations where the expenditure is unusually high or low with reference to the allotment in a year is noticed, such specific areas of expenditure should be reported by the Appropriation Audit Section to the respective Audit Groups of DGADS as well as to the Command Offices to be used by them for detailed examination for a possible comment.

The Section I to VI of the Appropriation Accounts, Defence Services contains the information of the following nature:

Section-I : Summary of Appropriation Accounts

154. The Section-I of the Appropriation Accounts, Defence Services contains the Summary of Head-wise Appropriation Accounts in respect of the six grants of the Defence Services viz; grant relating to Defence Services Army, Navy, Air Force, Defence Ordnance Factories, Defence Services-Research and Development and Capital Outlay on Defence Services. It reflects the overall picture of Accounts in

respect of each grant i.e. the amount of Grant/Appropriation; expenditure incurred/booked their against, savings or excesses w.r.t. the Appropriation.

155. The savings of Rs 100 crore and above, noticed in any grant whether in charged or voted segment is commented upon through an audit paragraph, which requires furnishing of the Explanatory Notes by the Ministry to the PAC duly vetted by audit *inter-alia* bringing out the specific reasons which attributed the huge amount of savings in a grant, besides ATN on the paragraph. Similarly, if any excess is finally noticed in any grant irrespective of the consideration of amount (Whether it may be Re. 1 to any amount), a paragraph is prepared calling for submission of the Explanatory Notes duly vetted by audit to the PAC for further taking up regularisation action by them through laying of Excess Demands for Grants in the Parliament.

Section-II : Detailed (Grant-wise) Appropriation Accounts

156. This Section contains the detailed (Grant-wise) Appropriation Accounts in respect of each grant *inter-alia* bringing out the minor head-wise details of expenditure booked both in Charged and Voted segment w.r.t. the allocation and excess/savings noticed.

157. Besides this, it also contain the explanation for variations between (i) Budget Estimates & Revised Estimates and (ii) Revised Estimates & Modified Appropriation (Final grant) and (iii) Modified Appropriation & Actual expenditure, which are also vetted by the Appropriation Audit Section w.r.t. the supporting documents of the concerned Directorates/Service Headquarters furnished by the Ministry of Defence. In the Accounts, only variation for savings of Rs. 50 lakhs and above and excess of any amount occurred under the minor heads are explained after the summary of each grant. The variations of the lower amount of (less than 50 lakhs in each minor head) the savings are not required to be annotated/explained as per instructions in vogue issued by the Ministry of Finance in this regard. The figure portion is checked w.r.t. the All India Compilation Defence Receipts & Charges March (Final), prepared by the CGDA. The recoveries in the Accounts, which are treated as reduction of expenditure in a particular head, is added back besides the amount incurred by the other departments on behalf of MOD (viz. expenditure incurred by DAVP etc.) since the All India Compilation of Receipts and Charges reflects the net expenditure figures, whereas the Appropriation Accounts, Defence Services reflects the gross expenditure figures as also the Demands for Grants authorises the sum for gross expenditure.

158. While scrutinising the Head-wise Appropriation Accounts, Defence Services, the aforesaid audit checks are generally required to be taken into account by the Appropriation Audit Section in DGADS and during the scrutiny of Book Compilation in respect of Receipts and Charges by the Command Offices while certifying the correctness of bookings under Major Heads 0076 to 0080 (Receipts) and expenditure under Major Heads 2076 to 2080 (Revenue) and 4076 (Capital), made by the Accounts Section of Controllers of Defence Account, it is generally to be seen that:

- a) the expenditure shown as compiled in the book compilation of Controllers of Defence Account in various Major/Minor Heads of

- expenditure, tally with the booked expenditure of figures in the Subsidiary registers maintained by the Accounts Section;
- b) the heads of accounts where the expenditure is unusually high or low with reference to the allocations, if noticed, may be commented upon;
 - c) the heads of accounts, where the Excess or Savings of high magnitude registered should be critically examined. The specific areas in which the excess/savings of unusual nature is noticed, the details thereof may be used as a feed back for further examination by the Local Audit;
 - d) whether the pace of expenditure under various heads during the month of the year shows a uniform trend. If not, the specific reasons therefor may be ascertained. If the rush of expenditure in the month of March is noticed, the same may be commented;
 - e) the heads where the expenditure exceeded the allotment, it is to be ensured that such excess is covered by specific re-appropriation order/additional allotment of funds etc;
 - f) there should not be expenditure against any heads of accounts, where there exists no allotment of funds;
 - g) the locally controlled heads where the money have been re-appropriated, it may be ensured that the amount has been re-appropriated with the prior approval of CFA and also the rules for such re-appropriation have been taken care of properly.

For more details, the books viz., Defence Account Code, Delegation of Financial Powers Rules, FR Part-I may be referred to by the Command Offices.

Section-III: Certificate of Controller General of Defence Accounts

159. Section-III of the Appropriation Accounts, Defence Services deals with the certificate of the CGDA, prepared by the CGDA after consolidating the category-wise statement details of all the Annual Audit Certificates of CsDA received duly audited from our Command Offices (CTA Section). During the scrutiny of the Annual Audit Certificate (AAC) prepared by the Financial Advice Section (FA Section) of Controller of Defence Accounts office by the Command Offices, the following points are generally required to be seen by the Central Audit:

- a) The records forming basis of preparation of AAC have been maintained properly by the FA Section showing position of each individual items upto 31st March with its corresponding position as on 30th June of the succeeding year.
- b) The narration of each case mentioned in the AAC, in which the expenditure was incurred in the absence of necessary sanction, should be self contained giving full particulars of the expenditure by clearly indicating the circumstances leading to expenditure. The details of old items where the necessary sanction is still awaited, should be given in separate Annexure to the AAC.
- c) Statement showing outstanding on account of payment issue of stores supplied/services rendered and rent and allied charges, should give an analysis of the outstanding, party-wise and year-wise, indicating the

brief reasons for outstanding under each category and steps taken to liquidate the same.

- d) The AAC should contain the complete details of each of the cases of Major Financial and Accounting Irregularities in a separate annexure attached to the certificate. The cases worth commenting should be critically examined and details kept for further examination by the LTA Party, if necessary.
- e) The results of Stock Verification in Defence unit/formations revealing surpluses/deficiencies shown in the AAC should be further examined to see whether the steps for taking on charge the surpluses and regularisation of deficiencies have been proposed by the CDA.
- f) The number of audit objections raised up to 31st March showing position of outstanding as on 30th June of the succeeding year in the AAC with year-wise break-up should be commented for expeditious settlement of older cases particularly.
- g) The number of cases of losses which are awaiting regularization for more than one year and where the amounts involved are substantial enough to require the sanction of Government of India or Ministry of Defence under delegated powers should be pursued for their early regularisation.

Besides above, the CO may also refer to the DAD OM Part-II, Vol. I and Defence Audit Code Vol. II for further details/audit checks.

160. The cases mentioned in the CGDA certificate are those which came to notice by the Controllers of Defence Accounts in the course of internal audit during the year. This section contains the position of items upto 31 March, but outstanding as on 30 June are included in the CGDA's Certificate such as:

- a) Cases of incomplete maintenance/non-maintenance/non-production of Stores Accounts;
- b) Results of Stock Verification in Defence Installations i.e; Surpluses/deficiencies;
- c) Cases of non-verification of credit of stores including imported stores;
- d) Outstanding dues on account of stores Supplied and Services rendered from Central Civil Departments, State Governments., Ordnance Factories, Railways and outside bodies etc;
- e) Details of outstanding dues on account of Special Flights/Air-lifts provided by the Air Force;
- f) Dues on account of Licence Fee and allied charges;
- g) Losses awaiting regularisations;
- h) Cases of claim against the Railways/Shipping Corporation/Airways etc;
- i) Outstanding audit objections raised by Internal Audit and Test Audit; and
- j) Details of important cases of financial and procedural irregularities etc.

161. This certificate prepared by the CGDA is countersigned by the Secretary (Defence Finance). In the certificate, the CGDA should, however, continue to cite the reservation and specific instance in regard to the items considered important enough to be brought to the notice of the Public Accounts Committee viz; severe irregularities in respect Store Accounts, stock verification, use of transport etc. irrespective of whether the authority competent to regularize them in Government is not.

During the scrutiny of the CGDA certificate it should be generally seen in DGADS office that:

- a) The figures mentioned in the certificate tallies strictly with the consolidated figures of corresponding figures in the Annual Audit Certificates in respect of all items received duly vetted from the command offices;
- b) The certificate depicts as a whole, the correct result of internal audit conducted by the DAD vis-à-vis the entire field of defence expenditure;
- c) Whether the cases in which ex-post-facto sanction of the Government. of India is awaited where the expenditure had already been incurred, have been disclosed in the body of the certificate with complete details thereof in the separate Appendix;
- d) The cases of reservations or qualification made in the certificate should be supported with few specific and glaring instance with complete details furnished in the Appendix;
- e) The relative position (i.e. extant of improvement or deterioration noticed) as compared with that to immediate preceding year in regard to certain important feature of accounting such as, state of accounts, position of stock verification, outstanding on account of payment issue, arrears in linking of invoices with accounts etc, should be brought out properly duly supported by necessary details;
- f) In cases of non-maintenance/improper maintains/Non-production of accounts, the statements enclosed with the certificate should contain full details of the irregularity such as the name of the unit, nature of accounts, the period involved, the brief of the irregularity etc;
- g) Outstanding on accounts of payment issues of stores and License fee should indicate in separate statements the party-wise and year-wise break-up, brief reasons for the outstanding under each category and the step taken to liquidate the same;
- h) The cases of Major Financial and Accounting irregularities should be mentioned in separate annexures to the certificate inter-alia bringing out the specific details of the cases. The points worth commenting should be suggested for detailed examination for a possible comment in the Audit Report;
- i) It should be seen in the CGDA certificate that the position of the various outstandings as on 31st March relating to the particular financial year be reflected giving position of outstanding as on 30th June of the following year.

162. The materials contained in the certificate is checked in the Office of the Director General of Audit, Defence Services with reference to the audited copy of Annual Audit Certificates in respect of various Controllers of Defence Accounts received from COs and after its check, the same is sent to the Ministry of Defence (Finance/Budget) with remarks, if any. After the finalisation of Audit remarks referred to Min. of Defence, the certificate is incorporated in the Appropriation Accounts. Simultaneously, the important cases of Major Financial Accounting Irregularity (MFAI) included in the Certificate should be reported to the respective Audit Groups in the DGADS office by the Appropriation Audit apart from conveying the same to the Command Offices concerned for detailed examination.

Section-IV : Review of Military Engineer Services Expenditure

163. This Section deals with the Review of MES Expenditure, which is also a consolidation of facts and figures of all the 'Review of MES Expenditure' prepared by each CsDA in respect of MES formations under their jurisdiction received duly test checked from Command Offices by the CGDA. The annual Review of MES expenditure prepared by the 'Engineer Section' ('E' Section) of Controllers office should generally be examined by the Command Offices to see that:

- a) The information given in the review is duly supported by all the eight Statements 'A' to 'H' as prescribed by the DAD OM Part-VIII.
- b) The list of all major works carried out during the year costing Rs 25 lakh and above showing variations over 50% between the year's original allotment and expenditure, is duly supported by the main reasons for such huge variations. The details of works worth commenting should be collected and furnished to the local audit for further scrutiny.
- c) Similarly, all the works costing Rs 25 lakh and above carried out, listed in the Statement showing variations beyond tolerance limit i.e; variations in expenditure over 10% of the original estimates, the reasons given therefor should be critically examined for a possible comment.
- d) The reasons for the 'Non-Budgeted' works costing Rs 10 lakh and above carried out during the year under Para 11 or Para 12 of 'Defence Works Procedure – 1986' should be examined. It should also be ensured to see whether they had been administratively approved by the competent authority subsequently.
- e) The following types of cases given in the Statement showing irregularities in connection with contracts, the acceptance of tenders etc., should be critically examined:
 - i) Cases in which tenders other than the lowest have been accepted.
 - ii) Cases showing defective drafting of contracts.
 - iii) Cases in which work was started or carried out without concluding any contract.
 - iv) Cases in which contract Rates/Amounts were enhanced without increasing the scope of work(s) to be carried out by the Contractor(s).

- v) Cases in which long term contracts are not considered to be financially sound.
- vi) Cases in which extension of time were granted.
- vii) Cases in which Deviations Orders were issued late and where Deviation Orders were issued after the completion of work.
- viii) Miscellaneous cases where the irregularities are due to individual errors or due to any general tendency.

The details of such cases/contracts which are considered worth, should be collected for further examination by the LTA Parties.

- a) The cases of remission/reduction of departmental charges on deposit works undertaken by MES during the year under review, the specific reasons for such remissions etc., should be critically examined.
- b) All the outstanding cases of works awaiting formal sanction of the competent financial authorities at the end of the year, executed under Para 10, 11 and 12 of 'Defence Works Procedure – 1986' should be taken up for their immediate regularisation.

For further checks and guidelines for preparation of review, the Command Offices may also refer to the Defence Audit Code Vol. II and DAD OM Part-VIII.

164. Every year the Secretary (Defence Finance), Ministry of Defence (Finance) publishes in the Appropriation Accounts a review of the expenditure incurred by the Military Engineer Services. This review deals, *inter-alia*, with variations as a whole between the original grant and actual expenditure as well as variations in respect of individual works, rush of expenditure in the closing months of the financial year, irregularities connected with contracts and in the actual execution of works, cases of the deviation from "Works Procedure", outstanding on account of rent, water, electricity etc. This review, like that on the main accounts is required to be examined carefully.

165. A statement showing the amount of departmental charges on deposit works undertaken by MES remitted/reduced is also published in the Appropriation Accounts.

166. The Secretary (Defence Finance) also comments on variations in expenditure in respect of major works. The comments are made with reference to statements of important variations between original allotments and actual expenditure during the year and between original estimates and total expenditure in respect of works completed during the year published as annexure to the Appropriation Accounts. These statements are based on those prepared by Controllers of Defence Accounts and checked by the Chief Engineer and the Command Officers are required to Check these statements during the scrutiny.

167. Statement showing variations between original appropriation for works and actual expenditure during the year and variation between original estimates and actual expenditure in respect of works completed during the year - based on the proforma statements rendered by the Controllers of Defence Accounts to the Deputy Financial Adviser (Works).

168. To enable the Director General of Audit, Defence Services to satisfy himself that no case requiring inclusion in these statements is omitted and that the explanations for variations furnished are correct, Command Officers are required to check the statements and forward the same to the Director General of Audit Defence Services. The statements should be checked *inter-alia*, to see:-

- a) That the statements are checked by the Chief Engineer before they are transmitted to the Deputy Financial Adviser (works);
- b) Whether the variations are due to neglect to follow prescribed rules or to a defect in procedure which required to be remedied;
- c) Whether the variations are due to defective estimating; and
- d) Whether prompt action is taken to revise estimates when necessary as required by the regulations.

169. If the statements prepared by the Controllers of Defence Accounts are not ready before the commencement of the audit of the MES formation concerned, the necessary particulars should be collected by the COs from the Register of Grants, allotment orders, monthly expenditure returns etc., and the statements when received should be checked with reference to the data thus available.

Section –V : Appendices

170. This section deals exclusively with the details of losses of Cash/Stores/infructuous expenditure written off by the Government of India and other competent financial authorities and claim abandoned as irrecoverable and finally dealt with during the year and details of gifts/transfer of Government. property and these cases are reflected separately in Appendices as detailed below:

- a) Appendix 'A' Deals with the Cash losses of various categories regularised during the year and losses of Rs 25,000 and above due to theft, fraud or gross neglect and Rs 50,000 and above due to other causes, are annotated.
- b) Appendix 'B' This shows the total amount of Store losses under various categories written off/regularised during the year and losses of Rs 75,000 & above due to theft, fraud or gross neglect and Rs 2 lakhs and above due to other causes, are annotated.
- c) Appendix 'C' Contains details of infructuous expenditure regularised during the year with annotations of individual cases exceeding Rs 1 lakh in each case.
- d) Appendix 'D' Details of gifts and cases of transfer of Government. property of the value of Rs 1 lakh each and above issued free or at concessional rate to Non-Government.Organisation (NGO) are mentioned in this appendix.

These statements are to be checked with a view to see that all cases requiring individual mention are so mentioned and the figures included in these statements are correct. The statements published in the Appropriation Accounts are based on the statements prepared by the CGDA/CsDA.

171. The statements prepared by CsDA are checked by Command Officers. The Financial Advice (FA) Section of Controller's office, on receipt of details of all losses of Cash, Stores, Infructuous expenditure and details of gifts and cases of transfer of Government property free or at concessional rates to Non-Government Organisations, from LAOs/RAOs and various Sections in Controller's office, prepares quarterly and annually, the Statements of losses finally dealt with during the year for consideration and submission to the CGDA through the Director of Audit, Defence Services. On receipt of the statements of losses, the Command Offices are generally required to see that:

- a) all the losses regularised/written off during the year have been taken into account by the FA Section while preparing the Consolidated Statement of losses based on the report so received by them from LAOs/RAOs and various section of Controller's office.
- b) losses written off in respect of stores short landed at parts by shipping agents, should be classified as losses of Cash instead of Store loss.
- c) cases involving provision of Government or Hired transport to non-entitled personnel regularised by the competent financial authority should be treated as Cash losses.
- d) details of losses etc., to which no precise monetary value can be assigned should also be included at the bottom of the statement.
- e) losses pertaining to issue of stores in which cash recoveries are required to be made i.e; loss due to irrecoverable payment issues should be treated and regularised as Cash loss.
- f) losses pertaining to Cantonment Funds should not be included in the Statements as these are not required to be incorporated in the Appropriation Accounts.
- g) all irregular issues or over issues of stores should be treated as stores losses.
- h) each item figuring in the Statement of losses should contain a reference to the particular heading and category in which it has to be included in the main Statement.

The Command Offices may also refer to the Financial Regulations - Part-I and DAD OM Part-II, Vol. I in this regard.

172. The statements prepared by the CGDA are checked in the Headquarters office with reference to the statement prepared by CsDA received duly checked by Command Officers with a view to ensuring that all cases requiring mention have in fact been included therein.

173. However, while scrutinising the Appendix to the losses and annotations of individual cases with the prescribed limits, it is to be seen that:

- a) Appendix 'A' dealing with the cases of various categories of cash losses pertaining to Defence Services finally dealt with during the year have been prepared strictly in accordance with the details received duly audited from COs in respect of each CsDA in their jurisdiction and it tallies with the consolidated figures of all CsDA concerned;

- b) Similarly, Appendix 'B' dealing with the cases of various categories of Store losses have been prepared properly and the consolidated figures tallies with the audited figures so received through COs;
- c) Whether the loss of imported stores in transit whenever occurs, have been treated as loss of public money and accounted for as Cash loss instead of Store loss;
- d) Whether all the individual cases of Cash/Store loss regularised during the year and require to be annotated with reference to the prescribed financial limits for the purpose, have been annotated;
- e) Whether the annotations of Cash/Store losses have been prepared strictly in accordance with the statement of cases, sanctions etc. received from the Ministry along with each of the annotation;
- f) Whether all the annotations of Cash losses have been segregated and kept at a place under the respective categories of cash losses in the Appropriation Accounts;
- g) Similarly, the annotations relating to store losses may be checked to see that all of them have found reflected at a place under the respective categories of Store loss.

Section-VI : Review on the Accounts of Military Farms

174. The Consolidated Account of Military Farm, published in this Section of the Appropriation Accounts of the Defence Services is test audited by the Command Officers. The Bakery accounts are not included in the Appropriation Accounts.

175. In the case of Farms, the accounts published in this Section of the Appropriation Accounts are based on the accounts furnished by the Deputy/Assistant Directors of Military Farms to the Deputy Director General of Military Farms (DDGMF) and are checked by the Controller General of Defence Accounts. A copy of the consolidated account of each Command is also furnished by the Deputy/Assistant Director of Military Farms to the Controller of Defence Accounts concerned.

176. The consolidated accounts of each command after scrutiny by the CsDA concerned are test audited by the Command Offices concerned on the lines indicated below to see that:-

- a) no item of expenditure pertaining to the working of the Farms is omitted from the cash book and annual Trading and Profit and Loss accounts;
- b) prompt measures have been taken to charge all liabilities of the Farm against the assignment of the year to which they relate;
- c) the sale proceeds of all Farm produce sold have been realized promptly and credited in the cash book;
- d) issues of fodder on payment are made by the Farms to those authorised under regulations. Care should be taken to see that free issues of fodder are not made to officers direct from Farm stocks;

- e) the value of rations and clothing issued under due authority to Farm's personnel has been adjusted in the cash book at "payment issue rates";
- f) stores are purchased by the Farm's from the Government Supplying Departments;
- g) products and by-products of the Farms which are not required for government use, are to be sold to the best advantage of the State under the orders of the CFA;
- h) all books have been properly linked and inter-linked;
- i) examine the reasons for the variation as compared with previous years;
- j) reconcile the figures in the Trading Account with the monthly cash accounts and cash compilation;
- k) important items of expenditure should be carefully analysed;
- l) all losses are mentioned in the Trading account.

The Command Offices, for further details may also refer to Army Local Audit Manual, Part-I.

177. A test audited copy of the annual accounts of Military Farms in respect of each Command is required to be sent to the DGADS along with audit certificate thereon by the respective Command Offices for further necessary action.

178. On receipt of the consolidated copy of the Military Farm accounts from DDGMF, the CGDA after due checks counter signs these accounts and prepares a 'CGDA Note' for making a part of these accounts and send it to Ministry of Defence (Finance/Q). The Ministry in turn prepares a Financial review on the accounts of Military Farms for inclusion in the Appropriation Accounts, Defence Services and sends a copy of the entire accounts to the O/o the Director General of Audit, Defence Services for certification. The entire accounts including 'Financial Review' and 'CGDA Note' are audited in the DGADS office with reference to the audited copies of command wise accounts so received from the Command Offices.

179. The consolidated accounts to be published in the Section VI of the Appropriation Accounts are checked by the office of the Director General of Audit Defence Services. The Review of the Secretary (Defence Finance) will also be carefully examined. Draft paragraphs if considered necessary, will be prepared in the usual manner.

180. After ensuring the correctness of these accounts, a certificate, based on the certificate furnished by the Command Officers concerned with the Review of the Trading account of the Military Farms, is given by the DGADS in the form as shown below:-

"I have examined the Accounts and Balance Sheet of Military Farms and obtained all the information and explanations that I have required. I certify, as a result of test audit, that in my opinion these Accounts and Balance Sheet are properly drawn up so as to exhibit a true and fair view of the state of affairs of the Military Farms according to the best of my information and explanations given to me and as shown by the books of the Military Farms".

181. The Chapter-I on Financial Aspects for inclusion in the Audit Report Defence Services is prepared mainly on the basis of Sections I and II of the Appropriation Accounts, Defence Services, whereas discrepancies, noticed during the course of audit of Section-IV: Review of MES Expenditure and Section-VI: Financial Review on the accounts of Military Farms are pointed out to the Ministry/CGDA for their reconciliation. Consequent upon the audit scrutiny of the Appropriation Accounts Defence Services, an audit certificate of the DGADS as referred to in Annexure-3 to Paragraph 3.16.11 of C&AG's MSO (Audit) (Second Edition-2002) is forwarded to the office of the C&AG of India in the following form:

Audit Certificate

“The Appropriation Accounts, Defence Services for the year.....have been examined by me. On the basis of the information and explanations that my officers required and have obtained, and according to the best of my information as a result of test audit of the Accounts, I certify, in pursuance of the provisions of Article 149 and 151 of the Constitution of India and Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 that these accounts are correct, subject to observations in the Report of the Comptroller and Auditor General of India for the year ended March.....: Union Government-Accounts of the Union Government (Report No. 1 of)”.

Based on the certificate of the DGADS, Audit Certificate on the Appropriation Accounts of the Defence Services is endorsed by the C&AG of India subject to audit observations thereon reflected in the Civil Report No. 1 prepared by the office of the Director General of Audit, Central Revenues. Both the certification of the Appropriation Accounts, Defence Services and signing of Audit Report Defence Services is done simultaneously by the C&AG of India for their laying in the Parliament through President of India.

CHAPTER 9

INFORMATION TECHNOLOGY

Introduction

182. Till a few years ago, most of the data processing needs of organizations were done completely manually. This has undergone, or is undergoing, a significant change. In many of the organizations audited by the Supreme Audit Institutions (SAI), manual operations are being speedily replaced by computerized processing systems. As a result, the auditor is faced with the challenge of auditing in an IT environment quite different from the manual working environment that he was much comfortable with.

Computers themselves have moved from being just electronic data processing (EDP) systems to the realm of information technology (IT) systems since they not only process data but store, utilize and communicate a wide variety of information that influences decision making at various levels of an organization. In fact, with the advent and growth of computer networks systems, computer systems are fast evolving into information systems (IS) from their original function of electronic data processing. As a reflection of this evolution, the term “EDP auditing” has largely been replaced by such terms as “IT audit” and “IS audit”.

IT Plan :

183. C&AG formulated IT Plan of the Department at the XXIInd Accountant Generals' Conference. IT empowers to review and implement new methods, practical goals and develop improved products and services it is imperative while implementing any IT Project to look at the relevant area of work in a new light and treat it as an opportunity for significant Business Process reengineering leading to increased productivity. This opportunity should not be lost sight of and the objective of computerization should therefore, be none than conversing a manual activity in to a electronic activity of registering and record keeping. Keeping this in view Strategic IT Audit Plan (2003-08) was formulated by Office of the Comptroller and Auditor General of India in March 2003. The main goals are:

- To establish and enhance IT Audit functions in Indian Audit & Accounts Department
- To develop IT knowledge and infuse relevant skills among IT auditors
- To acquire appropriate IT infrastructure for supporting and enabling IT audit process in the audit department.
- To evolve best practices in IT Audit, and to adopt and refine results of research in the leading edge technologies for IT Audit.
- To prepare and disseminate fully researched and integrated audit documentation, to establish structures and processes for quality assurances, and to improve qualitatively and quantitatively international representation.

(Authority: Booklet on IT Plan Published by C&AG dated 03/03/2003 and circulated vide C&AG No.110-IT Audit-1/197 dated 24/04/2003)

IT Audit Plan :

184. In view of the widespread use of Information Technology in the auditee organizations under the audit control of Comptroller and Auditor General of India, it becomes imperative to consolidate the IT Audit efforts in the Indian Audit & Accounts Department and put in place a structure and mechanism to further strengthen the functions. The focus areas would remain mainly on Attestation and Certification of financial statements, Performance Audit of IT Systems (i.e. system designs, procurement, achievement of intended objectives) and Management of the systems and Assessment of systems under Development.

The main mission of the C&AG is to create an enabling environment in the Indian Audit and Accounts Department. The objectives are (i) to conduct IT Audits efficiently, effectively and economically within the C&AG's mandate, (ii) to raise the level of competence of the staff and officers of the Indian Audit & Accounts Department so that they can undertake audit in computerized environment in the most professional manner and (iii) to adopt and evolve such standards and guidelines for auditing in a computerized environment.

(Authority :Booklet on IT Plan Published by C&AG dated 03/03/2003 and circulated vide C&AG No.110-IT Audit-1/197 dated 24/04/2003)

IT Audit Guidelines

185. C&AG has circulated IT Audit Guidelines issued by ASOSAI giving the definition of IT Audit and covering all the major points on need of IT Audit, impact of computer on Audit, impact of different IT Controls, roles and responsibilities of IT Operation, use of different types of Computer Aided Audit Techniques (CAATs). Need for the audit of System Development Life Cycle involving different stages where audit issues are identified and Audit of IT Securities. The various aspects are explained in the IT Audit Guidelines.

SDLC – Involvement of Audit

186. In November 2003, all the Chief Secretaries and Expenditure Secretary in the Central Government were requested to involve audit in various phases of System Development. Consequent to that, several State Governments have requested the local Accountant General to be involved in the development of specific systems. These guidelines are issued in order to assist field offices to effectively and constructively audit the process of system development in the auditee units.

The guidelines and checklists are comprehensive and relate to all the phases of the system development life cycle and are more useful when applied in context of development of large systems of capital intensive nature. In case of all systems, all of these may not be applicable. The field offices and particularly the officer who is associated with the audit of the system development process should decide which ones would be applicable.

System development has become critical to government departments and organizations hoping to improve governance and the delivery of services to its citizens and clients by investing in large software applications. Yet, often expensive applications development projects fail to deliver on the promises. Government departments and organizations can reduce the risk of such failures by adopting a

structured approach such as System Development Life Cycle (SDLC) Methodology to guide themselves and the developers.

System Development Life Cycle (SDLC) is defined as a structured approach that divides an information systems development project into distinct stages which follow sequentially and contain key decision points and sign-offs. This permits an ordered evaluation of the problem to be solved, an ordered design and development process, and an ordered implementation of the solution. A final stage allows for management feedback and control through a post-installation evaluation.

Audit Check List Brochure has been designed by C&AG and issued to all the IA&AD offices titled 'Checklist for involvement of audit in the system Development Phases of Information Technology Systems'. The main steps where audit checks are necessary are as follows:

- Project Initiation Phase (PI)
- Feasibility Stage (FS)
- System Design Stage (SD)
- Detailed Design Stage (DD)
- Implementation Stage (IM)
- Post - Installation Stage (PO)

C&AG has also issued checklist on Audit of Computerized Inventory systems, checklist for gathering preliminary information about an application while initiating IT Audit which may be taken into account while any major systems.

(Authority : Booklet on Checklist for Involvement of Audit in the System Development Phases of Information Technology Systems published by C&AG and circulated vide iCISA letter No.780/ 129-ITA-11/System Under Dev/Checklist dated 08/12/2005)

IT Audit –Headquarters Office’s responsibilities

187. Headquarters Office will be responsible for:

- a) conducting IT Audit efficiently, effectively and economically in Defence Services with in the C&AG’s mandate
- b) raising the level of competence of the staff and officers of Defence Audit by developing IT knowledge and infusing relevant skills among IT auditors so that they may undertake audit in computerized environment in the most professional manner
- c) adopting and evolving standards and guidelines for auditing in a computerized environment.
- d) acquiring appropriate IT infrastructure for supporting and enabling IT audit process in the audit department.
- e) ensuring implementation of Strategic IT Audit Plan (2003-08).
- f) to get latest IT plan and orders/instructions regarding computerization in the auditee (Army, DRDO, DAD) and keep them updated all the time. These orders/instructions may be readily kept in a Guard file.

IT Audit – CO’s responsibilities

188. A copy of “New Survey Questionnaire for IT Applications in Auditee units designed by the IT Audit Wing of Headquarters office for each CO for gathering the basic information in respect of each auditee unit falling under his audit jurisdiction, has been circulated to all COs. vide DGADS circular letter no. 7873/ED Cell/3113 dated 10.12.04.

(DGADS circular letter no. 7873/ED Cell/3113 dated 10.12.04.)

It is the responsibility of the CO:

- a) To ensure that the new proforma titled DGADS-125 is added as regular part of the essential information to be collected at the time of each audit by LTA Parties and forms part of the inspection report
- b) To compile and update the information so collected in MS Excel /MS Access regularly so that consolidated and comprehensive information about the status of IT Application with each auditee could be assessed at any point of time by the head of the office and also at Headquarters level.
- c) To collect this information through liaison with the nodal officers responsible for computerization in the auditee units
- d) To collect this information through regular correspondence where necessary
- e) To send proposal to DGADS Office for IT Audit for inclusion in the Defence Audit Report in the light of Data Base being maintained and instructions issued by iCISA. in this regard.
- f) To undertake routine IT Audits at their initiative and incorporate their findings in the LTAR. Such IT Audit does not require approval of DGADS.
- g) To get slots for his staff in computer training programmes (including relevant software) through official and personal liaison with concerned RTC, IFA, CDA and local Defence training organization to enhance the capability of audit staff.

(Auth : a to g stated above have been Circulated vide DGADS letter no. 8539/EDP Cell/IT Audit/3113 dated 02/02/2005.)

- h) To get soft copies of Sectional Compilation and other database files like GPF, Pension etc. from the EDP & System manager, EDP Centre of concerned CDAs.

(Auth : Dy.CGDA(EDPs) of CGDA letter no. EDP/ Mech/ 305/ CDA Corr. Dated 18/08/2004 circulated by DGADS vide letter no.6323/EDP/3037 dated 18/08/2004.)

- i) To get latest IT plan and orders/instructions regarding computerization in the auditee (Army, DRDO, DAD) and keep them updated all the time. These orders/instructions may be readily kept in a Guard file.
- j) To maintain and update Auditee Profile database.

Information Technology (IT) in Indian Army

189. Army Headquarters formulates at periodical intervals IT Roadmap for various years, the latest such Roadmap being IT Roadmap 2008 formulated in the year 1998. The aim of IT Roadmap was to leverage the advantages offered by the emerging information technologies by progressively moving from the existing system of functioning to Office Automation (OA), networking, integrate systems and Management Information Systems (MIS) using high speed communication backbone complemented by IT literate manpower.

The IT Roadmap 2008 laid down the objectives and action plan for implementation of Operational Information Systems (OIS), MIS, communication infrastructure, Information Warfare (IW) and Human Resource Development (HRD) aspects. In order to give the right impetus to planning and execution of IT action plan, a separate IT Budget Head was set up in 1998 to provide required financial support by delegating adequate financial powers down to Division Headquarters to ensure timely implementation of projects. **The responsibility of OIS has been given to CIDSS and that of IW to MO Directorate, along with restructuring of ADG IT as DDG IT.** The progress in various IT related projects is being reviewed by DDG IT. IT - Mid Term Review is being carried out now and then by DDG IT.

As per para 2 of ADG IS, GS Branch, Letter No. Info sys/Policy/ IT/ 04 dated 11/12/2003, the focus of IT activities over the years, which has crystallized after a series of interaction and brainstorming with the environment to address the lacunae in the present system, is:

- a) **Hardware:** Over the next two years the endeavor would be to equip formation with 8-10 computers and units with 5-7 computers.
- b) **Access Network:** The Access network to reach the brigades by the 2004-05 and to units by 2005-06
- c) **System Automation :**
 - i) All line directorates and branches whose system studies are already over, would be automated in the next two years. The system, study for the other directorates would be completed over the next two years.
 - ii) Automation of Command Headquarters would be completed.
 - iii) Pilot Project for automation of Beds and units would be completed.
- d) **Army Intranet:** The reach of the Army Intranet would be made available down to unit level. Suitable cyber security in terms of firewalls, access rights and so on will be installed. Dynamic pages with portals will be designed to host enhanced utilities.
- e) **Security :** Cyber security would be given greater weightage. IT Audit would be carried out. CERT teams are being formed for dealing with cyber crisis. Digital signatures and PKI would be incorporated in system operation.
- f) **Database Centres:** Three central database centres would be set up in the next two years.

- g) **MISO** : MISO will be revamped completely to provide data flow upwards from the units in a seamless manner.
- h) All the Units level software packages would be completed and fielded.

Policies :

190. To streamline and improve the efficiency in IT development the following policy letter are formulated and issued to the environment by DDG IT:

- a) **Policy on Accounting and Disposal of IT Equipment:** ADG IS, Army Headquarters vide his letter no. Info/sys/Policy/IT/05 dated 16/12/2003 has issued “Policy on Accounting and Disposal of IT Equipment”. The aim of this policy letter is to lay down comprehensive guidelines for accounting and disposal of the IT equipment issued and held by various directorates/ formations/ units/ establishment/ organization of the Army.
 - Procedure for Receipt and Issue Vouchers has been formulated.
 - Equipment Ledger for maintaining the IT equipment.
 - Log Book containing all configuration details, software details and details of warranty, supply order, up-gradation/replacement of parts etc will be maintained.
 - For easy identification and accounting, the firms/units/ establishments /organisations holding IT Equipment will mark the course, IT detailed head, cost, month and year of the issue on the equipment.
 - Transfer of IT equipment from one unit to another will not be allowed without CFA permission.
 - Stock Verification: Annual Stock Taking Board will be held each year and correctness certificate by the annual stock taking board will be required to be submitted by the unit to the issuing authority by 31st April of ever year positively.
 - Security management of stand alone computers and peer to peer networks will be the responsibility of Officers/JCOs /NCOs/ORs. The onus of ensuring the security of information rests with the originator/custodian.
 - Proper procedure for Handing/Taking over of Computer Hardware and IT Peripherals on relief/Movement of units has been issued.
 - Proper procedure has been made for disposal of IT Equipment/ Obsolete IT equipment.
- b) **Policy on creation and maintenance of Army WEB and operation of web servers on army intranet:** ADG IS, Army Headquarters vide his letter no. Info/Sys/Policy/IT 05 dated 09/12/2003 has issued “POLICY ON CREATION AND MAINTENANCE OF ARMY WEB

AND OPERATION OF WEB SERVERS ON ARMY INTRANET". The aim of this policy letter is to lay down comprehensive guidelines for Establishment, System Administration and Maintenance of Web/Portal Servers and responsibilities for creating, updating and deleting information on Army Web.

Web technology has proven its potential to enhance information dissemination capability, if implemented judiciously. The main purpose of setting up a web/portal is to bring the vast information and service resources available from many sources to many users in an effective manner.

General purpose Web Servers and associated Database Servers will be geographically located in such a way that the clients will be able to access the web with reasonable speed.

Domain Name Servers (DNS) will be configured for IP address and web site name mapping. The databases and web contents will be replicated on all web servers and the replication will be carried out automatically on daily basis. System administration and Maintenance of Web Server, Database Server and DNS Server will be done by Army Headquarters Computer Centre, General Staff (Sys) and other locations.

General Policies are issued for guiding the web site hosting organization in developing and maintaining the web sites, Hardware and Software Policy for Web/Portal Servers and Web contents and Presentations by ADG (IS).

Security of information is an important factor while planning and hosting a web site on the Army web. Though Army Intranet is engineered on a secure network, a fool proof security infrastructure is not yet in place. Hence many steps have been taken as per the above policy.

- c) **Policy on Standard operating procedure for empanelment and selection of vendors for information technology projects:** ADG IS, Army Headquarters vide his letter No. B/04225/Vendor/DDG IT (Project)Info/Sys/Policy/IT 05 dated 09/12/2003 has issued "STANDARD OPERATING PROCEDURE FOR EMPANELMENT AND SELECTION OF VENDORS FOR INFORMATION TECHNOLOGY PROJECTS" as a guideline for empanelment of IT vendors by a board of officers. A list of empanelled vendors with ADG IS will be published on army intranet at ADG IS.

Aim is to lay down the procedure for empanelment of vendors for the purpose of acquisition of IT products from the IT industry and selection of vendors from the empanelled vendors for specific IT projects, at the DDG IT, Army Headquarters. The following points have been laid in this policy to be coordinated under the Commandant Army Systems Advisory Group (ASAG):

- 10 categories of IT Project have been made
- Procedure to be followed for empanelment
- Expression of Interest
- Initial Interaction at the Army Systems Advisory Group (ASAG)
- Detailed Presentation and Interaction.
- Evaluation of Products

- Evaluation Report by the ASAG
- Qualitative Requirement for consideration for empanelment.
- Hardware
- System Integration and Access Network
- Software
- Turnkey Projects
- System Study and Consultancy
- Application software
- Special Projects
- Training
- Facility Management
- Computer Peripherals
- Misc. projects
- Procedure for selection of vendors for a Particular Project
- Guidelines for Termination of Empanelment of a Vendor

The SOP is intended to ensure that all procurement of IT project are made from reputed vendors, who are capable of providing the requisite follow up support and the products procured to meet the quality expectation of the Army.

The SOP is a guideline to be used with intelligent interpretation of provisions with the approval of respective CFA's with the overall aim to ensure quality of service in respect of the procured products.

d) **Policy on Procurement of/Utilization of Laptops:** ADG IS, Army Headquarters vide his letter No. B/04001/Policy/Laptop/DDG IT(T&P) dated 18th march 2005 has issued "POLICY ON PROCUREMENT OF/UTILISATION OF LAPTOPS" In this policy they have mentioned that in order to ensure the optimum utilization of IT resources at all levels it is essential to lay down the scaling for procurement of basic items of IT Hardware like laptops. It needs to appreciate that the prime determinant for the procurement of laptops for a particular appointment would be specific functional justification which would need to be established by CFAs at all levels on a 'case to case' basis. A need based approach, coupled with the cost-effectiveness aspect, needs to be adopted for procurement of laptops.

The aim of this policy is to lay down scale for referential use while assessing the need towards procurement of laptops for various officers in the Army based on functional necessity and issue guidelines for their use.

Guidelines for procurement have been issued in this policy; it has been mentioned that all procurement at Army HQ will be sanctioned by the CFA with the approval of the PSO concerned and by respective FOsC-in-C Comd for all others. Scaling of laptops has been mentioned according to Formations. They have stressed that functional necessity will have to be established by the CFA even if it is in the rank of Maj. Gen. Procurement of Laptops for Training purposes and for IT Intensive Institutions can be done on the category of establishment and number of instructors

Security instruction issued for use of PCs by MI Dte., SI Dte and DG Sigs from time to time shall be strictly implemented for laptops also. In addition, the following will be ensured:-

- CI data will not be stored on Laptop
- Laptops will not be left unattended. Their physical security as well as the security of the data stored in these devices will be that of the officers to whom these are issued.

Accounting of Laptops will not be a personal issue. These will be issued, held and accounted for by HQ, Unit and Establishment as per laid down procedure. The officers issued laptop will handover them to their respective HQ., Unit or Establishment before moving out on posting or on superannuation and will not carry the laptop from his previous appointment to the new one. The equipment will be handed over to the new incumbent on posting and the transactions will be duly recorded in the various books/ledger. The accounting and disposal of the laptops will be governed by the policy issued vide ADG IS letter no. Info Sys/Policy/IT/05 dated 16/12/2003.

To conclude, it is reiterated that operational and functional necessity remains the sole determinant for procurement of laptops and therefore this would need to be amplified by the respective establishment while initiating proposals for procurement of these equipment on a case to case basis.

While conducting IT Audit of the Army formations, target fixed and the review of the progress conducted thereon, should be critically examined with reference to the Road Map.

IT in Defence Accounts Department

History of IT in Defence Accounts Department

191. The Defence Accounts Department has always been in the forefront to use the technology to enhance the efficacy and efficiency of the Department. The Compilation of Defence Receipts and Expenditure was mechanized using Hollerith Machines way back in 1930s. The I.T. as we understand now was introduced in the Department in 1969 with installation of IBM 1401 at Meerut. The maintenance of IRLAs of Army JCOs and Jawans of 4 PAOs was computerized using 'Auto Coder'. The 'microprocessors' based computers were introduced in the Department in early 1980s. Since then the D.A.D. has come a long way in the field of computerization. The major applications developed and implemented by the Department can be broadly categorized as off-line batch processing systems in COBOL, off-line batch processing systems in Foxpro/ Visual FoxPro, on-line LAN based systems in Visual FoxPro and websites.

192. Applications in Use

- Off-line batch processing systems in COBOL ;
- Maintenance of Pay and Fund Accounts of Officers of Indian Army
- Maintenance of Pay and Fund Accounts of PBORs of Indian Army

- Maintenance of Pay and Fund Accounts of GREF personnel of Borders Road Organisation
- Maintenance of GROUP Accounts of defence civilians including D.A.D. personnel
- Sanction of Pension to Service personnel and civilians of MOD including D.A.D.
- Pension Disbursement System through D.P.D.Os.
- Off-line batch processing systems in FoxPro/Visual FoxPro
- Compilation of Defence Receipts and Expenditure
- Wage Roll, Inventory and Cost Accounting Systems for Accounts Offices in OF.
- On-line LAN based systems in Visual FoxPro
- Office Automation System

Office Automation System is one of the latest applications that has been developed and implemented in many CsDA Offices. It is on-line LAN based system where bill payment and related functions such as issue of cheques have been computerized.

Salient Features of Computerization in D.A.D.

193. The D.A.D. has computerized major functions and operations involving voluminous data and large number of transactions such as Pay, Fund, Pension, Compilation of receipts and expenditure. The applications developed are in batch processing mode except Office Automation and Websites. These applications are run through 21 EDP Centers located all over country. The Factory Accounting Packages are in operation in each of 39 Factory Accounts Offices of the Ordnance Factories. All major applications are in COBOL and FoxPro/Visual FoxPro. These applications have been developed with in-house efforts.

All major EDP Centers and Controllers Offices, RTCs are on Wide Area Network using NICNET through V-SAT and RF Connectivity. The EDP Centers and Controllers Offices have been provided with PCs, servers, printers and other hardware that have been procured over a period of several years.

The D.A.D. has a pool of trained manpower in the field of I.T. They have trained UNIX/Windows System Administrators and COBOL, FoxPro/Visual FoxPro programmers. The IDAS Batches 1995 onwards are trained in latest technologies like Linux, Java and MySQL.

194. The Defence Accounts Department has launched an ambitious automation project '**Mission EXCEL IT**'. The aim of **Mission Excel IT**, which was started in December 2002, is **total online integrated automation of all functions** of the Department **including providing network connectivity to all its offices**. As a first step, it was decided to undertake a comprehensive study of all functional areas of the Department. For this purpose in-house Study Groups (21 numbers) were formed which were mandated to identify areas for automation, databases to be created and to suggest areas for BPR (Business Process Re-engineering). A separate group on Information Technology was also formed to give recommendations on software

technologies to be used. The **software technologies** that are proposed to be used in the automation projects **under Mission Excel IT** are:

- **Operating System:** Red Hat Linux Advanced and Enterprise for Servers and MS Windows for desktops.
- **Application Development:** on J2EE (Java 2 Enterprise Edition), with Jboss as Application Server and Tomcat as Web Container.
- **RDBMS:** Red Hat Database and MySQL

Even though, the computerization in the Defence Accounts Department has been achieved through in-house efforts, considering the magnitude of **Mission Excel IT**, it has been decided **to outsource the development of software**.

Under Mission Excel IT, **eleven Software Development Projects** have been identified. These projects are a **combination of Main System** (core functional area of an office) and a **Plug-in system** (System or Modules covering a support function which will be plugged into the main system). It will be the **responsibility of software developers to develop the interfaces** between main systems and Plug-in Systems, so as to achieve seamless integration.

For each of the eleven Software Development Projects, a **Project Coordination Team** has been set up (**PCT**) – comprising of a project manager (a Senior IDAS officer), domain experts and IT experts. The PCTs would be the point of contact for the software developer. The PCTs would be closely associated with each and every stage of development and implementation of the eleven software projects.

The PCTs would prepare an exhaustive URS (User Requirement Specifications) which would form part of the Tender Documents for RFP.

A roadmap of the entire project has been conceived which comprises activities such as URS writing, network decisions, budget estimation of the project, selection of vendor, software development, testing, implementation and training of system administrator and users. **The Project End Date of Mission EXCEL IT is March 2007.**

- Software Development Projects under MISSION EXCEL IT:
- Pension Project: Development Center of this Project is Allahabad/Meerut.
- DA(O) Project : Development Center of this Project is Pune.
- FA (Integrated Financial Advisor)/ ATC (Audit through Computers) Project: Development Center for this project is Delhi.
- Regional CDA Project: Development site of this Project is Delhi.
- Principal Controller of Defence Accounts (New Delhi) Project: Development site of this project is Delhi.
- Controller of Defence Accounts (Navy) Project: The development center for this Project is Mumbai.
- Controller of Defence Accounts (Air Force): The development center for this Project is Delhi.
- Controller of Defence Accounts(Border Roads) Project : Development site of this Project is New Delhi and Pune
- Other Ranks Project: Development site of this project is New Delhi.

- Financial Information System/ Ministry of Defence Project: The development centre of this project is Delhi.
- Pay Project : The development center of this project is Delhi
- (Authority : Project Mission EXCEL IT sanction by Govt. of India vide No. GOI, MOD(Finance), DAD (Coord) No.F.10(29)/C/2003(27) dated 07/07/2004 and Jt.CGDA letter No.EDP/148/OA/DGADS dated 31/12/2003)

Books/ circulars/orders recommended for reference:

- GOI, MOF (Dept. of Economic Affairs) Office Memo. No. F.10 (20)-B/73 dated 11/06/1973. on Introduction of Computer based accounting system in government department.
- IT Audit Guide circulated by C&AG issued by ASSOSAI.
- Information System Security Handbook for IAAD
- Checklist for Involvement of Audit in the system Development Phases of Information Technology Systems issued by C&AG.
- Strategic IT Audit Plan (2003-08) issued by C&AG.
- IT MID Term Review, issued by DDG IT
- Audit of Computerized Inventory Systems – A Check List , issued by C&AG
- SOP for implementation of IT Projects and Procurement of IT stores under DFP issued by Jt. Dir (Bud & Plg.) vide case file No. B/05010/IT/SOP/ADG Sys (Budget).
- GOI, MOD (Finance), DAD (Coord) No. F.10(29)/C/2003(27) dated 07/07/2004 on Mission Excel IT – a computerization Drive in DAD
- Letter No.EDP/Mech /305/CDA Corr. Issued by O/o. CGDA, computer Centre regarding Soft Copy of Sectional Compilation and other Database files like GPF, Pension etc
- Ministry of Defence , Directorate of Standardisation Joint Services Policy Statement for Computer Hardware and Software JSPS No. 7010-001(2000)

- MANUAL OF THE AUDIT DEPARTMENT, DEFENCE SERVICES VOL-I, PART 'A'

APPENDICES

APPENDIX- I

(See Paragraphs 38)

REPORT OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA, UNION GOVERNMENT (DEFENCE SERVICES)

Report of the C&AG of India, Union Government (Defence Services)

1. Chapter III of Comptroller and Auditor General's Manual of Standing Orders (Audit) Vol. II lays down in detail the form, contents and procedure for preparation of Audit Reports, and their submission to the President who shall cause them to be laid before each House of Parliament. The instructions contained in this Appendix are supplementary to those contained in C&AG's MSO (Audit) referred to above.

2. The Report of the Comptroller & Auditor General of India, Union Government (Defence Services) is the report on the results of test audit conducted by the Director General of Audit, Defence Services and his Staff as also the results of internal audit conducted by the Defence Accounts Department, where he so thinks necessary, are included by the DGADS in an Annual Audit Report entitled "Report of the Comptroller and Auditor General of India for the yearto.....Union Government (Defence Services) Army and Ordnance Factories".

This report contains such comments on the regularity and propriety of expenditure as are deemed necessary and proper to make as a result of audit investigations, including the examination of audit of accounts of receipts and of stores and stocks maintained by Units & Formations of Defence Services. The report contains, in additions, general remarks regarding financial administration topics of special interest, important or typical financial irregularities, losses etc, and general defect in administration of discipline, of which the cases of irregularity seem to offer substantial evidence, any neglect of recommendations of the Public Accounts Committee, which have been accepted by the Government and any new remedy, general or particular, which the DGADS considers it desirable to suggest. Besides highlighting financial irregularities, the report also includes the financial aspects based on the Appropriation Accounts, Defence Services.

Objective of Audit Reports

The report of the C&AG of India is designed to serve double purpose.

3 (i) To the Government of India :- The report will show the extent to which the Defence Services are complying with its rules and orders, and will offer suggestion/ directions in which these rules and orders can with advantage be amplified or modified or improved.

(ii) To the Parliament through its Public Accounts Committee:- It will reveal in general how far the Government has complied with its expressed views in matters of importance, and in particular how far money placed at the disposal of Government were regularly and properly spent. In order to adequately fulfill the latter function, the report, in addition to the points arising out of audit against provision of funds, brings to the notice of the Parliament (i) important financial irregularities, such as deficiencies of sanction, failure to enforce or respect prescribed rules and procedures, offences against universally accepted standards of

official conduct or financial administration, or any other class of irregularity and (ii) cases of losses written off or nugatory expenditure.

4. The Reports of the Comptroller & Auditor General of India, Union Government (Defence Services) is intended to include not only cases of irregularities discovered by the Audit Department, Defence Services, but also those brought to light by other agencies.

6. Copies of the Government sanctions received are normally examined in Headquarters Office. Sanctions relating to Factories are generally examined by the Principal Director of Audit (Ordnance Factories) Kolkata. Draft paragraphs are proposed in respect of cases considered suitable for inclusion in the Report of the Comptroller & Auditor General of India, Union Government (Defence Services) (Army and Ordnance Factories). Government Sanctions pertaining to Army are examined in Headquarters office. Government sanctions relating to Air Force & Navy are examined by PDA (AF&N) New Delhi and those relating to Ordnance Factories by PDA (OF) Kolkata. Draft Paragraphs in respect of (Army and Ordnance Factories) which are considered suitable for inclusion in the Report of C&AG of India, Union Government Defence Services (Army and Ordnance Factories) are included in one Report submitted by the Director General of Audit Defence Services. Draft Paragraphs pertaining to Air Force & Navy are submitted by the PDA (AF&N) New Delhi. The material for inclusion in the Appropriation Accounts, Defence Services prepared by Secretary (Defence Finance), is also checked in Command Offices and Headquarters Office and cases calling for special mention are included in the Report of the Comptroller & Auditor General of India, Union Government – Accounts of the Union Government

7. Cases noticed during central/local test audit and considered fit for inclusion in the Reports of the Comptroller & Auditor General of India, Union Government (Defence Services) should as far as possible be commented upon when they are fresh, as otherwise the very object of including the case in the Report of the Comptroller & Auditor General of India, Union Government (Defence Services) is defeated. Command Officers should, therefore, collect complete and accurate facts and true copies of relevant correspondence during audit. Draft paras should as far as possible be prepared simultaneously and issued to Controllers' of Defence Accounts concerned along with issue of Inspection Reports/Objection Statements for verification of facts mentioned in the draft paragraphs and obtaining the remarks of the administrative authorities.

(D.A.D.S. No. 1059/Rep-28/61. dated 15.6.60, DADS No. 814 and 833/Rep/28 Orders/68dated 10.5.68)

8. The Local Test Audit Reports/Central Test Audit Objection Statements, may contain items, which may be unimportant in themselves, but which are likely to be useful in preparing paragraphs illustrating types of irregularities. Notes of such cases should be kept by Command Officers who should prepare draft paragraphs if and when the number of such items justifies such action.

9. To facilitate preparation of draft paras, Command and Branch Officers should maintain a register of potential cases of draft paragraphs to note important financial irregularities and such cases should be progressed expeditiously so that comments on the case can be finalised without delay. Similar registers should be maintained by each Audit Section in Headquarters office.

10. Copies of Quarterly reports on the major financial and accounting irregularities rendered by the CsDA/PCsDA to the administrative authorities to bring to their notice cases of important irregularities, are sent to COs. The Controllers also maintain registers of important financial irregularities. These Quarterly reports as well as the registers of financial irregularities should be scrutinised by Command Officers and draft paras on cases worth commenting upon in the Reports of the Comptroller and Auditor General of India, Union Government (Defence Services) should be prepared.

Procedure for preparation and progressing draft paragraphs

11. Draft paras should be approved by COs personally and issued to CDA for verification of facts. The issue of draft paragraphs to Controllers of Defence Accounts is not obligatory but is only prescribed as a convenient working arrangement and as a method to ensure that only correct facts are mentioned in the Report. One copy of the draft paragraph should also be sent by the Command Officers to the concerned unit/formation and Command Headquarters direct to facilitate speedy verification of facts. While forwarding copies of draft paragraphs to the Controllers of Defence Accounts, it should be specifically mentioned that a copy of the draft para has been/is being sent direct to the concerned unit/formation and Command Headquarters

(DADS Confidential No.364/Rep-11 /76-77 dated 26.7.77)

The preparation and issue of draft paras is a continuous process and efforts should be made to space out the issue of the paragraphs throughout the year in a phased manner in order to avoid “bunching up” at any particular period of time. Copies of all paragraphs proposed for inclusion in a particular year's Report should be sent to reach the Director General of Audit by 31st August of the preceding calendar year positively. The need for an exchange of views with the heads of departments before issue of draft paragraphs cannot be overstressed. In so far as the draft paragraphs issued by COs are concerned, the cases mentioned in the draft paragraphs would have already figured in Local Test Audit Reports and views of the local administrative heads (at Command Headquarters level) would be available. In cases where the views are not available, COs may take special steps to obtain them before floating the draft para, care being taken to ensure that cases are not allowed to age. The views of the administrative heads at Command level should be clearly brought out in the draft paragraphs and relevant copies forwarded to Headquarters office.

In regard to cases floated by the Headquarters office as a result of scrutiny of government sanctions/files or provisioning audit, there would have, in most cases, been exchange of views with the Ministry/Administrative Heads of Department through correspondence before the draft paragraphs are finalised. In cases, where such an exchange of views has not been made, the fact may be specially brought out by the initiating section.

(DADS No. 114/Rep/10/71 dated 26.5.72)

12. Command Officers should bear in mind the following points in connection with the preparation of draft paragraphs/performance audits:

- (i) The emphasis should be on quality rather than on quantity and analysis rather than mere narration. .
- (ii) The thrust of the paragraphs and performance audits should come out clearly. Long and complex paragraphs/ performance audits should end with a summing up bringing in sharp focus on the major points.

- (iii) No abbreviations are used in the body of the paragraphs, as well as in the marginal keys.
- (iv) The financial effect should be brought out and mentioned in whole rupees only.
- (v) When opinions are embodied in the draft paragraphs, it should be made clear as to whose opinion it is intended to mention. Relevant copies of correspondence on which this is based should be forwarded to Director General.
- (vi) Paragraphs should be fully annotated in the marginal key. All statements of facts in draft paragraph should be duly supported by references to rules, correspondence etc. and normally occasions should not arise when the facts are disputed by the administrative authorities after the paras are issued.
- (vii) Keys to the draft paragraphs should be sufficiently informative so that Executive authorities/Controllers of Defence Accounts do not experience difficulty in linking up their papers. In case the Executive authorities/Controllers of Defence Accounts find any difficulty in this regard additional information that might be required by them may be furnished.

(DADS No. 2Q4/Rep-11/77-78 dated 17.8.79)

- (viii) Draft paragraphs should be written in lucid and impersonal language and free from technical expressions. The facts should be presented precisely and all references to matters extraneous to the main point at issue should be excluded. The names and location of units and formations will generally be mentioned unless considered inadvisable for reasons of security.
- (ix) The date (month and year, if the exact date is not known) or the period of an irregularity, when it came to notice and when action was taken to investigate and remedy it should be stated.
- (x) it should be made clear in the paragraph whether responsibility for the irregularity in question has been fixed or is being fixed and disciplinary action taken or proposed to be taken against individuals found responsible for the irregularity. Remedial measures taken or proposed to be taken to prevent recurrence of similar irregularities should also be indicated (See para 59(ii) Part A Vol.1)

[DADS No. 4467/Rep-28/48, dated 15.5.49 and confidential No. 465/Rep-11/77-78 dated 10.11.78].

- (xi) Style Guide for Audit Reports published by C&AG of India, New Delhi will be consulted before drafting "Audit Reports".

(Authority: C&AG's letter No. 113/Audit(AP)/6-2003 dated 27.8.2003)

13. The Controller of Defence Accounts should be requested to communicate the result of his verification of facts within six weeks from the date of issue of the draft paragraphs to him.

(DADS No. 3343/Rep/28/45 dated 25.10.45)

14. (i) As reports of the Comptroller & Auditor General of India, Union Government (Defence Services) are treated as "confidential documents" till they are presented to the Parliament, the draft paragraphs should also be graded not lower than

"Confidential" to maintain secrecy.

(DADS No. 179/Rep-28/65 dated 9.9.68)

(ii) The Audit Report materials are secured against use by outsiders till they are presented to the legislature. It is accessible to the Press Public or any outside agencies.

(Authority: CAG No.155-Audit (AP)/8-2003 dated 30.10.2003 & DGADS No.1349/Rep-2/2001-2002/Order dated 3.12.2003)

15. Simultaneously with the issue of draft paragraph to CsDA one advance copy of the draft paragraph will also be sent to Headquarters office, together with a factual statement of case containing all relevant details about the case, for examination and issue of the draft paragraph to the Ministry of Defence. Complete copies of all relevant correspondence and documents should accompany the draft paragraph. The result of verification of facts by the CDA/Administrative authorities and further development in the case will be communicated to Headquarters office as soon as they are available.

(DADS No. 1059/Rep-28/61 dated 11.5.60)

While forwarding draft paragraphs to Headquarters office, the Command Officer should send, in duplicate, a list of important questions/issues arising out of the draft paragraph which would be required to be taken up by the Public Accounts Committee with the Ministry/Department.

The statement of case is intended to bring out clearly the full details of the case to enable the Director General of Audit, Defence Services to have an appreciation of the Irregularity in the proper perspective. In drafting the statement of case, all the facts should be marshaled and arranged in their proper sequence. Comments should be given separately at the end.

16. The following points should also be kept in mind so that the responsibility of the Department concerned for the irregularity can be clearly brought out in the statement of case:-

- (i) Did the matter come to the notice of the Finance Ministry/CGDA/CDA at any stage? (If the matter should have come to their notice but did not so come because they were not sufficiently vigilant, this fact should be mentioned).
- (ii) What action was suggested by them?
- (iii) Did the Administration follow this advice? If so, did the irregularity or loss take place in spite of following the advice?
- (iv) Did Finance Ministry/CGDA/CDA take or suggest any action after the Irregularity had taken place

(CAG's No.547-Rep-.58-61 dated 24.2.61 - File No. Rep-28/61)

- (v) If any case which has already figured in the Appropriation Accounts is made the subject matter of a draft paragraph, this fact should be brought out in the statement of case sent to the Director General of Audit, Defence Services explaining inter alia, why the case again requires to be included in the Report of the Comptroller & Auditor General of India, Union Government (Defence Services) (Army and Ordnance Factories).

17. All Draft Paragraphs sent to Headquarters office should contain the

following information in a separate sheet:

- a) The name and location of the unit/formation involved.
 - b) The period of accounts last checked in test audit.
 - c) The dates on which last test audit was completed.
 - d) The period to which the Irregularity relates.
 - e) (i) The agency (i.e. whether test audit *or* internal audit or administrative/ executive authority) which detected the irregularity.
(ii) Name of the person who was responsible for the detection of the case in respect of cases detected by test audit
 - f) How was the irregularity detected?
 - g) The reasons for the delay, if any, in detecting the Irregularity in test audit.
 - h) If the report to Headquarters office is not made within six months of the detection of the irregularity in audit, the reasons for the delay in reporting.
- (DADS No. 1059/Rep-28/61 dated 15.6.60 & 2328/Rep-28/65-66 orders dated 12.8.86)
- (j) **Report Certificate :-** A certificate, based on the certificate furnished by the Command Officer concerned after audit of Trading profit & loss Account of CSD, is given by the HQ office in the form as shown below:-

Audit Certificate

I have examined the Accounts and Balance sheet for the year of the Canteen Stores Department and obtained all information and explanations that I have required subject to audit observations, contained in the Annexure to this certificate. I certify, as a result of Test Audit, that in my opinion Accounts and Balance Sheet are properly drawn up so as to exhibit a true and fair view of the State of Affairs of the Canteen Stores Department, according to the best of my information and explanations given to me and as shown by the books of the Canteen Stores Department.

D.G.A.D.S.

18. No mention regarding relation of Audit and Administration need ordinarily be made in the Audit Report unless there is some adverse comment to be made or some important points to be brought to notice. When any such comment is to be made, Director General of Audit, Defence Services will decide whether it is to be included in the Audit Report or whether it would be sufficient to bring it to the notice of Comptroller and Auditor General and through him to Government. If Director General desires that the point be included in Comptroller and Auditor General's letter to Government, he may furnish full information and the necessary suggestions in the letter forwarding the Audit Report to the Comptroller and Auditor General.

On receipt of the draft paragraphs from the Command Officers, these will be examined at the Headquarters office to see if a prima facie case exists for comment and if so, draft paragraphs after approval of the Directors General of Audit are issued to the Ministry of Defence, six copies each of the draft paragraphs are sent to the Ministry of Defence (Def/Bud) with copies endorsed to Defence (Fin/Bud), CGDA and the Service Headquarters concerned. Simultaneously one copy of the draft paragraph is sent to the Defence Secretary. Replies of the Ministry of Defence to the

Draft paragraphs are to be furnished within six weeks of receipt of Draft Paragraphs.

(DADS UO No.461/Rep/10/71 dated 13.9.72 and CAG's office UO No.1697/Rep/83/72-11 dated 19.9.72 and DA's order dated 21.7.79 on page 24/N of file No. Rep-11/77-78)

Copies of the draft paragraphs as finalised by the Headquarters office are also sent to the Command Officers who should send them to the Controller of Defence Accounts concerned for their information. Any additional information or details called for by the Headquarters office should be sent by the Command Officers promptly.

In the case of Ordnance Factories, draft paragraphs are issued by the Principal Director of Audit (Ordnance Factories) to the Ministry of Defence Department of Defence Production - D (Prod/Admn) with copies endorsed to Ministry of Defence (Fin/Bud), CGDA, Ordnance Factories Board etc.

All draft paragraphs approved by the Director General of Audit Defence Services/Pr. Director of Audit (OF) and Pr. Director of Audit (Air Force & Navy) are sent in duplicate to the CAG's Office for vetting and offering any preliminary remarks,

After receipt of the Ministry's replies and completion of discussion with the Ministry's officials the draft Audit Report is finalised by the Director General of Audit Defence Services and Pr. Director of Audit (OF) and Pr. Director of Audit (Air Force & Navy) after taking into account the comments of the Comptroller & Auditor General on the draft paragraphs.

19. When Defence purchases are made abroad by DG ISM the related contracts and payments are audited by Pr. Director of Audit, Indian Accounts 'in UK/USA, Draft paragraphs proposed by them as a result of such audit are issued direct to the Administrative authorities and copies thereof are also sent to Comptroller & Auditor General and Director General of Audit, Defence Services. Pr. Accountants General also conduct audit of accounts of Defence works executed by Public Works Department on behalf of Military Engineer Services. Draft paragraphs in respect of Important Irregularities proposed by them are sent to the CAG for approval and to Director General of Audit, Defence Services for inclusion in his report,

20. The Director General is authorised to edit the draft paragraph proposed by the Principal Director of Audit, Indian Accounts" in the United Kingdom/USA before including it in the Audit Report and if considered desirable to omit any portion of it or drop the paragraph. When any paragraph is omitted or substantially modified the Principal Director of Audit, Indian Accounts in the United Kingdom/USA should be informed (under intimation to Comptroller & Auditor General of India) giving reasons in brief for omission or modification. When a paragraph has been substantially modified, copy of the paragraph in its final form should be forwarded for the information of the Principal Director of Audit, Indian Accounts in the United Kingdom/USA. The responsibility for the correctness of the facts and pursuit of draft paragraphs with the Administrative Ministry is that of the Principal Director of Audit, Indian Accounts in the UK/USA. But where a need for coordination arises, the Case will be taken up with the Ministry concerned by the Principal Director of Audit Defence Services (from Headquarters office).

(Comptroller & Auditor General No. 616-Rep/95-52 dated 5th August 1952 - File Rep-38/52)

21. (i) The paragraphs in the Audit Report are grouped in various chapters,

arranged according to the types of irregularities. The Report of the C&AG of India, Union Government (Defence Services) are printed both in Hindi and English.

(ii) Instruction for finalisation of Audit Report: - The following instructions are to be followed in respect of Audit Reports to be finalised in future.

- (a) In case where a Ministry or Department of the Government of India proposes to withhold any documents relating to any matter included in a draft para proposed to be included in the Audit Report from any of the Parliamentary Committees, the Ministry/Department concerned will bring this fact to the notice of the ADAI/DAI demi-officially at the time of furnishing comments to the draft para.
- (b) The request of the Ministry/Department will be considered by the concerned ADAI/DAI at Headquarters while finalizing the Audit Reports and while dealing with the follow up action during the deliberations of the matter by PAC/COPU. In case the Parliamentary Committees request submission by Audit, of copies of these supporting documents in respect of which privilege is proposed to be claimed, Audit will inform the Committee concerned of the Government's intention to claim privilege from production of the said documents and that Government may, therefore, be approached for the production of the documents in question without the intervention of Audit.

(Authority CAG's letter No.40-Audit Procedure/209-99(KN) dated 18.6.2002)

22. The final complete draft reports are required to be submitted to the Comptroller & Auditor General for approval by 1st December or any other date prescribed by Comptroller & Auditor General from time to time and the printed copies for signature of the Comptroller and Auditor General by 15th February of each year. The bond copies of Audit Reports will henceforth be accompanied by Assurance Memos signed by the Principal Audit Officers (para 77 refers).

(CAG Confidential No.926-Rep/134/67 dated 2.6.67 File Rep- 28/67KW and CAG DO letter no. 1116 - Rep (c)/77-78 dated 4.9.78 File Rep-11/77-78)

23. Before forwarding the printed copies of the Reports of the Comptroller and Auditor General of India, Union Government (Defence Services), duly signed by the Director General of Audit Defence Services/Pr.DA (Air Force & Navy) to C&AG of India, for his countersignature, all printing mistakes should be corrected.

[CAG No.69-Rep/10-49 dated 24.2.49 File - Rep/28/49].

24. Six printed copies of the Audit Report should be interleaved with plain white paper for being fully referenced and annotated for use during the meeting of the Public Accounts Committee.

25. After the Audit Reports are placed in Parliament, copies are distributed to various departments and offices directly by Headquarters. Copies are also sent to the Press Information Bureau. Please also see para 22 above.

26. The report of the C&AG of India, Union Government (Defence Services) is priced publication and is available for sale to the public through Publication Department.

Discussion of Audit Report by the P.A. C.

27. To acquaint members of the PAC on the cases included in the Audit Report and the Appropriation Accounts, Memos of important points in respect of each of the paragraph included in the Audit Report, are prepared by Headquarters office and sent to the Comptroller & Auditor General along with briefs containing extracts of the paragraphs, referenced by copies/extracts of relevant correspondence, the Ministry's replies, and further developments. These and four annotated copies of the Audit Reports are sent to the Comptroller & Auditor General sufficiently in advance of the dates of the meeting of the PAC.

28. To facilitate the preparation of briefs and MIPs, Command Officers should send to the Headquarters office by 1st week of each month (commencing from the month following the presentation of the Audit Report to the Parliament) reports in duplicate detailing the further developments in respect of each paragraph included in the Audit Report and pertaining to their audit jurisdiction. These reports may be discontinued after the PAC has considered the year's Audit Report on receipt of intimation to this effect from the Headquarters office.

29. The draft notes of the Ministry showing action taken or proposed to be taken on the recommendations of the Public Accounts Committee should be examined to see whether any action taken by the Ministry is in accordance with the recommendations of the Public Accounts Committee.

30. The proceedings and Report of the Public Accounts Committee when received should be examined carefully to find out which paragraphs require further action. During discussion of the Appropriation Accounts and the Audit Report, the Public Accounts Committee sometimes suggest certain matters for examination by audit or prefer to watch progress through future Audit Reports. There are also cases where officers giving evidence make certain statements which audit would like to verify by an examination of the records or during future inspections. Suitable notes of such cases should be kept and further, action taken expeditiously without waiting for the printed Report of the Public Accounts Committee.

The results of such verification/examination should be available for consideration when the next Audit Report is prepared.

(Authority: CAG's Nos. (i) 325-Rep/17-62 dated 17.2.62 and (ii) 756-Rep/17-62 dated 18.4.62 File Rep-34/52)

31. Apart from vetting the draft notes etc., proposed by the Ministry for submission to the Public Accounts Committee, the action taken or proposed to be taken by the Ministry in important cases should be followed up, so that it may be possible to offer critical comments on the Ministry's remarks and also inform the Public Accounts Committee of the latest position when the notes are taken up for consideration by the Committee.

32. Where the result of the follow up action is considered important enough for inclusion in the Audit Report, Draft paragraphs/Comments should be prepared irrespective of whether the relevant Notes of the Ministry have been considered by the Public Accounts Committee or not. If on the other hand, the follow up action indicates that the position is satisfactory, a simple report to that effect should be made to the Comptroller and Auditor General at the time the concerned Memoranda/Notes are taken up- for consideration by the Public Accounts Committee. Comments which may not call for inclusion in the Audit Report' but

which are at the same time important enough to be brought to the notice of the Committee should also be intimated to the Comptroller and Auditor General from time to time.

(Authority: CAG's letter No. 1836-Rep-298-62 dated 7.9.62)

APPENDIX -II

(See Paragraph 37 (b))

REPORT TO BE FURNISHED TO THE DIRECTOR GENERAL OF AUDIT, CENTRAL REVENUES, DIRECTOR GENERAL OF AUDIT, ECONOMIC AND SERVICE MINISTRIES IN RESPECT OF CENTRAL (CIVIL) EXPENDITURE

1. The Defence Accounts Officers are concerned with the following items of Central (Civil) expenditure:

- (a) expenditure on Civil Works, which is audited by Controllers of Defence Accounts as Sub-Audit Officer of the Director General of Audit, Economic and Service Ministries.
- (b) expenditure on J&K Militia.
- (c) expenditure relating to Family Welfare Programme in the Armed Forces.
- (d) expenditure relating to Border Roads Development Board.
- (e) expenditure on Debt and other obligation.
- (f) expenditure relating to Ministry of Defence and Defence Pension.

2. Any important irregularities arising out of the above expenditure detected during the course of test audit should be communicated to the Director General of Audit Defence Services, in the same manner as in the case of draft paragraphs. Draft paragraph which cannot be verified by Controllers of Defence Accounts in time to reach the Director General of Audit, Defence Services by the 20th August may be sent unverified and any corrections arising from the remarks of the Controllers of Defence Accounts as also draft paragraph (2nd batch) should be sent by the 7th November at the latest.

3. Paragraphs relating to accounting aspects which are approved by the Director General of Audit, Defence Services are sent to Controller General of Defence Accounts for acceptance with regard to the correctness of facts. Paragraphs, if any, relating to accounting aspect should be sent to the Director General of Audit, Central Revenues, in duplicate by 22nd September. The second and final list of corrections if any should be sent in duplicate so as to reach that office on or before 1st December.

(A.G.C.R. No.R.II/9-9/61-62/414 dated 19.3.61 File. AC 5/60)

4. Draft paras on financial and other irregularities relating to the Border Roads Development Board under the Ministry of Transport which are issued direct to the Ministry of Transport/BRDB among others are to be sent to the C&AG for his approval in the first instance. These are finally included in the Central Civil Audit Report.

5. Material relating to Store/Cash losses, outstanding audit objections etc. relating to Border Roads Development Board are furnished to the Director General of Audit Economic and Service Ministries in the form and manner required by him on dates specified from title to time.

(CAG No.1706/Rep/238-63 dated 13.9-63 as amended. File. Rep- 28/65/66/orders)

6. As regards expenditure mentioned in para 1 (f) above, "the Secretary (Defence Finance) prepares the Appropriation Accounts. The original copies of the Appropriation Accounts are forwarded by the Secretary (Defence Finance) to the DGACR and copies thereof are endorsed to the Director General of Audit, Defence

Services.

7. In November each year, the Secretary (Defence Finance), forwards his certificates on the correctness of these accounts to the DGACR through the DGADS. The Director General of Audit, Defence Services has also to certify the accuracy of these accounts in the following form:

“I have examined the above accounts and according to the best of my information, as a result of test audit of the books and consideration of explanations given to me, I certify that the account is correct”.

8. The Secretary (Defence Finance) certificates should be forwarded to the DGACR by November together with the certificates of the DGADS and duplicate copies of the Accounts referred to in para 6 above.

9. The certificate of the Director General of Audit, Defence Services is based on:

- (i) the certificates rendered by the Command Officers (who should scrutinise the correctness of the rates applied in commutation, broad sheets, progress and clearance of recoverable payment and their accounting) on the accuracy of accounts qualified, if need be, which are due to reach Headquarters Office by 25th September each year,
- (ii) a check of the accounts in question with reference to the Statement of Central Transactions, Defence Services conducted by the Headquarters Office.

APPENDIX -III

(See paragraph 37(e))

Sl. No. 1

Combined Finance and Revenue Accounts

The Controller General of Defence Accounts (CGDA) prepares the Defence Services portion of Combined Finance and Revenue Accounts for incorporation in the Combined Finance and Revenue Accounts (CF&RA) of the Central and State Government in India and forwards a copy to the office of the Comptroller & Auditor General of India (C&AG) by September 20 and endorses another copy to the office of the Director General of Audit, Defence Services (DGADS), New Delhi through Ministry of Defence (Fin/Bud-I). The DGADS checks these accounts with reference to the Consolidated Compilation of Defence Receipts and Charges for March (Final) furnished by the Computer Centre, CGDA, New Delhi. The DGADS, after satisfying himself about the correctness of the accounts, forwards three sets of these accounts to the office of the C&AG of India along with a certificate of DGADS regarding correctness of the accounts.

The Command Officers also send a report on the check of the accounts under Major heads 0076 to 0080 (Receipts), 2076 to 2080 (Expenditure) (the new Major Heads 0080 and 2080 pertaining to R&D Organisation have been introduced with effect from the year 2003-04) and 4076 Capital Outlay on Defence Services in respect of Controllers of Defence Accounts under their audit jurisdiction by 1st week of September to enable the office of the DGADS to append the certificate on CF&RA after due checks. However, pursuant to the decision taken vide paras 9&11 of the Report of the Committee constituted in 1998 for prescribing a format for CF&RA accounts, the inclusion of the Defence Services portion in CF&RA along with that of P&T and Railways have been discontinued with effect from 1996-97 and onwards. Accordingly, while intimating the decision, C&AG office had advised DGADS to intimate Ministry of Defence to bring out a separate Compilation of Defence Services portion of Finance & Revenue Accounts, if required by them (C&AG office letter NO. 101-AC-III/CFR-ROB/405-99 dated 5 April 2000 refers). Subsequently, the requirement of furnishing Defence Services portion of CF&RA in terms of Para-181 of this Manual (Item-31 of Annexure-B (Annual)) to C&AG office had been dispensed with.

Defence Services portion of Finance and Revenue Accounts are prepared dividing into the following two broad categories:

Receipts

The receipts realized during the year under the Major heads are depicted Minor head-wise in the accounts.

Expenditure

The Minor head-wise details of expenditure under the Major heads are depicted in these accounts. The total expenditure under each Major head is shown separately both for Voted and Charged segments in the accounts.

Besides this, the account contains the general summary of Receipts and Charges under Revenue & Capital heads of account along with certain explanations.

During the scrutiny of these accounts, the following audit checks may be exercised:

- (i) The figures of expenditure shown in the accounts under various Minor heads of a Major Head should be strictly in accordance with the figures shown under respective Minor heads/Major head in the Consolidated Compilation of Defence Receipts and Charges, March (Final).
- (ii) The recoveries which are adjusted in the accounts as reduction of expenditure under a particular head should not be added back with the expenditure figures of that head of expenditure as Finance Accounts disclose the net expenditure figures only.
- (iii) It should be seen that the expenditure incurred by the departments viz; DAVP (Ministry of Information & Broadcasting) etc. as an agent department on behalf of Ministry of Defence under a particular head, in no cases be added back to the concerned head of expenditure as this amount will be found reflected separately in the Statement of Central Transactions (SCT) of agent department i.e. DAVP (Ministry of Information & Broadcasting) etc. in order to arrive at the gross expenditure figure of that head of account which will be subsequently shown in the Appropriation Accounts, Defence Services.
- (iv) The total expenditure figure under each Major Head of account should be shown separately for Voted and Charged segments of expenditure in the accounts.
- (v) It may be ensured that the charged expenditure recorded under each of the Major heads of these accounts should tally with the corresponding figures shown in the Consolidated Charged expenditure Report, furnished separately by the office of the CGDA to this office.
- (vi) It should be seen to ensure that the Revenue Receipts/expenditure and Capital expenditure figures shown separately in the accounts, have been brought forward correctly in the General Summary of Defence Services portion of CF&RA.

After necessary checks and rectification of discrepancies pointed out, if any, a copy of these accounts is returned to Ministry of Defence duly vetted for further action by them.

APPENDIX -III (Contd.)

(See Paragraph 37(f))

Sl. No. 2

Statement of Central Transactions

The Consolidated Balanced Accounts, Defence Services prepared by the Controller General of Defence Accounts (CGDA) has been discontinued and substituted by the Annual Statement of Central Transactions (SCT) from the year 2002-03 as per the requirement of Controller General of Accounts, Ministry of Finance being the authority responsible for the preparation of Union Government Finance Accounts, with the approval of DGADS as these accounts form part of Union Government Finance Accounts.

Three copies of the printed Statement of Central Transactions relating to Ministry of Defence prepared by the CGDA are forwarded to the DGADS by 15th September with a copy each to all Principal Controllers/Controllers of Defence Accounts and concerned Command Officers of this office.

The Principal Controllers/Controllers of Defence Accounts after checks of figures in the SCT, bring promptly to the notice of the CGDA the variations/mistakes, if any under intimation to the concerned Command Officer of this office. The Command Officer, on the basis of mistakes if any, pointed out to them by the concerned CDA and after due checks, send a report to DGADS. They also forward a certificate each of checks of compilation of the Revenue, Debt and Remittance (RD&R) heads and compilation of Defence Services Receipts and Charges in respect of Controllers of Defence Accounts under their audit jurisdiction.

The SCT prepared by the CGDA on the basis of March (Corrections) Accounts (Initial Stage) and March (Final) Accounts (Final Stage) are checked by the O/o the DGADS with the Consolidated Compilation of Revenue, Debt and Remittance heads and Consolidated Compilation of Defence, Receipts and Charges for the month of March (Corrections) and March (Final) respectively received from Computer Centre, CGDA, New Delhi.

The SCT is mainly prepared in the following two parts showing the figures of Consolidated Fund of India, Contingency Fund of India and Public Accounts of India separately:

I Receipts:

The receipt part is further sub-divided into the following two statements/proformae:-

- (i) A detailed proforma prepared Sector-wise showing all receipts heads both for Revenue Accounts and Capital Accounts separately.
- (ii) Another proforma consisting abstract of receipt head prepared on the basis of detailed proforma (i) above showing the figures of Receipt Heads (Revenue Account) and Receipt Heads (Capital Accounts).

II Disbursements:

The disbursement part is further divided into the following two statements/proformae:

- (i) A detailed proforma showing Sector-wise details both in the Voted and Charged segments separately of Revenue and Capital expenditure/disbursements in the respective minor heads of accounts.
- (ii) Another proforma consisting abstract of expenditure heads prepared on the basis of proforma (i) above showing the figures of expenditure heads (Revenue Accounts) and expenditure heads (Capital accounts) both under Voted and Charged segments.

Apart from above, these accounts contain the following three statements/proformae prepared on the basis of aforesaid Statements/proformae:

- b) Proforma showing all the receipts/disbursement items together, which were shown separately in the proforma I (i) & II (i) above.
- c) Abstract of all receipts/disbursements together in a proforma shown separately in the proforma I (ii) and II (ii) above.
- d) Proforma showing the Summary of all receipts/disbursement against the various Sectors.

While scrutinizing the SCT, it is to be seen that:

- (i) Whether the certificate of check in respect of heads relating to the RD&R Heads Compilation and the Compilation of Defence, Receipts and Charges have been received from Command Offices (COs) in respect of Principal Controllers/Controllers of Defence Accounts under their audit jurisdiction.
- (ii) Whether any corrections/mistakes have been pointed out by the Command Offices, intimated to them by the respective Controllers in respect of SCT.
- (iii) Whether the mistakes, if any, had been taken into account by the CGDA in the final stage of SCT properly.
- (iv) Whether these accounts have been prepared strictly in accordance with the functional heads i.e. sectorial arrangements of accounting heads prescribed in the List of Major and Minor Heads (LMMH).
- (v) Whether the figures disclosed in the accounts agree with the figures of Consolidated Compilation of RD&R Heads and Consolidated Compilation of Defence, Receipt and Charges for the month of March (Final).

On the basis of necessary certificates of checks received from Command Officers and after audit checks carried out by this office, this office forwards a copy each of SCT to the Office of the Director General of Audit, Central Revenue (DGACR), being the authority responsible for carrying out the audit of Union Government Finance Accounts and to the Office of the Controller General of Accounts (CGA), Ministry of Finance, authority responsible for preparation of Union Government Finance Accounts.

APPENDIX- IV

[Refer to para 87]

Audit Approach

The Systems Based Approach (SBA)

Entities subject to Supreme Audit Institutions (SAI) audits will typically establish systems of control designed to assure the accuracy and completeness of financial statements, the legality and regularity of underlying transactions and the economy, efficiency and effectiveness of operations. Generally speaking, if the auditor can satisfy himself as to the adequacy of these controls, substantive checking of financial statements, transactions or the performance of the organisation can be reduced accordingly.

The approach whereby the auditor relies upon the entity's system of internal control is known as the Systems Based Approach (SBA). It has the following distinct stages:

- (a) the identification and in-depth evaluation of relevant key controls, and assessment of the extent to which (if any) the auditor can rely upon these controls provided that they are found to be operating effectively;
- (b) the testing of the operation of those key controls to establish whether they have operated effectively throughout the period under examination;
- (c) the evaluation of the results of the tests of control to establish whether the degree of reliance foreseen can be taken from the examination of the controls;
- (d) substantive testing of a number of transactions, account balances, etc. to determine (as relevant to the audit objectives) whether, irrespective of the entity's system of controls, the financial statements of the entity are accurate and complete, the underlying transactions were legal and regular and/or the economy/efficiency/effectiveness criteria have been achieved.

The Direct Substantive Testing (DST) approach

When the auditor has no specific requirement to assess the operation of organisations systems of control, it may be that the audit objectives can be achieved without relying on these systems, and thus without undertaking tests of control. This is known as the Direct Substantive Testing approach (DST). It is to be noted that, as no assurance can be taken under the DST approach from the operation of controls (as under this approach they are not being tested and, thus, no evidence is being obtained as to their effectiveness), the amount of substantive testing necessary will be greater than under the SBA approach. It is for the auditor to judge in such circumstances which will be the most cost-effective method of obtaining the evidence necessary to achieve the audit objectives.

Paragraph 141 of the INTOSAI Auditing Standard States that:

"The auditor, in determining the extent and scope of the audit should study and evaluate the reliability of internal control".

Thus, even when a DST approach is adopted, the auditor must carry out some examination of the major systems, even if this study is preliminary in nature. Thus the DST approach is, in effect, a form of SBA, whereby examination of systems is minimised.

Considerations in deciding which approach to adopt

When the auditor is not specifically required to adopt an SBA approach, the choice of SBA or DST will usually be based upon an assessment of the audit resources, and thus the cost of obtaining competent and reliable evidence. The following factors will be significant in making that judgement:

- (a) where controls are geographically dispersed or when it is otherwise difficult to test their operation, SBA may not be feasible given the resources available. Similarly, where the results of a preliminary evaluation of the reliability of internal controls suggest these are weak, the auditor may not be able to rely upon them. Thus a DST approach might be adopted regardless of the relative costs.
- (b) whilst it is possible to adopt a DST approach for the examination of legality and regularity, this type of audit lends itself particularly well to an SBA approach.
- (c) the SBA approach has the particular advantage that it often allows the auditor to establish a direct link between individual errors and weaknesses in the system of control and thus focus on these weaknesses. By indicating such weaknesses to the entity's management, the auditor can help the entity to achieve improvements in control for the future.

APPENDIX- V

[Refer to para 87]

Statistical Sampling

Introduction to Statistical sampling

Sampling means testing less than 100% of the cases in the population for some characteristic and then drawing a conclusion about that characteristic for the entire population. Traditionally, auditors use ‘test check’ (or judgmental sampling, non-statistical sampling) approach. This means checking a pre-determined proportion of the cases on the basis of the auditor’s judgment. This sampling technique can be effective if properly designed. However, it does not have the ability to measure sampling risk and thus audit conclusions reached becomes rather difficult to defend. For statistical sampling techniques, there is a measurable relationship between the size of the sample and the degree of risk. Statistical sampling procedure uses the laws of probability and provides a measurable degree of sampling risk. Accepting this level of risk, (or conversely at a definite assurance level) the auditor can state his conclusions for the entire population. In sum, statistical sampling provides greater objectivity in the sample selection and in the audit conclusion.

Attributes and Variable sampling

Statistical sampling may be used in different auditing situations. The auditor may wish to estimate how many departures have occurred from the prescribed procedures; or estimate a parameter in the population. Based on whether the audit objective is to determine a qualitative characteristic or a quantitative estimate of the population, the sampling is called an attribute or variable sampling.

Attributes sampling estimates the proportion of items in a population having a certain attribute or characteristic. In an audit situation, attribute sampling could estimate the existence or otherwise of a error. Attribute sampling could be used when drawing assurance that prescribed procedures are being followed properly. For example, attribute sampling may be used to derive assurance that procedures for classification of vouchers have been followed properly. Here, the auditor estimates through attribute sampling the percentage of error (vouchers that have been mis-classified) and sets an upper limit of error that he is willing to accept and still be assured that the systems are in place. Variables sampling would estimate a quantity, e.g., the underassessment in a tax circle.

Sampling methods

There are different ways in which a statistical sample can be selected. The most frequently used method is random selection where each item in the population has a equal chance of selection. Simple random sampling ensures that every member of the population has an equal chance of selection. Though simple to administer, the underlying assumption is that the population is homogeneous. In cases where the population is non-homogeneous, a stratified sampling would be a better option. Here the population is sub-divided into homogeneous groups and then a random sampling is done on the groups, ensuring a better representative sample. Each sampling method has its practical use and limitation. The auditor uses his judgment in determining

which kind of sampling is best suited to his audit job. It is advisable to take expert advice in judging the most suitable method.

Some random sampling methods that are commonly used are

- Simple random sampling where each member of the population has an equal chance of selection. This is useful when the population is uniform.
- Stratified random sampling where the population is divided into strata and random sample is drawn from each strata. This is useful when there exists stratification in the data and the method will ensure that members from each strata are represented.
- Systematic sampling where population members at equal intervals get selected. Often it might be easier to draw systematic sample than random sample. This would be particularly useful when cases are ordered by size, type or region. Then by selecting systematically one can ensure that cases having different attributes have been adequately represented.
- Cluster sampling where the population is divided into clusters and members from each cluster are selected randomly. This is useful when the population can be easily divided into clusters.
- Probability proportional to size sampling which is a special case of cluster sampling where clusters are of different sizes; larger clusters have a higher chance of selection. Here larger cases or clusters have a higher chance of selection. It would be useful if we wish to weight the sample towards larger items.
- Multi-stage sampling, which is sampling through a series of stages. This may combine the various single-stage sampling methods, e.g., simple, stratified, systematic, cluster sampling, at different stages. With large populations it is often useful to carry out sampling in two or more stages. For example, an audit question could be related to the satisfaction of the beneficiaries in a social intervention program. The program could be a nation-wide program. A multi-stage sampling method could be employed to draw a sample of the beneficiaries:
 - sample states
 - sample districts within selected states
 - sample blocks within selected districts
 - sample villages within selected blocks
 - sample beneficiaries within selected villages

At each stage of sampling a suitable method of selecting the sample could be used. Once the method of sampling is decided, it is essential to design the actual sample. For simple random sampling, the following process can be followed. For other types of sampling it is advisable to consult experts.

Simple random sampling (Attribute sampling)

This is used when audit desires to estimate an attribute in a population. It is useful for testing internal controls. For example, the auditor may decide that if there are errors above a certain threshold the control systems are inefficient. The attribute, which the auditor is interested here are errors/ aberrations from processes. The basic stages that are involved here are mentioned below:

- Determining the sample size

- Selecting the sample and performing substantive audit tests on the sample
- Projecting the results

(a) Determining the sample size:

- After defining the target population and the attribute that audit wishes to test, the size of the sample required to be tested need to be determined. This can be done with through an understanding of the following parameters:
- Precision (E): Audit test on the sample will throw up an estimate of the attribute for the population. The true population value of the attribute could be more/ less than this estimate. The gap between the sample estimate and the actual population is the precision. The auditor has to decide the precision he desires to provide in his estimates.
- The confidence level or the level of assurance that audit needs to provide is to be defined. Confidence level states how certain the auditor is, that the actual population measure is within the sample estimate and its associated precision level. In case of performance audit, this level can be taken at 95 percent.
- The occurrence rate (p) or population proportion which is the proportion of items in the population having the attribute that audit wishes to test. This is based on the judgment of the auditor.

The required sample size can be calculated using the formula in annexure IA. The sample size would be larger, higher the confidence level and precision required. Also if the occurrence rate in the population becomes larger the size of the sample would increase. In case of variables sampling, where the estimate of a quantity is required, sample size becomes a function of the standard deviation in the population rather than the occurrence rate.

(b) Selecting the sample and performing substantive audit tests on the sample

The sample could be selected using random number tables or through computers. Auditing software, e.g., IDEA is an efficient tool for sample selection. Once the sample is selected, identified audit tests are to be applied on the sample. The proportion of the sample having the attribute that is under test is determined through audit.

(c) Projecting the results

The test results are to be projected to the population. Using the same formula at annexure IA, the precision can be calculated at the desired confidence level and sample size. Loading the precision on the sample value the upper estimate for the population can be made.

In the example of testing internal controls, this estimate is the maximum error/ aberration that is expected at the given confidence level. In case this estimate is less than the threshold of error/ aberration that the auditor can tolerate, the auditor can place assurance on the controls. When the estimate is higher than the tolerable error/ aberration, the auditor cannot derive assurance from the controls. The auditor may, in such situations reduce the assurance he derives from the controls and increase the assurance required from substantive tests.

To calculate sample size for attribute sampling (simple random sampling)

$$\text{Sample size (n)} = \frac{Z^2 p(1-p)}{E^2}$$

Where, Z = score associated with confidence level

E = precision

And p = proportion (occurrence rate in the population)

Z score values:

Confidence level	Z score values
80 %	1.28
85 %	1.44
90 %	1.65
95 %	1.96
99 %	2.58

Books recommended for further reference:

- 1) Using Statistical Sampling published by GAO.
- 2) An Introduction to Statistical Sampling in Auditing by Guy D.M., New York John Wiley & Sons, 1981.

APPENDIX- VI
(Refer to para 87)

Risk Assessment

Risk-Based Audit

Audit should be risk-based or focused on areas of greatest risk to the achievement of the audited entity's objectives. Risk-based audit (RBA) is an approach to audit that analyzes audit risks, sets materiality thresholds based on audit risk analysis and develops audit programmes that allocate a larger portion of audit resources to high-risk areas

The auditor does not normally need to perform specific audit procedures on all areas of audit. He/She only needs to design audit programmes and procedures on areas earlier identified as major risks that could result in the financial statements being materially misstated. RBA is an essential element of financial audit- both in the attest audit of the financial statements and in the audit of financial systems and transactions including evaluation of internal controls. It focuses primarily on the identification and assessment of the financial statement misstatement risks and provides a framework to reduce the impact to the financial statement of these identified risks to an acceptable level before rendering an opinion on the financial statements. It also provides indicators of risks as a basis of opportunity for improvement of auditee risk management and control processes. This affords an opportunity to the auditee to improve its operations from recommendations on risks that do not have a current impact on the financial statements but impact the audited entity's operational strategies and performance over the longer term.

In the context of performance audit, it is the risk to delivery of an activity or scheme or programme of the entity with economy, efficiency and effectiveness. Awareness of areas that puts the programme or resources at risk from the point of view of economy, efficiency and effectiveness helps focus audit attention on them. The risk analysis provides a framework for assurance in performance auditing.

Audit risk analysis

The auditor should perform an analysis of the audit risks that impact on the auditee before undertaking specific audit procedures. Risk assessment is a subjective process. It is part of the professional judgment of the auditor and of the particular circumstances. Audit risk is the risk that the auditor may unknowingly fail to appropriately modify his opinion on financial statements that are materially misstated

Audit risks are brought about by error and fraud:

- Error is an unintentional mistake resulting from omission, as when legitimate transactions and/or balances are excluded from the financial statements; or by commission, as when erroneous transactions and/or balances are included in the financial statements
- Fraud is an intentional misstatement in the accounting records or supporting documents from which the financial statements are prepared. It is intended to deceive financial statement users or to conceal misappropriations

The auditor has the responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud.

An error risk may arise from an error in principle, estimate, critical information processing, financial reporting process or disclosure

Fraud risk involves manipulation, falsification of accounting records, or misrepresentation in the financial statements of events, transactions or other significant information, or misapplication of accounting principles or misappropriation of funds.

Risk Model

The risk model is an analytical tool for planning and execution. This approach detects high-risk areas where audit effort can be concentrated. Audit can thus focus on areas which are likely to generate better assurance instead of sampling and testing of larger but low risk areas. It structures the audit procedures and re-organizes the audit work in terms of risk perception.

Inherent Risk is the susceptibility of an account balance or class of transactions to misstatements that could be material individually or when aggregated with the misstatements in other balances or classes, assuming that there were no related internal controls. Inherent risk is assessed during the preliminary stage of the planning process

Control risk is the risk that a misstatement that could occur in an account balance or class of transactions that could be material, individually or when aggregated with misstatements in other balances or classes will not be prevented or detected and corrected by the accounting and internal control systems. Control risk is assessed during the evaluation of audited entity's strategies and control.

Detection risk is the risk that an auditor's substantive procedures will not detect a misstatement that exists in an account balance or class of transaction that could be material individually or when aggregated with misstatements in other balances or classes. The detection risks are assessed during the execution phase of the audit in the substantive tests of details

General Steps in the Conduct of RBA

RBA consists of four main phases starting with the identification and prioritization of risks, to the determination of residual risk, reduction of residual risk to acceptable level and the reporting to auditee of audit results. These are achieved through the following:

- Understand auditee operations to identify and prioritize risks
- Assess auditee management strategies and controls to determine residual audit risk
- Manage residual risk to reduce it to acceptable level
- Inform auditee of audit results through appropriate report

Understanding auditee operations involves processes for reviewing and understanding the audited organisation's risk management processes for its strategies, framework of operations, operational performance and information process framework, in order to identify and prioritize the error and fraud risks that impact the audit of financial

statements. The environment in which the auditee operates, the information required to monitor changes in the environment, and the process or activities integral to the audited entity's success in meeting its objectives are the key factors to an understanding of agency risks. Likewise, a performance audit of the audited entity's delivery of service by comparing expectations against actual results may also aid in understanding agency operations.

Assessment of management risk strategies and controls is the determination as to how controls within the auditee are designed. The role of internal audit in promoting a sound accounting system and internal control is recognized, thus the SAI should evaluate the effectiveness of internal audit to determine the extent to which reliance can be placed upon it in the conduct of substantive tests.

Management of residual risk requires the design and execution of a risk reduction approach that is efficient and effective to bring down residual audit risk to an acceptable level. This includes the design and execution of necessary audit procedures and substantive testing to obtain evidence in support of transactions and balances. More resources should be allocated to areas of high audit risks, which were earlier known through the analytical procedures undertaken.

The results of audit shall be communicated by the auditor to the audited entity. The auditor must immediately communicate to the auditee reportable conditions that have been observed even before completion of the audit, such as weaknesses in the internal control system, deficiencies in the design and operation of internal controls that affect the organization's ability to record, process, summarize and report financial data.

Materiality

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, as when the law or regulation requires it to be disclosed separately regardless of the amount involved. In addition to materiality by value and by nature, a matter may be material because of the context in which it occurs. For example, considering an item may be material in relation to:

- the overall view given to the financial information;
- the total of which it forms a part;
- associated terms; and
- the corresponding amount in previous years

In designing the audit plan, the auditor shall establish an acceptable materiality level so as to detect quantitatively material misstatements. This is the materiality threshold which is classified into individual item materiality and aggregate materiality. Individual item materiality concerns the impact of a single misstatement on the financial statements, while aggregate materiality considers the total effect of two or more misstatements, each of which is not material by itself

The auditor must consider materiality while planning the audit, conducting the audit and reporting the results of the audit although materiality thresholds may change between the three phases

The auditor must use his professional judgment in determining materiality since it is always relative. It is not possible to lay down specific rules or absolute numerical measurements that will be valid in every case. If, based on analytical procedures and

fraud assessment, there are indications of fraud, individual item materiality thresholds should be decreased and the auditor should place more emphasis on external evidence

APPENDIX -VII

[Refer to para 87]

Internal Control and Internal Audit

(A) Internal Control

Internal Control is an internal process that is affected by an entity's management & personnel and is designed to provide reasonable assurance that the following objectives are being achieved:-

- (a) fulfilling accountability obligations;
- (b) Complying with applicable laws and regulations;
- (c) Executing orderly, ethical, economical, efficient & effective operation;
- (d) Safeguarding resources against loss.

Limitations on Internal Control effectiveness

Internal Control cannot by itself ensure the achievement of the general objectives

Internal Control cannot change an inherently poor manager into a good one. Moreover shifts in Government policy or programme, demographic or economic conditions are typically beyond management's control.

An effective system of Internal Control reduces the probability of not achieving the objectives. However, there will always be the risk that internal control will be poorly designed or fail to operate as intended.

Because internal control depends upon human factor, it is subject to flaws in design, errors of judgement 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. The benefits of controls must consequently be considered in relation to their costs.

Components of Internal Control

Internal control consists of five interrelated components:

1. Control environment
2. Risk assessment
3. Control Activities
4. Information & communication
5. Monitoring

Relationships of objective & components

There is a direct relationship between the objectives, which represent what an entity strives to achieve, and the internal control components, which represent what is needed to achieve them. The relationship is depicted in a three-dimensional matrix, in the shape of a cube.

The four objectives- accountability (and reporting), compliance (with laws and

regulations), (orderly, ethical, economical, efficient and effective) operations and safeguarding resources- are represented by the vertical columns, the five components are represented by horizontal rows, and the organisation or entity and its departments are depicted by the third dimension of the matrix.

Each component row “cuts across” and applies to all four objectives. For example, financial and non-financial data generated from internal and external sources, which belong to the information and communication components, are needed to manage operations, to report and fulfill accountability purposes, and to comply with applicable laws.

Similarly, looking at the general objectives, all five components are relevant to each objective. Taking one objective, such as effectiveness and efficiency of operations, it is clear that all five components are applicable and important to its achievement.

Internal control is not only relevant to an entire organisation but also to an individual department. This relationship is depicted by the third dimension, which represents entire organisations, entities and departments. Thus, one can focus on any of the matrix’s cells.

While the internal control framework is relevant and applicable to all organisations, the manner in which management applies it will vary widely with the nature of the entity and depends on a number of entity-specific factors. These factors include the organizational structure, risk profile, operating environment, size, complexity, activities and degree of regulation, among others. As it considers the entity’s specific situation, management will make a series of choices regarding the complexity of processes and methodologies deployed to apply the internal control framework components.

1. Control Environment- The control environment sets the tone of an organisation in 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:-

- (i) The personnel & professional integrity and ethical value of the management and staff including a supportive attitude toward internal control at all times throughout the organisation.
- (ii) Commitment to Competence.
- (iii) The tone at the top (i.e. the management’s philosophy & operating style)
- (iv) Organisational structure
- (v) Human resource policies & practices.

2. Risk Assessment- Risk assessment is the process of identifying & analysing relevant risks to the achievement of the entity’s objectives and determining the appropriate response.

It implies:

(a) Risk Identification

- Related to the objective of the entity.
- Comprehensive
- Includes risks due to external & internal factors at both the entity and the activity levels.

(b) Risk evaluation

- Estimating the significance of a risk,
- Assessing the likelihood of the risk occurrence.

(c) Assessment of the risk appetite of the organisation.

(d) Development of responses:-

- Firm types of responses to risk must be considered; transfer, tolerance, treatment or termination; of these risk treatment is most relevant to these guidelines because effective internal controls all the major mechanism to treat risk;
- The appropriate controls involved can be either detective or preventive

As Government economic, industry, regulatory and operating conditions are in constant change, risk assessment should be an ongoing iterative process. It implies identifying and analysing altered conditions and opportunities & risks (risk assessment cycle) and modifying internal controls to address changing risk.

3. 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 directly relate to the control 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 diverse, for example, as:

- (a) Authorisation and approval procedures
- (b) Segregation of duties (authorising, processing recording, reviewing)
- (c) Control over access to resources and records.
- (d) Verifications
- (e) Reconciliations
- (f) Reviews of operating performance
- (g) Reviews of operations, processes and activities
- (h) Supervision (assigning, reviewing and approving, guidance and training)

The abovementioned list is not exhaustive but enumerates the most common preventive and detective control activities. Control activities a to c are preventive, d to f are more detective while g to h are both preventive & detective. Entity should reach an adequate balance between detective and preventive control activities.

4. Information Technology Control Activities

Information system implies specific types of control activities. Therefore information technology controls consist of two broad groupings-

(a) General controls

General controls are the structures, policies and procedures that apply to all or a large segment of an entity’s information systems and help ensure their proper operation. They create the environments in which application systems and controls operate. The major categories of general controls are:

- (1) entity-wide security program planning and management
- (2) access controls
- (3) controls on the development, maintenance and change of application software.
- (4) system software controls
- (5) segregation of duties
- (6) service continuity

(b) Application Controls

Application controls are the structure policies and procedures that apply to separate, individual application system and are directly related to the individual computerized applications. These controls are generally designed to present, detect and correct errors and irregularities as information flows through information systems.

General and applications controls are interrelated and both are needed to ensure complete and accurate information processing. Because information technology changes rapidly, associated controls must evolve constantly to remain effective.

Information and Communication

Information and communication are essential to realising all internal control activities. 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 other responsibilities (timely communication to the right people). Therefore, the internal control system as such and all transactions and significant events should be fully documented.

Information systems produce reports that contain operational, financial and non-financial and compliance-related information and that make it possible to run and control the operation. They deal not only with internally generated data, but also information about external events, activities and condition necessary to enable decision making and reporting.

Management's ability to make appropriate decision is affected by the quality of information which implies that the information should be appropriate, timely, current, accurate and accessible.

Communication

Effective communication should flow down, across, and up the organisation, throughout all components and 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.

5. Monitoring

Internal control system should be monitored to assess the quality of the system's

performance over time. Monitoring is accomplished through routine activities, separate evaluation or a combination of both.

(a) 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.

(b) Separate Evaluation

The scope and frequency of separate evaluations will depend primarily on the assessment of risks and the effectiveness of ongoing monitoring procedures.

Specific separate evaluations cover the evaluation of the effectiveness of the internal control system and ensure that internal control achieves the desired results based on predefined methods and procedures. Internal control deficiencies should be reported to the appropriate level of management.

Monitoring should ensure that audit findings and recommendations are adequately and promptly resolved.

Examples

Fulfilling accountability obligations example (1): A department that is responsible for the management of sate transport by water and sea has been organised by different service departments responsible for piloting, buoyage, inspection of the quality of the water, promotion of the use of waterways, investments in and maintenance of infrastructure (bridges, dikes, canals and locks).

Control Environment	Risk Assessment	Control Activities	Information & Communication	Monitoring
For each of the service departments an operational manager is appointed who has to report to the general manager of the department. The operational managers have the appropriate skills and have the authority to make certain decisions. All of them also sign a code of proper conduct.	Possible risks are collisions of ships, draining off toxic waste or fuel, and bursting of dikes. In case this is related to negligence of the government department, it could face a huge liability.	Control activities that can be organised are the pilotage of ships by competent - pilots, placing buoys, beacons and markers; visual inspection by air; and taking water samples. .	The information and communication, related to this situation can be the reporting of collisions to warn other-ships; informing ships of weather conditions, and publishing the names of polluters and the sanctions they are facing, and the remedial actions undertaken.	A follow-up of the number of collisions, environmental violations, results of the samples and a comparison with other countries and with historical data, can help to monitor the effectiveness and efficiency of the pilotage of ships, the placing of the beacons and markers, the inspections, and the water samples.

Fulfilling accountability obligations example (2): The manager of the department of sports stipulated last year the objective that the practice of sports would increase by 15% in the coming years.

Control Environment	Risk Assessment	Control Activities	Information & Communication	Monitoring
Because of the manager's good reputation, the executive committee trusted the manager and did not carry out the usual status meetings to check on the manager's progress	By not specifying the objectives, the risk arises of not achieving them. Also the danger exists that reporting will not be timely as the manager wants to wait with this report until he can say he realised the objective of 15% growth. Moreover, how to measure the 15% growth was not revealed so he can say the number of people doing sports has increased or the number of hours people do sports, or even the number of sports centres or sports clubs has increased by 15%. This way the quality of the reported information decreases substantially.	This risk can be decreased by installing appropriate lines of reporting and a reporting model which defines the information that should be given.	This report should be delivered in time and according to the specified reporting model. It should specify the growth objectives, how they are measured and why they are measured this way. All the back up information should be available.	The verification of whether or not the report is satisfactory and what information is given and what information is still missing can be a form of monitoring

Compliance with applicable laws and regulations example: The ministry of defence wants to buy new fighters planes via a public contract and publishes all stipulations and procedures for this government tender. All tenders received are left unopened until the end of the tender period. At that moment all tenders are opened in the presence of the responsible managers and some officials. Only these tenders will be investigated and compared to decide which tender is the best

Control Environment	Risk Assessment	Control Activities	Information & Communication	Monitoring
The team that will execute this transaction is composed of competent people who signed a document that they have no financial or relational bond with any of the tenderers; The responsible managers and officials also signed this document.	One of the risks related to government tenders and public contract is insider dealing. One of the tenderers may have prior knowledge of the bids of the other tenderers and could make a winning tender with this information resulting in what may not be the best choice of all tenders. Another risk consists of choosing the wrong tender which may result in a new public contract because the other one did not meet the expectations. Also other tenderers who feel they were unfairly treated may make claims.	In order to mitigate risks, procedures should be developed and applied in accordance with all relevant laws and regulations concerning public contracts.	The procedures relating to the publication of all stipulations for this government tender, the assessment of the received tenders and the announcement of the selected tenderer, should be documented in writing and detail all actions to be taken. When assessing the tenders, all reasons why a tender was or was not chosen should be documented.	Internal audit can do file-reviews and follow-ups on claims

Orderly, ethical, economical, efficient and effective operations example (1): The department of culture wants to increase museum visits by the public. In order to accomplish this, it proposes to build new museums, give every citizen a cultural cheque and decrease ticket prices. To be economical, effective and efficient, management has to consider and evaluate whether or not the objectives as formulated can be achieved by its proposals and how much each of these proposals will cost.

Control Environment	Risk Assessment	Control Activities	Information & Communication	Monitoring
The department of culture needs to make sure that its organization structure is suited to support over seeing design and construction of the proposed additions, as well as planning and operations of the new museums;	The fact that the number of museum visits does not increase is one of the possible risks. Also the risk that some of the proposals will backfire and exceed their budget is possible. For instance decreasing ticket prices without having a positive effect on museum visits decreases the government receipts, and building new museums without proper planning and consideration of requirements of light, temperature and security can cause a number of expensive adjustments that have to be made afterwards.	The control activities related to the before mentioned risks can be a budgetary control that compares actual to budget, observations of the progress of the construction, and demanding justifications for overspending the budget.	The information and communication related to this example can consist of the documentation of meetings with architects, fire department (for safety regulations), artists and others. It can also contain different reports concerning following up on the budget and the progress of the construction work.	The analysis of the justifications for exceeding budget and related interest costs due to delayed work or payments are a part of monitoring.

Orderly, ethical, economical, efficient and effective operations example (2): The government wants to develop agriculture and increase the quality of life at the countryside. They provide funds to subsidize the construction of irrigation and the drilling of wells.

Control Environment	Risk Assessment	Control Activities	Information & Communication	Monitoring
The government must ensure that it has the appropriate department in place to implement and conduct the subsidy operation, and create the appropriate tone for the timely and efficient completion of this project.	The risks involved are that unscrupulous associations qualify for a grant but do not use the money for what it was intended.	Control activities can be: - Checking the qualifications of the associations applying for a grant. - Checking on site the progress of and reviewing progress reports on the construction works. - Checking the expenditures of the associations by reviewing their invoices, and delaying payment of (or part of) the subsidy until this review is completed.	- Progress reports detailing the costs and the number of wells that were drilled and the number of acres that were irrigated. - (Copies of) invoices are requested as justifications for the subsidised expenses.	Monitoring can consist of a follow-up of the drilling of wells and the construction of irrigation, and a comparison with other similar projects. Also a follow-up on the proceeds of the irrigated land can be considered

Safeguarding resources example (1): The ministry of defence has some warehouses, military stores and fuel depots. The army command has the policy that these supplies are only for professional military use and not for personal use.

Control Environment	Risk Assessment	Control Activities	Information & Communication	Monitoring
Good human capital policies would be effective in recruiting and maintaining the appropriate personnel to staff and operate such warehouses.	The risk exists that people will want to try to steal weapons to use them inappropriately or sell them. Also other supplies like fuel can be vulnerable to theft.	Control activities that deal with these risks can be putting fences and walls around the warehouses and depots. You can also put armed guards with dogs at the entrances. Regularly checking the; stock records and a procedure which states that supplies can only be given with approval of a superior officer will also help to safeguard the assets	Reports of damaged fences and differences noticed during stock takes. Supply approvals and procedures also provide information and communication related to this objective.	Monitoring can be an inspection of the fence, unannounced stock takes follow-up of stock movements or even a secret test of security.

Safeguarding resources example (2): Large amounts of sensitive information are stored on computer media in an agency or the ministry of justice. However the importance of IT controls is neglected and consequently the IT control has numerous deficiencies.

Control Environment	Risk Assessment	Control Activities	Information & Communication	Monitoring
Management must dedicate its commitment to competence and proper behaviour involving IT, and provide proper training in this area. Human capital policies also play a key role in establishing a positive control environment for IT issues.	At the general controls level, the agency has not: <ul style="list-style-type: none"> - limited user access to only that needed by users to perform their duties; - developed adequate system software controls to protect programs and sensitive data; - documented software changes; - segregated incompatible duties; - addressed service continuity; - protected its network from unauthorized traffic. At the application controls level, the	The agency can : <ul style="list-style-type: none"> - implement logical (e.g. passwords) and physical access controls (e.g. locks, ID badges, alarms). - deny the ability to log in to the operating system for application users. - limit access to the production environment for the application development staff. - use audit logs to register all access (attempts) and commands to detect security violations. - have a contingency and disaster recovery plan to ensure the availability of critical resources and facilitate the continuity of operations. - have firewalls and 	Procedures on IT control should be available and software changes should be documented before the software is placed in operation. Policies and job descriptions supporting the principles of segregation of duties should be developed. <p style="text-align: center;">Audit logs on access (attempts) and (unauthorized) commands should be periodically</p>	Performing an IT audit, doing a disaster simulation exercise, monitor the web server activity, can be part of the monitoring of the IT environment

	agency has not maintained access authorisations.	monitor the web server activity to secure the network traffic.	reported and reviewed.	
--	--	--	------------------------	--

(B) Internal Audit

Role of Internal Audit

Modern organizations view internal audit as an element of the overall infrastructure of Internal Control. Internal auditors review the organization's operations, report their findings and recommend improvements. By so doing, they help senior managers discharge their responsibilities more effectively. In most countries, internal audit has evolved into a distinct profession. As defined by the Institute of Internal Auditors (IIA), "*Internal auditing is an independent, objective, assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve effectiveness of risk management, control, and governance processes*".(1999)

Internal Audit Standards

The adoption of and adherence to internal audit professional standards, such as that issued by the IIA, can enhance the effectiveness of internal audit. The mandates of many modern internal audit organizations in fact require compliance with such standards. The new IIA standards (<http://www.theiia.org>) will be effective January 1, 2002 but earlier adoption is encouraged. While there is one set of *Attribute* and *Performance Standards*, there may be multiple sets of Implementation Standards: a set for each of the major types of internal audit activity. The IIA Standards specify that:

Attribute Standards

- "The internal audit activity should be independent, and internal auditors should be objective in performing their work"
- "Engagements should be performed with proficiency and due professional care"
- "The chief audit executive should develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness. The program should be designed to help the internal auditing activity add value and improve the organization's operations and to provide assurance that the internal audit activity is in conformity with the *Standards* and the *Code of Ethics*"

Performance Standards

- "The chief audit executive should effectively manage the internal audit activity to ensure it adds value to the organization"

- "The internal audit activity evaluates and contributes to the improvement of risk management, control and governance systems"
- "Internal auditors should develop and record a plan for each engagement"
- "Internal auditors should identify, analyze, evaluate, and record sufficient information to achieve the engagement's objectives"
- "Internal auditors should communicate the engagement results promptly"
- "The chief audit executive should establish and maintain a system to monitor the disposition of results communicated to management"

Scope and Effectiveness of the Internal Audit

Internal auditors were traditionally concerned with the reliability of accounting and management information systems; compliance with policies, laws, regulations, rules and procedures; and the safeguarding of organizational assets and resources. However, they now increasingly cover organizational performance, including the economy in using resources, efficiency of operations and effectiveness in achieving organizational objectives, with extended-scope audits such as 'value-for-money', 'operational', and 'management' audits. In other words, their work extends beyond the financial accountability area. In addition, the evolving practice of internal auditing in government is gradually adopting the best practices from the private sector:

- Becoming more customer orientated and being proactive to the needs of the organization and the manager
- More future orientated by focusing more on risk management
- Becoming involved early in the design, development and implementation stages of systems and programs and
- Improving the methodology through increased use of new techniques such as statistical sampling, customer surveys, computer assisted audit techniques

As government organizations continue to restructure by becoming less bureaucratic through delegation of authority and decentralization, internal auditors play a greater role in improving public accountability and efficiency of government operations. However, this depends to a large measure on how the government and managers support internal auditors, particularly in providing them with operational independence and adequate resources, and taking appropriate actions further to their reports.

Organization of Internal Audit

In some countries, there may be a central internal audit service under the Ministry of Finance or other such entities. The central service personnel may be posted to individual ministries and be directly responsible to the chief manager of the entity concerned. On the other hand, individual ministries may also be authorized to hire their own internal auditors, with the central entity retaining responsibility for setting internal audit policies as part of the internal control structure and for coordinating all internal auditors. Regardless of how the internal audit function is organized and given that internal audit units typically tend to be small, a degree of central coordination

enhances opportunities for consistency in applying policies, sharing experiences and training personnel.

Coordination with Supreme Audit Institutions

Supreme Audit Institutions (SAIs), as external auditors of governments, play an important role in strengthening the internal audit function by:

- Regularly reviewing the work of internal auditors and helping improve the overall quality of the oversight function
- Cooperating with internal auditors in planning audit coverage and using the work of the internal auditor, wherever feasible, to reduce duplication and
- Impressing upon governments the criticality of the internal control function, including the role of internal audit therein

CHECKLIST FOR INTERNAL CONTROL AND INTERNAL AUDITING

OBJECTIVE

- To determine if the government has established and implemented an enabling infrastructure for promoting an Internal Control system in all government operations and
- To identify opportunities for strengthening the infrastructure and systems of internal control

NOTES

- *This questionnaire is designed to evaluate the state of Internal Control across all government agencies. The evaluation of Internal Control in a specific entity would require a different design*
- *INTOSAI's Standards of internal control, for use of government managers or any other such internal control standards that are applicable to the public sector may be used as a criteria for this evaluation*

INTERNAL CONTROL – POLICIES, LAWS, REGULATIONS AND ADMINISTRATIVE ISSUANCE FOR GOVERNMENT-WIDE APPLICATION

1. Is there any legislation promulgating internal control structures/standards/systems that is applicable to all government operations? If so, identify the significant policies and the specific entities assigned responsibility to oversee its implementation.
2. Has the government (executive) promulgated any regulations on internal control structures/standard/systems that is applicable to all government operations? (Note: such regulations may be general or specific in covering such areas as - finance/accounting, project/program, property, human

resources, travel and procurement management) If so, identify the significant policies and the specific entities assigned responsibility for their implementation.

3. Taking the policies and regulations as a whole, can it be stated that an adequate framework has been established for an adequate Internal Control system to flourish?
4. If there are no legislation or regulations, are there any other means by which the government can ensure that appropriate internal controls are indeed established in each government entity?
5. If such regulatory framework does not exist, has the Supreme Audit Institution brought to the attention of the government the existence of internal control standards recommended for government organizations by INTOSAI and if not, why not?

ORGANIZATION – ROLES AND RESPONSIBILITIES

CENTRAL AGENCY/ENTITY

6. Has the legislature or the government assigned responsibility for government-wide internal control policies and procedures to a central entity/agency (CA), such as the Ministry of Finance? If so:
 - 6.1. Is the responsibility and roles of the CA clearly documented and communicated to all government entities?
 - 6.2. Has the CA developed a strategic plan for the continuous review of internal control policies, regulations and procedures, and for establishing an effective Internal Control system across all government operations?
 - 6.3. Has the government or the CA adopted any internal control standards? If so, do these comprehensively cover all the INTOSAI standards?
 - 6.4. If a set of internal control standards have not been adopted or formulated, is the CA aware of the INTOSAI or other standards and should the government adopt one?
 - 6.5. Does the CA coordinate its activities with other specialized agencies such as budget and program management, personnel management etc?
 - 6.6. Has the CA issued any regulations, instructions or guidelines on internal control structures? If so, are these comprehensive and do they address all the issues covered under the INTOSAI's general and detailed standards?
 - 6.7. Has the CA or any other government entity established policies, regulations or instructions with respect to the following *vis-à-vis* internal control regimes:
 - Communicating internal control policies and procedures to all personnel across the government
 - Assigning responsibilities and delegating authorities to make decisions
 - Laws, regulations, rules and procedures to be observed

- Competency of staff, including recruitment and retrenchment, training, performance assessment etc
 - A code of conduct for public service employees
 - Information management, including policies related to information systems and
 - Reporting on performance
- 6.8. Does the CA or any other institution train managers on Internal Control? If such training programs exist, are they comprehensive and of practical value?
- 6.9. Does the CA require government managers to review risk, which may be specific to their respective entities and develop control procedures accordingly?
- 6.10. Does the CA require government managers to map and document their entire internal control policies and infrastructures?
- 6.11. Does the CA itself undertake any review of specific government operations/agencies/entities to determine if the regulations and instructions relating to Internal Control have been applied properly?
- 6.12. Does the CA require managers to conduct any form of self-assessment in their respective areas of operation to review the effectiveness of Internal Control? And if so, are they required to submit any report on the outcome of such evaluation?
- 6.13. Does the CA conduct an annual review of the state of controls, submit any report to the legislature and/or formulate future year plans/programs?
7. If such responsibility has not been assigned to any CA, are there other mechanisms to coordinate internal control policies? And, if there are such mechanisms, how do they function and can they be said to be effective (questions in paragraph 6 can be used for the evaluation?)

SPECIALIZED AGENCIES

8. Do specialized entities, such as those responsible for financial management, human resources management etc participate in establishing internal control policies and procedures for government-wide application? If so, how does each of these agencies obtain assurance that those policies and procedures are applied properly?

LACK OF ASSIGNED RESPONSIBILITY TO A CENTRAL AGENCY

9. Some countries may not have legislated any laws in respect of internal control regimes and others may not have assigned responsibility to oversee the establishment of internal control systems. In such cases, the key agencies responsible for budget management, financial management and revenue management should be approached to determine the state of controls in each of these agencies and how they obtain assurance from other government agencies as to their performance. The INTOSAI general and detailed standards may be used as the basis for the evaluation.

INTERNAL AUDIT (IA)

10. How are Internal Audit (IA) Units established in the various government entities – under the auspices of a central agency or directly by each entity?
11. How many government agencies have an IA and how many do not?
12. Has a common policy been established to govern the following?
 - Operational independence
 - Professional competence and training
 - Resources
 - Scope of work to be undertaken
 - Conduct of audits
 - Involvement in risk management and developing internal control policies and procedures
 - Reporting and
 - Quality review
13. Are the IAs required to adopt or have they adopted any standards such as those issued by the Institute of Internal Auditors (IIA)?
14. Has a comprehensive review of the IA effectiveness in government agencies been recently conducted and if so what was the result?
15. Where IA is established by individual government agencies, then three agencies (one large, one medium, and one small) may be selected and evaluated against the IIA standards to determine their effectiveness.

SUPREME AUDIT INSTITUTIONS (SAI)

16. Does the Supreme Audit Institution (SAI) routinely evaluate the effectiveness of internal control systems in every audit it undertakes? If not, why not?
17. Does the SAI review the effectiveness of internal audits and if so what criteria does it use for the evaluation?
18. Has the SAI conducted any major review of the effectiveness of Internal Control systems across the board covering all major government agencies?
19. Do the reports of the SAI to the legislature cover internal control issues?
20. What were the recent major findings and recommendations of the SAI regarding the effectiveness of Internal Control systems in government agencies?

Reference Books

1. INTOSAI guidelines for Internal Control Standards for the Public Sector (2004)
2. Standards for Internal Control by Govt. Accountability Office (GAO) USA

APPENDIX- VIII

[Refer to para 87]

Audit of Fraud

Definitions of Fraud

XVI INCOSAI URUGUAY 1998 viewed fraud as a legal concept, which involves acts of deceit, trickery, concealment, or breach of confidence that are used to gain some unfair or dishonest advantage; an unlawful interaction between two entities, where one party intentionally deceives the other through the means of false representation in order to gain illicit and unjust advantage.

According to SPASAI Fraud Guide, “fraud is a generic term which embraces all the means that human ingenuity can devise, which are resorted to by one individual, to get an advantage over another by false representations. There is no finite rule to define fraud as it includes surprise, trick, cunning and unfair ways by which another is cheated.

Fraud, as it is commonly understood today, means dishonesty in the form of an intentional deception or a willful misrepresentation of a material fact. Lying, the willful telling of an untruth, and cheating, the gaining of an unfair or unjust advantage over another, could also be used to further define the word fraud because both that and dishonesty denote intention or willingness to deceive.”

The Canadian Audit Guide 21 on Fraud Awareness refers to fraud as an action where there is a loss of a valuable resource resulting from a false representation made knowingly, without belief in its truth. Such actions could result in charges being laid under various applicable Canadian laws.

According to the National Audit Office of UK, fraud involves the use of deception to obtain an unjust or illegal financial advantage as well as intentional misstatements in, or omissions of amounts or disclosures from, an entity's accounting records or financial statements. It also includes theft, whether or not accompanied by misstatements of accounting records or financial statements.

The Fraud Examiners Manual views fraud as any intentional or deliberate act to deprive another of property or money by guile, deception or other unfair means. Similarly International Standard of Auditing (240) also treats fraud as an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

Essentially, fraud refers to intentional misrepresentation of financial information by one or more individual among the management, employees or third parties. It involves the use of deception to obtain an 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.

Elements of Fraud

The basic elements of fraud can be summarized as follows:

- There must be at least two parties to the fraud, namely the perpetrator and the party who was or could have been harmed by the fraud, otherwise known as the victim;
- A material omission or false representation must be made knowingly by the perpetrator;
- There must be intent by the perpetrator that the false representation be acted upon by the victim;
- The victim must have the legal right to rely on the representation;
- There must be either actual injury or a risk of injury to the victim as a result of the reliance;
- There generally is an attempt to camouflage; and
- Fraud involves betrayal of trust.

Definitions of Corruption

Corruption is a complex issue. While its roots are grounded in a country's particular social and cultural history, political and economic development, bureaucratic traditions and policies, one can generalize to state that corruption tends to flourish when institutions are weak and economic policies distort the marketplace.

The following definition of corruption is provided by the Asian Development Bank in the Anti-corruption Policy: "Corruption involves behaviour on the part of officials in the public and private sectors, in which they improperly and unlawfully enrich themselves and/or those close to them, or induce others to do so, by misusing the position in which they are placed."

The Anti-Corruption Act of the Republic of Korea defines the term "act of corruption" as the act of any public official's abusing his position or authority or violating laws and regulations in connection with his duties to seek gains for himself or any third party.

The Chartered Institute of Public Finance and Accountancy of UK defines corruption as the offering, giving, soliciting or accepting of an inducement or reward, which may influence the action of any person. That is, an individual receives a bribe as a reward or incentive for action or inaction contrary to the proper conduct of his or her duties, for the direct benefit of a third party.

The World Bank defines corruption as the abuse of public power for personal gain or for the benefit of a group to which one owes allegiance.

Elements of Corruption

An act of corruption would comprise one or more of the following elements:

- There must be at least two parties to an act of corruption, namely the person who offers the reward or inducement and the party accepting it;
- There must be misuse of office or position of authority for private gain;
- There is either an offer and/or acceptance of inducements;

- An attempt to solicit an offer of inducement or reward as benefit for performance of an official act;
- Any act through which public or entity property is dishonestly misappropriated;
- There may be an attempt to camouflage; and
- Corruption involves breach of trust.

Factors that Influence Fraud and Corruption

It is useful for auditors to understand the motivational and organizational/environmental factors of fraud and corruption. The presence of these factors does not necessarily mean that fraud and corruption have occurred. Rather, awareness of their presence should increase the auditor's sensitivity to that possibility. The key factors generally associated with fraud and corruption are as follows:

Motivational Factors

Motivation and opportunity are the elements that generally underlie the commission of fraud and corruption. These could take the form of:

- Economic motivation - financial need or gain is the most common motivation for fraud and corruption. Often, persons convicted on fraud and corruption complain that they had unbearable financial problems for which there was no legitimate recourse.
- Greed – persons with power and authority often commit fraud and corruption because they are motivated by greed.
- Prestige or recognition – persons may feel they deserve more prestige or more recognition. These persons are often motivated by jealousy, revenge, anger, or pride. They often believe that they are superior to others, that they are shrewd enough to confound and confuse others and can commit fraud and corruption without being discovered or detected.
- Moral Superiority – persons may also be motivated by a cause or values that they feel are morally superior to those of the victim, or the government in this case.

Organisational/Environmental Factors

The organisational atmosphere and its perception play a major causative role in perpetration of fraud and corruption.

Where management is perceived as insensitive, insecure, impulsive or too strict, ill-treats employees and judges performance either on short term results or without considering operational constraints, the disgruntlement in the employee is likely to result in instances of fraud and corruption.

Systems and procedures adopted in organisations and organisational policies are particularly important. An organisation in which the corporate policies are unclear, there is inadequate internal control, excessive regulations, red-tapism, inadequate accountability or history of programme abuse is likely to have more instances of fraud and corruption.

An understanding of the organisational atmosphere will enable an auditor to assess whether there is a higher risk of fraud and corruption in the entity and planning of the

audit could be suitably modified. Poor management structure and policies are indicated by a high turn over of employees, absenteeism, poor documentation, low awareness of regulatory requirements and lack of transparency in reward systems.

It is important for the auditor to also understand that very often the perpetrator of fraud and corruption rationalises his actions with some kind of justification. For instance an employee accused of fraud and corruption is likely to rationalise his action by saying or believing that his low pay justifies the action or since everybody is doing that he is also well within his right to do it; while a contractor could justify his acts of fraud and corruption as a cost of doing business or problems of securing contract from a government entity.

Types of Fraud and Corruption

Some of the most typical fraud and corruption are as follows:

- Bribery is the giving, receiving, offering or soliciting of any “thing of value” in order to influence a person in the performance of, or failure to perform, his / her duties.
- False Statements and False Claims occur whenever a person knowingly and willfully falsifies a material fact or makes a false or fictitious representation or files a false or fictitious claim that results in economic or financial loss to the person to whom the false representation has been made.
- Embezzlement is the fraudulent conversion of personal property by a person in possession of that property where the possession was obtained pursuant to a trust relationship. Examples of means to conceal embezzlement are the use of kiting or lapping scheme.
 - Kiting occurs when a person withdraws cash from a bank on checks deposited by a person for which the cash has not yet been collected by the bank. To conceal the fraud, the person continuously writes checks against non-existent account balances (“kites” checks from bank to bank).
 - Lapping occurs when a person steals cash from payment of accounts receivable, and continuously uses cash from other payments of accounts receivables to conceal the initial theft (“laps” two consecutive accounts).
- Conflict of Interest occurs when a person has an undisclosed economic or personal interest in a transaction that adversely affects that person’s employer.
- Phantom Contractor is a non-existent company whose invoice is submitted for payment by a person involved in the purchase process.
- Purchases for personal use. A person may purchase items intended for personal use or may make excess purchases of items needed, some of which are then diverted to personal use.
- Split Purchases. Contracts are split into two or more segments to circumvent the procurement authority limitations, and thus to avoid competitive bidding. This may involve bribery from the contractor to a person of the other party.
- Collusive Bidding, Price Fixing or Bid Rigging. Groups of prospective contractors for a contract form an agreement or arrangement, to eliminate or limit competition. This agreement may also involve bribery.

- Progress Payment Fraud. The contractor requests progress payments based on falsified information submitted to the other party.
- Over or under invoicing. Occurs when there is deliberate misstatement of the invoice value as compared with goods or services received or supplied.
- Extortion is the use of authority to secure unlawful pecuniary gain or advantage.
- Nepotism and Favoritism unlawful use of public office to favor relatives and friends.
- Loss of Revenue on account of tax or duty evasion can include different situations where revenue due to the government is not received or paid.
- Unfair Recruitment favoritism exercised in the process of recruitment for unlawful gain.
- Computer Fraud is any fraudulent behavior connected with computerization by which a person intends to gain a dishonest advantage. For instance, salami-slicing is a computer fraud where fractions of interest calculations are transferred to a personal account.

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.

SAIs would have to, based on experience and perceptions, identify such risk areas while planning audits.

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. An illustrative list of the forms fraud and corruption can take in the area of contracts is given at Appendix 1 to enhance the Auditor's understanding.

The audit of Contracts in most SAIs, therefore becomes an area of focus for the Auditor who has to be particularly sensitive to the possibility of Fraud in this area. Appendix 2 lists out the warning signs that an auditor needs look out for. These would alert him to the necessity of further scrutiny or intensive examination. The size of the sample or the techniques adopted could also be suitably adjusted.

Computer Fraud

With the increased use of information technology in the function of entities and increased introduction of IT systems the auditors needs 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 by whatever method 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 checks 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. It is particularly important for the auditor of the IT system to assess in his audit the level of security controls built in and if these are in tune with the sensitivity of data.

Audit evidencing in an IT environment is often more complex than traditional manual audit. In an IT environment not only it is necessary to understand the techniques of assessing system and data soundness but also necessary to establish means of collecting evidence. The standards of audit evidence collection have to be set by the SAIs 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 the SAIs may consider the pooling of information on the IT audits conducted and techniques adopted.

Types of Fraud and Corruption in Contracts

The following types of fraud and corruption have been reported in contracting for goods and services:

- Bribery and Kickbacks - Money or any other form of reward or favour is exchanged between a public functionary and a provider of goods and services in order to obtain some benefit e.g. acceptance of substandard goods or obtaining unauthorized information.
- Changes in Original Contracts - Changes are made in the original contract requiring flow of additional funds from the government to the contractor, which may affect the basis on which the contract was awarded to the contractor in the first instance. This may also involve front-loading of contract in the hope of increasing the price of the original contract through change orders or subsequent modifications to the contract.
- Duplicate Payments - The contractor claims and receives payment for the same service or work done or goods supplied under the same or different contracts.
- Collusive or Cartel Bidding - Contractors form cartels to fix artificially high prices for goods and services supplied by them.
- Conflict of Interest - Contracts are awarded on the basis of vested interests of the decision makers.
- Defective Pricing - The contractor submits inflated invoices.

- False Invoices - The contractor submits invoices for goods that have not been delivered or do not properly represent the quantity or quality of goods and services supplied or work done as per contracted specifications.
- False Representations - The contractor falsifies the goods specifications or his ability to provide certain services.
- Splitting of Purchases - The purchases of goods and services are split either to avoid open competition or having to seek the approval of higher authority.
- Phantom Contractor - Purchases are made from a fake supplier or contractor.
- Pilferage of Public Assets - Public funds are used to acquire goods for personal use or public assets pilfered by officials.

Tailored specifications - Specifications and time limits are manipulated to favor a certain contractor or supplier.

Warning Signs of Possible Fraud and Corruption in Contracts

Procurement and contracting of goods and services present different opportunities for fraud and corruption at different stages of the procurement and contracting processes. The auditor would be well advised to look out for warning signs corresponding to each stage. These warning signs indicate the increased risk factor in contracts and serve as red flags for the auditor.

- Requirements defining stage
 - Inadequate needs analysis
 - Inadequate information about potential suppliers
 - Inadequate review of existing and required inventory
 - Unduly short supply period
 - Needs analysis is product oriented rather than needs oriented
 - Someone other than the user defines the user requirements
 - Unwarranted involvement of senior officials
- Bidding and selection stage
 - The specifications are not clearly defined
 - A very limited number of offers is received
 - Documentation indicates unusual involvement of an official
 - Suspicion about conflict of interest
 - Evidence of early receipt of information by some contractors
 - Request for proposal is not properly advertised
 - Unusual handling of the bidding process
 - Evaluation criteria is not consistent for different offerers
 - Exceptions to the tender deadlines
 - Changes in the bids made after their formal receipt
 - Lowest responsive bidder is not selected
 - Contractor submits unrealistic bid indicating collusion or bid rotation
 - Unusual withdrawal of bids
 - Re-bid results identical to original bids
 - Successful contractors use competitors as sub-contractors

- Justification for single source procurement is inadequate
- Contract performance and evaluation stage
- Changes in a contract result in the large increase in the cost of goods and services
- Changes made without adequate explanations
- Unwarranted contract extension
- Complaints about the quality of goods and services received
- Inadequate inspections and quality assurance of goods and services received
- Evidence of over charging and duplicate billings
- Dubious invoices
- Insufficient pre-audit of contractor payments
- Contracts repeatedly awarded to one contractor
- Unduly high labor payments

Audit Evidence

In searching for the evidence of fraud and corruption the auditor must:

- Always search for the strongest possible evidence;
- Investigate without delay, as evidence can be destroyed, lost or forgotten;
- Not ignore small clues or leads;
- Look for facts that confirm or refute suspicions;
- Concentrate on the weakest point in the fraud and corruption.
- Identify and summarize the evidence indicating that fraud and corruption may have been committed;
- Identify the possible scenario of fraud and/or corruption;
- Summarize and explain the accounting and control systems involved, the paper trail involved in the transaction, and the deviations from the systems;
- Explain patterns used in covering up the fraud and corruption;
- Identify the possible extent of the fraud and corruption; and
- Consider the possibility of collusion.
- Sources of Evidence
- Documents from the auditee: During the course of examination of books of accounts, auditors investigate various documents that serve as evidence for the audit. These documents may be originals or photocopies depending upon their importance.
- Report of Internal Auditor: The internal auditor may have identified instances of deviation from normal procedure.
- Interviews: Auditors can obtain important information from various government employees. Since they may have noticed internal control failure made by managers and fraudulent activities perpetrated by other employees, interviews may be useful in detecting material misstatements caused by fraud and corruption.
- Inspection/Observation: Auditors can notice possibility of fraud and corruption through the examination of inspection/observation/physical

verification reports (e.g. forged document, inventory not in existence or inferior quality). Where any auditor relies on physical observation for an audit conclusion this would need to be supported with properly documented evidence.

- Questionnaires: Auditors may gather important and helpful information by using questionnaires.
- Confirmation with other related parties: Auditors sometimes obtain information directly from other related parties (e.g. bank balance confirmation from the bank, Debtor's balance confirmation from individual debtors etc). If the figures provided by these agencies do not tally with the books of account, they should check in detail to find out the reason for discrepancy.
- Results of Analytical Review: Auditors analyze both financial and non-financial information, which can indicate abnormal trends. In that case, auditors need to concentrate on particular areas.

Expert Opinion: Auditors may seek expert opinion about a suspicious case. The expert's opinion becomes evidence if auditors can rely on that opinion in assessing fraud and corruption.

APPENDIX -IX

[Refer to para 87]

COMMON IRREGULARITIES /LAPSES OBSERVED IN STORES/PURCHASE CONTRACTS AND GUIDELINES FOR IMPROVEMENT IN THE PROCUREMENT SYSTEM

Purchase Manual

The cardinal principle of any public buying is to procure the materials /services of the 'specified' quality, at the most competitive prices and, in a fair, just and transparent manner. To achieve this end, it is essential to have uniform and well documented policy guidelines in the organization so that this vital activity is executed in a well-coordinated manner with least time and cost overruns. In some of the organizations, the purchase manual is either not at all there or has not been updated for years together. Thus the system of procurement is quite adhoc and arbitrary.

- A codified purchase manual containing the detailed purchase procedures, guidelines and also proper delegation of powers, wherever required needs to be made by all the organizations so that there is systematic and uniform approach in the decision-making. Such an integrated approach is likely to put a cap on the corruption and would also ensure smoother and faster decision-making.

Filing System

The filing system adopted in most of the organizations is not satisfactory. Even the files are not being paginated. The part files are opened as and when new action is initiated and these part files are not merged with the main file, which inter-alia results in break in continuity and arbitrariness in decision making. The decisions / deliberations of the individuals or the Tender Committees are not properly documented or recorded which dilutes the accountability of the officers and may result in the 'interested' officers going scot free, even if serious lapses are established against them.

- The procurement files are very important and sensitive documents and thus there is a need to have a single file system with proper page numbering. In case of urgency, if opening of the part files is unavoidable, the same should thereafter be merged with the main file. The decisions and deliberations of the individuals or the Tender Committees also need to be properly recorded and well documented.

Provisioning

It has been noticed that in certain cases excessive, fraudulent and infructuous purchases were made without taking into consideration the important aspects like available stocks, outstanding dues / supplies, past consumption pattern and average life of the equipments / items etc. These excessive /infructuous purchases were at times made in collusion with the firms. This resulted in not only the material lying unutilized for years together with no residual life but also a lot of extra expenditure was incurred on the inventory carrying cost. One of the organizations took double procurement action for purchase of tyres against the same liability. Even the factors like shelf life of 5 years and the past consumption pattern were ignored while placing

the orders. As no action was taken to dispose off the surplus tyres, the department is incurring inventory carrying cost of about 20-25% per year for the last 10 years and the salvage value of the quantity held in stocks is likely to be 'Nil' due to expiry of the shelf life. In few cases, it was noticed that though the demand for the stores was simultaneously received from different wings / field units but, they were not clubbed together and were rather processed individually against the established principle of bulk buying.

- The provisioning of the stores needs to be done with utmost care taking into account the available stock, outstanding dues / supplies, the past consumption pattern, average life of the equipment / spares. The requirements also need to be properly clubbed so as to get the most competitive and best prices. The requirements should not be intentionally bifurcated / split so as to avoid approval from higher authorities.

In a case for purchase of 1,000 KVA D.G. sets, the tender enquiry was originally issued by the Organization for supply of D.G sets with four stroke engine. However, on the request of one of the bidders, the type of the engine was later changed from four-stroke to two-stroke and contract was awarded. During investigation, it was found that the engine manufacturer had given a release that the two stroke engine shall be phased out in two years. Surprisingly the existing DG Sets were with four-stroke engine.

In yet another case instead of buying DG sets for their energy needs, a shipyard hired DG sets from a firm in an ad hoc manner, without following competitive bidding. On investigation, it was revealed that the energy cost/ unit worked, in excess of Rs.40/-.

- One time purchase for projects or capital equipments / spares should be properly justified depending on the actual requirement usage, rate of return etc. Further, the obsolescence factor should also be taken into account i.e. the equipment to be purchased should conform to the latest specifications and technology available in the market.

Appointment of Consultants

Some of the organizations appoint consultants due to lack of in-house expertise in technical matters. It has invariably been noticed that the appointment of consultants is not being done in a transparent manner and their working is also not properly supervised.

- i. The appointment of consultants is often made in an arbitrary manner without inviting tenders and without collecting adequate data about their performance, capability and experience. In some of the cases, the consultants were appointed after holding direct discussions with only one firm without establishing the reasonableness of consultation fee payable to them. In some cases the terms were modified to the financial advantage of the consultant, even after award of the contract. In one of the cases, the organization continued with a consultant for about 30 years and for all types of contracts. In yet another case, the Organization invited offers from 8 enlisted consultants but, awarded the contract to the highest bidder on the plea that they are Padam Shree awardees. Extra amount on account of travel expenses was also sanctioned after award of the contract.

- ii. The payment terms to the consultants are allowed quite liberally. In one of the cases, the consultant fee was paid on quarterly basis without linking the same with the progress of the project. Even full payments had been authorized before the completion of the project.
- iii. Quite a few organizations especially in the Banking Sector seem to abdicate their responsibility completely and do not oversee the working of the consultants resulting in the latter exploiting the circumstances and at times in collusion with the suppliers, give biased recommendations in favour of a particular supplier. It has also been noticed that the consultants recommend acceptance of inferior items / equipments and also give undue benefit to the suppliers like non recovery of penalties, for the delayed supplies and corresponding reduction in the excise duty / custom duty, if announced after award of the contract.
- The consultants need to be appointed only when it is felt absolutely essential. The appointment of consultants needs to be done in a transparent manner and after following the competitive tendering system. The consultant's role should be well-defined. The consultant is meant to assist the departmental officers because of lack of expertise and, it should not mean that they takeover all the functions. The responsibilities relating to award of contract and execution of contract after appointment of consultant should not be abdicated completely by the organizations. Rather appropriate checks should be exercised at all stages of the execution of the contract. Penal clauses for deficiency in service should invariably be stipulated in the contracts/MOUs with the consultants.

Estimated Rates

It was observed that the estimated rates are being worked out in an unprofessional and perfunctory manner, at times by extrapolating the price of the lowest capacity equipment or by applying a uniform yearly compounded escalation over the prices of similar equipment purchased few years ago. Consequently, the inflated estimated rates prepared by the Organizations resulted in acceptance and payment of higher prices to the firms.

- As the estimated rate is a vital element in establishing the reasonableness of prices, it is important that the same is worked out in a realistic and objective manner on the basis of prevailing market rates, last purchase prices, economic indices for the raw material/labour, other input costs, IEEMA formula, wherever applicable and assessment based on intrinsic value etc.

Notice Inviting Tender

Against the most preferred and transparent mode of Global tender enquiry/Advertised tender enquiry, some of the Organizations are generally issuing limited tender inquiry to select vendors, irrespective of the value of purchase. Further, the credentials of the firms and the criteria adopted for selection of such vendors, in most of the cases, are not put on record. This not only results in lack of competition but also favoritism to the select vendors. It has been noticed that even in cases where Advertised/Global tender inquiries were issued, the same were published in the local dailies and not in any National Newspaper and particularly in Indian Trade Journal, Calcutta, which is a Government publication and is regarded as the standard medium for advertising tender notices in India. The main purpose of issuing Advertised/Global tender inquiry is to give wide publicity. It has been noticed that the Organizations do not forward the

copies of the tender notices to the registered/past/likely suppliers and while in case of imported stores, the copies of the tender notices are not being forwarded to Indian Missions/Embassies of major trading countries.

- In order to give wide publicity, generate enough competition and to avoid favoritism, as far as possible, issue of Advertised/Global tender inquiries should be resorted to and published in ITJ and select National Newspapers. The copies of the tender notices should be sent to all the registered/past/likely suppliers by UPC and also to the Indian Missions /Embassies of major trading countries in case of imported stores.

It has also been noticed that for Advertised/Global tenders, against a normal time of four - six weeks, there are instances wherein time for tender opening of only 12 - 15 days was given. Similarly, in case of limited tenders, against a normal time of 21 - 30 days, there are cases where tenders were opened in a short period of only 7 days. The tender opening in such a short duration is normally resorted to in case of recorded emergencies, where in the purchaser sends the tender inquiries by faster means like fax/speed post. However, in most of such cases, neither urgency nor the proof of having sent the inquiries by fax/speed post could be established. In few cases, it was also noticed that though short term tenders were invited, expressing urgency of the requirement, however, the cases were processed in a very routine and casual manner without any consideration for urgency. On the other hand, in some cases, it was noticed that with the short time available, only 2 - 3 vendors who probably knew about the system, submitted their bids and, thereby forming a cartel and circumventing the system. In some of the cases of Global tenders, it was observed that though the Organizations had given a time of 6 - 8 weeks for tender opening but the tender sale was closed 2 - 4 weeks in advance of tender opening, thereby effectively giving only one month time to bidders for purchase of tender documents. The very purpose of floating Global tender which is to give wide publicity and sufficient time to bidders to get the bidding documents and submit their offers, in such cases seems to have been defeated.

- With a view to have wider, fair and adequate competition, it is important that sufficient time of say 4 - 6 weeks in case of Advertised/Global tenders and 3 - 4 weeks in case of limited tenders is allowed, except, in cases of recorded emergencies, wherein also, a reasonable time should be permitted and tenders should be sent by faster means like speed post /fax. The tenders should preferably be kept open for sale till the date of tender opening or just one day prior to the date of tender opening. With the widespread use of Information Technology, the tender notices should also be put on the website and e-mail address of the organization should be indicated in the tender notice.

In case of proprietary purchases, the detailed justification for purchase from a single vendor is not being placed on record. As by issuing single tender, the competition is totally eliminated and the possibility of paying higher prices cannot be ruled out.

- It is imperative that the purchase on Single tender basis be made with the detailed justification in its support and with the approval of Competent Authority, including associated finance.

Tender/ Bid Document

The terms and conditions being stipulated in the bid documents by some of the Organizations are quite insufficient and sketchy. Sometimes, the bid document contain obsolete, unwanted matter and conflicting and vague provisions, resulting in wrong interpretation, disputes and time & cost overruns. Even the time/date for receipt and opening of tenders is not being incorporated in the documents. The important clauses relating to Earnest money, Delivery Schedule, Payment terms, Performance/Warrantee Bank Guarantee, Pre-despatch inspection, Arbitration, Liquidated Damages/Penalty for the delayed supplies and Risk- purchase etc. are not being incorporated in the bid documents. All these clauses are important for safeguarding the interest of the purchaser and also have indirect financial implications in the evaluation of offers and execution of the contracts.

- All the important clauses as brought out above need to be incorporated in the bidding documents so as to fully safeguard the interest of the Government and, for evaluation of bids on equitable and fair basis and in a transparent manner.

In some cases, it was noticed that the amount of Earnest Money Deposit stipulated in the tender document was grossly insufficient to protect the Government interest in case of breach committed by the bidder. Some of the organizations instead of ignoring the bids not accompanied with earnest money deposit along with the tenders as per bids requirements, asked the bidders to submit EMD, after tender opening.

- The primary objective of submission of Earnest Money Deposit is to establish the earnestness of the bidder so that he does not withdraw, impair or modify the offer within the validity of the bid. It also helps in restricting if not eliminating 'speculative', 'frivolous' or 'wait and see' bids. Since any relaxation regarding submission of Earnest Money Deposit has financial implications besides giving encouragement to the bidders to submit frivolous bids as indicated above; the terms & conditions should clearly stipulate that the offers without Earnest Money Deposit would be considered as unresponsive and rejected.

In case of tenders invited in Two-bid system, some of the Organizations stipulate Earnest Money Deposit as percentage of the tender cost instead of fixed amount. In the Two-bid system, if EMD is taken on the basis of some stated percentage of tender value and with the announcement of the amount of EMD submitted by the bidders at the time of tender opening, the same will give every bidder a good indication of the prices quoted by the competitors by making back calculations. A bidder can use this information to the disadvantage of his competitor, if prices are subsequently modified.

- The Earnest Money Deposit in case of Two-bid system needs to be incorporated as a fixed and reasonable amount on the basis of estimated value of the purchase.

Some of the organizations incorporate a specific delivery schedule inter- alia mentioning that bids offering delivery beyond stipulated date will be treated as non - responsive and will be summarily rejected. However, after opening of the tenders, the bid by one of the organizations with slightly longer delivery period was not rejected as per the bid guidelines, rather that offer was also considered and evaluation was made after loading the offer by applying some unilateral loading criteria. The same resulted in inter se change of ranking position.

- In order to meet the project requirement, it would be prudent to incorporate an acceptable range of delivery period with the stipulation that no credit will be given for earlier deliveries and offers with delivery beyond the acceptable range will be

treated as unresponsive. Within this acceptable range, for the purpose of evaluation, an adjustment per month say @ 2% could be added to the quoted prices of bidders offering deliveries later than the earliest delivery period specified in the bid documents.

The Evaluation/Loading criteria on account of acceptable range of deviations in the commercial terms and conditions viz. Payment Terms, Delivery period, Performance Bank Guarantee etc. is not being incorporated in the bidding documents. The evaluation of the offers is being made simply on the price quoted which is not in order. The comparative assessment of offers in true sense would be complete only if it is made on equal footing taking into account the financial implications for the deviations in terms and conditions, in line with unequivocal evaluation criteria specified in the bidding documents. In one of the cases, it was noticed that due to non-stipulation of payment terms in the tender documents, the bidders quoted prices based on varying advance payment. The offers were evaluated by the Organization simply on the quoted prices, even though L-1 bidder had asked for much higher advance payment in comparison to the L-2 bidder. As such, the evaluation done by the Organization was not on equitable basis as the payment of higher advance, evidently had, financial implications.

- The Evaluation / Loading criteria with respect to the important terms. Like Payment terms, Delivery period, Performance Bank Guarantee etc. having financial implications need to be specified in unambiguous terms in the bid documents so that the evaluation of bids after tender opening could be made in a transparent manner without any subjectivity.

Some of the Organizations incorporate only broad technical details instead of generic specifications with complete details of performance parameters and the technical evaluation criteria. At times the technical evaluation matrix is decided after opening of tenders and is kept confidential. In absence of the detailed specifications/technical evaluation criteria, the evaluation of offers on equitable basis and in a transparent manner would not be possible and would rather be prone to subjectivity in the decision-making. In one of the cases of hiring of coolers, the requirement was bifurcated into two categories viz. 'new cooler' and 'as good as new coolers'. Neither the quantitative requirement of each category of coolers nor the specifications had been indicated for the category of 'as good as new coolers'. Thus the description given was quite vague and susceptible to manipulation as it gave full leverage to the bidders to supply coolers of any vintage.

- The detailed generic technical specifications including performance parameters and the technical evaluation criteria, if any need to be specified in the bidding documents in unequivocal terms.

The exemptions/reservation of a particular item which normally apply to SSI units are not being specified in the tender notice / bid documents. The applicable purchase preference to public sector enterprises as per the guidelines circulated by Department of Public Enterprises is also not being incorporated in the bid documents leading to lot of complaints from SSI/PS Units.

- The Government instructions on reservation of items and price preference to SSI Units and purchase preference to PSUs need to be incorporated in bid documents.

It has been noticed that some tenderers offer conditional discounts for coverage within a shorter period, for early inspection/ payment etc. and, such discounts are being considered, at the time of evaluation of tenders by the organizations.

- It needs to be ensured that the evaluation of tenders should not be based on such conditional discounts and suitable clause should be included in the bidding documents.

Receipt of Tenders

Some of the organizations do not have proper arrangement for receipt of tenders. There is no tender box for receipt of tenders at scheduled date and time fixed for tender opening. Instead the trade representatives leave the tenders with the receptionist or the concerned Purchase Officer(s). This procedure is highly objectionable as the possibility of tampering and interpolation of offers cannot be ruled out.

- A proper arrangement for receipt of tenders at scheduled date and time through tender box needs to be adopted.

Postponement of Tender Opening

Wherever extension in the tender opening is done due to reasons like change in the specifications or on the basis of request of the vendors, it has been noticed that firstly, sufficient time to submit the bids as per the revised specifications and secondly, the intimation of tender opening extension is not being sent to all the bidders who had purchased the bidding' documents. Also such notice of extension is also not being published in newspapers / ITJ.

- In order to give equal opportunity to all the bidders and to maintain sanctity of tendering system, it is of paramount importance that any change in the tender terms & conditions, specifications and tender opening date etc. be notified to all the bidders, sufficiently in advance of the revised tender opening date.

Opening of Tenders

Some of the organizations are not opening the tenders in public i.e. in presence of the trade representatives. The system of not opening the tenders in public is against the sanctity of tender system, and is a non-transparent method of handling tenders. There could be a possibility of tampering and interpolation of offers in such cases. The rates at times are not quoted in figures and words, cuttings / over-writings are not attested by bidders. Some of the organizations justify such opaqueness in tendering system by making a reference to their manuals. This is not acceptable.

- The opening of tenders in presence of trade representatives needs to be scrupulously followed. While, opening the tenders by the tender opening officer / committee, each tender should be numbered serially, initialed and dated on the first page. Each page of the tender should also be initialed with date and particularly, the prices, important terms & conditions etc. should be encircled and initialed in red ink by the tender opening officer / committee. Alterations in tenders, if any, made by the firms, should be initialed legibly to make it perfectly clear that such alterations were present on the tenders at the time of opening. Wherever any erasing or cutting is observed, the substituted words should be encircled and initialed and the fact that such erasing / cutting of the original entry

was present on the tender at the time of opening be also recorded. The tender opening officer / committee should also prepare 'on the spot statement' giving details of the quotations received and other particulars like the prices, taxes, duties and EMD etc. as read out during the opening of the tenders.

Further, in case of 'Two bid' system, it has been noticed that after opening of the technical bids, the price bids, which are to be opened subsequently, are kept as loose envelopes. In such cases, the possibility of change of bids prior to tender opening cannot be ruled out. In order to make the system fool proof, it needs to be ensured that not only the tender opening officer / committee should sign on the envelopes but the signatures of two trade representatives should also be obtained on all the envelopes containing the price bids. Thereafter, all the envelopes should be put in a bigger envelope / box and the same should be properly sealed duly signed by the tender opening officer committee and trade representatives.

Post Tender Negotiations

As per CVC guidelines circulated vide letter No. 8 (1) (h) / 98 (1) dated 18.11.98, it has been brought out that "the tenders are generally a major source of corruption. In order to avoid corruption, a more transparent and effective system must be introduced. As post tender negotiations are the main source of corruption, post tender negotiations are banned with immediate effect except in the case of negotiations with L-1 (i.e. lowest tenderer)". In continuation to these instructions, following further clarifications were issued vide letter No. 98 / Ord. / 1 dated 15.03.99 : -

- (i) The Government of India has a purchase preference policy so far as the public sector enterprises are concerned. It is clarified that the ban on the post tender negotiations does not mean that the policy of the Government of India for purchase preference for public sector should not be implemented.
 - (ii) Incidentally, some organizations have been using the public sector as a shield or a conduit for getting costly inputs or for improper purchases. This also should be avoided.
 - (iii) Another issue that has been raised is that many a time the quantity to be ordered is much more than L- I alone can supply. In such cases, the quantity order may be distributed in such a manner that the purchase is done in a fair, transparent and equitable manner.
- Despite the above instructions, it has been noticed that still repeated negotiations with the selected/all the vendors are being carried out by some of the organizations in gross violation of the above instructions. The instructions/guidelines circulated by CVC on post-tender negotiations only with L-1 need to be strictly followed.

Technical Evaluation of Tenders

Apart from the deficiencies already brought out in para 7.9, it has been noticed that though the offers of some firms fully conform to the specifications laid down in the bid documents, however, based on certain additional features which were never part of the specifications, the offers were graded as 'good', 'better' and 'best' for award of contract.

- Once it has been established that the offers meet the laid down specifications, the question of 'grading' as well as any 'pick and choose' should not arise. The

contract needs to be awarded to the lowest bidder meeting the laid down specifications.

Purchase Preference to Public Sector Enterprises

The Department of Public enterprises, Ministry of Industry vide OM No. DPE/ 13 (19) / 91-Fin. Dated 13.01.92, 15.03.95, 31.10.97, 10.02.98 and 14.09.2000 have circulated the policy of granting purchase preference to Central Government Public Sector Enterprises when they compete with Private large scale units. It has been laid down that where the quoted prices of Public Sector Enterprises or Joint Ventures with PSEs with a minimum value added content of over 20% by the latter, subject to purchase in excess of Rs. 1 crore, is within 10% of the lowest price, other things being equal, purchase preference will be granted to the Public Sector Enterprises or Joint Venture concerned at the lowest acceptable price. It has been noticed that some of the organizations are not following these instructions and accordingly, undue favour is being given to the Private firms.

- The instructions / guidelines circulated by Department of Public Enterprises for granting purchase preference to the Central Government, Public Sector Enterprises / Joint Ventures need to be scrupulously followed as also brought out by CVC in the instructions circulated vide letter No. 98 / Ord. / 1 dated 15.03.99.

Consideration of Indian Agents

It has been noticed that some of the organizations entertained the offers of Indian Agents and also place the contracts on them without bothering to examine the following aspects:-

- i. Foreign Principal's proforma invoice indicating the Commission payable to the Indian Agent, nature of after sales service to be rendered by the Indian Agent.
 - ii. Copy of the agency agreement with the foreign principal and the precise relationship between them and their mutual interest in the business.
 - iii. The enlistment of the Indian Agent with Director General of Supplies & Disposals under the Compulsory Registration Scheme of Ministry of Finance.
- The above aspects are important one to examine the genuineness of the prices quoted by the Indian Agent, the nature of services which would be available from Indian Agent and compliance of Tax Laws by the Indian Agent and, to prevent leakage of foreign exchange.

Reasonableness of Prices

It has been noticed that the purchases are being made by some of the organizations in an adhoc and arbitrary manner without satisfying the prime requirement of establishing the reasonableness of rates in relation to the estimated rates, last purchase prices or the prevailing market rates. Some of the instances are as under: -

- i. An organization placed an order for spares on a trader at an abnormally high price of about 40 times the OEM's price. In yet another case, in a span of 10 days, the order was placed on the same firm for the same item at rates almost 10 times of the previous order.
- ii. In another case for procurement of an ore crusher, out of 6 offers received by the organization, 5 offers were rejected mainly on the basis of unspecified technical

requirement, presumptions and conjectures. Therefore, the competition was killed. The prices of single left out offer were justified by extrapolating the prices of a lower capacity crusher (which were worked out by taking 5% compounded annual escalation over 10 years old prices) in proportion to the crushing force.

- iii. In yet another case for hiring of coolers, orders were placed for ambiguous categories of items like 'new' and 'as good as new' coolers. An order was placed on a firm for the category for which the firm had not quoted in their original offer but had subsequently quoted, after they were invited for negotiations. Despite the firm lacking in technical and financial capability and there being cartel formation, still the order was placed at exorbitant prices in comparison to earlier prices for a period of 3 years. Knowing well the cartel of firms and exorbitant prices, the department did not consider placement of order only for one year as for next two years, fresh tenders could have been invited to break the cartel and get better prices.
- It is very important to establish the reasonableness of prices on the basis of estimated rates, prevailing market rates, last purchase prices, economic indices of the raw material / labour, other input costs and intrinsic value etc., before award of the contract.

Advance Payment & Bank Guarantees

- (i) As per CVC guidelines circulated vide Office Memorandum No. NU/ POL/19 dated 08.12.97, it has been brought out that payment of mobilization advance should be made only in cases of select works and that the advance should be interest bearing so that the contractor does not draw undue benefit. However, it has been noticed that some of the organizations are quite liberal in allowing the advance payments even to the extent of 30-40% and that too, totally interest free. In some organizations the payment of advance is being stipulated in the bid document itself. The payment of interest free advance is in contravention of the guidelines issued by CVC.
- (ii) It has been observed that in some cases, despite provision in the contracts for releasing advance payment against Bank Guarantee, the advance payments were released without taking any Bank Guarantee. Unfortunately, in some of the cases, the suppliers failed to discharge their contractual obligations and huge advances are still outstanding for the last several years. It would be suicidal, if the advance payment is released without the Bank Guarantee for an equivalent amount.
- (iii) In some cases, it has been observed that though the prospects of supply were bleak, still timely action for revalidation / encashment of the Bank Guarantee for the advance payment was not taken and the Bank Guarantees were allowed to lapse, jeopardizing the Government interest. In one of the cases, though the initial advance payment of 20% was released against the Bank Guarantee, however, further 65% progressive payments were also made simply against certification of Internal Auditors that the amount claimed does not exceed the progressive expenditure. The payments were made in a span of hardly 2 months much before the bulk production clearance and without safeguards like Bank Guarantee etc. The Bank Guarantee for 20% initial advance payment was also allowed to lapse. Thereafter, the firm did not make any supplies and was declared

sick and huge Government claim towards the advances made without protecting the Government interest remain un-recovered.

- (iv) The Bank Guarantees accepted were at times defective/conditional and did not safeguard the interest of the purchaser. Normally, the BGs permitting encashment without any demur - merely on a demand from the purchaser are accepted. However, in some cases, though the Bank Guarantees submitted by the suppliers were conditional, stipulating “the encashment only if it is established the supplier had failed to comply with his contractual obligations,” but, the same were accepted. In one of the cases for procurement of high value equipment, it was observed that though for release of initial advance payment of 30%, submission of a Bank Guarantee was stipulated but, surprisingly for further progressive payments up to 50%, which were also in the form of advances (without receipt of the equipment), the reimbursement of payment simply on the basis of a ‘Certificate of Assignment’ and without any BG was authorized. After release of first 30% progressive payment, BG taken for 30% advance payment had automatically expired as per terms of the BG. Evidently in this case, the BG was not examined properly before acceptance and the defective BG having conditions deterrent to the Government interest was accepted.
- (v) In some cases, it was noticed that the effective date of contract was linked with the date of receipt of Bank Guarantee for advance payment. This is detrimental to the purchaser’s interest as in the absence of a specific date for submission of Bank Guarantee, it would not be possible to establish specific date of breach to enforce the contractual remedies. In such cases, the supplier will get full opportunity to wriggle out of the contract, if he so desires without fulfilling contractual obligations.
- The advance payments need to be generally discouraged except in specific cases. Wherever payment of advance is considered unavoidable, the same should be interest bearing as per CVC guidelines and be allowed after getting an acceptable Bank Guarantee for an equivalent amount with sufficient validity so as to fully protect the Government interest. Some reasonable time should be stipulated for submission of Bank Guarantee so that contractual remedies could be enforced, if required. The Bank Guarantees need to be properly examined with respect to the acceptable format and any conditions deterrent to the Government interest should be got withdrawn before acceptance besides verifying the genuineness of the Bank Guarantees from the bankers. Timely action for revalidation / encashment of the Bank Guarantees also needs to be taken so as to protect the Government interest.

Performance Bank Guarantee

Most of the organizations are not stipulating the requirement of Performance Bank Guarantee while others are stipulating different amount of Security deposit / Performance Bond. In some cases, it has been noted that the amount of PBG is too low in comparison to the contract value. The validity of Bank Guarantees is also not being scrupulously monitored and the extension in the Bank Guarantees commensurate with the delivery period extensions is not being sought resulting in loss to the Government in the event of nonperformance of the contract.

- In order to safeguard the Government interest, it would be appropriate to take reasonable amount of Performance Bank Guarantee valid up to warranty period

for due performance of the contract. The validity of the Bank Guarantees needs to be carefully monitored and whenever extension in the delivery period is granted, the validity of Bank Guarantee should also be appropriately extended so as to protect the Government interest. The genuineness of the BGs should be checked from the issuing bank.

Stipulation of delivery period in the contract

Delivery period is the essence of any contract. It has been observed that in some of the cases, specific delivery period with reference to the terms of delivery is not being incorporated as mentioned below: -

- i. Only the date of offering the equipment for Pre-despatch inspection is stipulated as the delivery period, though the terms of delivery are on CIF basis/ FOR destination basis.
 - ii. Only the date of completion of supply of the equipment is stipulated as the delivery period even though the installation & commissioning of the equipment is also to be carried out by the supplier. For installation & commissioning, no specific date is stipulated. In absence of any contractual binding in this regard, the suppliers claim the full payment for supplies of equipments and then tend to behave in an irresponsible manner and do not bother to take up timely installation / commissioning resulting in the equipment remaining uninstalled for months / years together.
- The specific delivery period for supply as per the terms of delivery such as FOR station of despatch / destination and for completion of installation with the necessary provision for Liquidated damages / Penalty clause in the event of delay in supplies/ installation needs to be incorporated in the contract.

Guarantee / Warranty Terms

The guarantee / warranty clause incorporated by some of the organizations is quite sketchy. The modalities for enforcing the warranty obligations are not being incorporated. Due to incomplete guarantee / warranty terms, the suppliers take full leverage and do not bother to honour the guarantee / warranty obligations resulting in the equipment remaining defective and unutilized and thereby causing loss to the Government. It has been observed that in cases where the installation of the equipment is also included in the scope of contracts but the standard guarantee / warranty clause of 15 months from the date of shipment / despatch or 12 months from the date of delivery, whichever is earlier is being incorporated. With the result due to delay in installation of the equipment, the guarantee / warranty expires even before the installation of the equipment or sometimes a very short period of guarantee / warranty is available.

- Detailed guarantee/warranty clause embodying all the safeguards be incorporated in the tender enquiry and the resultant contract. It also needs to be ensured that in installation/commissioning contracts, the guarantee/ warranty should reckon only from the date of installation/ commissioning.

Post-contract Management

Modification of contract terms / specifications

After award of the contract, amendments/modifications having financial implications are authorized in the contract terms/specifications giving undue benefit to the suppliers. Some of these are enumerated below:-

- i. The specifications are diluted e.g. though specific makes/models of an equipment are specified in the contract as per firm's tender, however, subsequently supply of some more alternative makes/models of the equipment are authorized without taking into account the financial implications thereof. It has been observed that generally lower priced alternative makes/models are being included subsequently in the contract giving undue benefit to the supplier.
 - ii. The payment terms are amended favourable to the supplier e.g. advance payments are authorized even when there was no provision in the contract for making advance payments. At times higher advance payments than stipulated in the contract are authorized.
 - iii. The Pre-despatch inspection though was incorporated in the contracts but, the same was subsequently waived without any reasons, thus jeopardizing the quality aspects as per contractual requirement.
 - iv. The submission of Performance Bank Guarantee was waived.
 - v. Even though the contracts were placed on FOR destination, the locations of the consignees were changed nearer to the supplier's premises without taking into account the benefit of freight charges.
- After conclusion of the contract, any relaxation in the contract terms / specifications should be severely discouraged. However, in exceptional cases where the modifications/amendments are considered to be absolutely essential, the same should be allowed after taking into account the financial implications for the same.

Post-contract Monitoring

- i. The post contract monitoring is being handled in a very casual and lackadaisical manner. It has been noticed that due to lack of coordination and diversified approach followed by various agencies in the implementation of the projects the same resulted in time and cost over-runs.
- ii. It has been noticed that in some cases even after expiry of delivery schedule stipulated in the contract and without extension of time granted by the purchaser, the consignees keep on exchanging correspondence with the suppliers and thereby keep the contract alive. This may result in serious legal complications if it is intended to cancel the contract. It has also been noticed that even the materials are being accepted and payments are released as and when the supplier makes the supplies. There is utter disregard to the contracting norms relating to delivery period, which is the essence of the contract.
- iii. Generally, the purchaser extends the delivery period of the contracts. However, in some cases it was recorded that the 'Supplier' has extended the delivery period of the contract.

- iv. Some of the organizations do not incorporate Liquidated damages / Penalty clause for imposing the penalty in case of failure of the suppliers to deliver the equipment within the stipulated schedule. The suppliers quote short delivery period and in absence of deterrent conditions in the contract, manage repeated extensions. In some of the cases, it has been observed that Liquidated damages for delay in supplies are not being levied and recovered from the suppliers.
- v. It has also been noticed that although there had been delay attributable on the part of the supplier in making the timely supplies, however, the organizations are extending the letter of credit with the proviso that the L/C extension charges shall be borne by the organization, thereby giving undue benefit to the suppliers.
- It is essential to accord priority to the post contract follow up. The delivery period should be extended on bonafide request and not in a routine and casual manner. After expiry of delivery period, the consignees should be refrained from exchanging correspondence with the supplier. In case of delay in supplies by the supplier, the liquidated damages to the extent possible need to be recovered. Also in case of delay attributable on the part of the supplier, the L/ C extension charges should be to supplier's account. In nutshell, there is a need to discipline the suppliers so that the non-performers could be weeded out and the suppliers which can be relied upon with consistent performance, in terms of quality and delivery schedule are encouraged.

APPENDIX -X

Important orders/instructions issued by various authorities

- (1) Copy of Government of India, Ministry of Defence, South Block, New Delhi letter no.3(3)/2000-PO(Def) dated 22 September, 2000

Subject: Evolution of a Standard Procedure for a mandatory and time bound scrutiny of all major Defence purchase decisions by the C&AG and CVC.

The undersigned is directed to refer to D.O. letter no. Rep(C)/69-2000 dated 21st July 2000 from Shri S Lakshminarayanan, ADAI (Def) and the Ministry of Defence, JS (P&C)'s D.O. letter of even number dated 21st September 2000 on the above mentioned subject and to inform that in accordance with the suggestions received from the C&AG and the CVC, the Government has since issued the revised procedure for mandatory and time bound scrutiny of all major Defence related purchase decisions issued by Ministry of Defence in this regard is enclosed. Further in pursuance of the observations of ADAI (Def) in his D.O. letter under reference, instructions have been issued by Ministry of Defence for expeditious liquidation of Audit objections. Copies of the instructions issued in this regard are also enclosed.

(K.L. SHARMA)
Deputy Secretary (Def. Plg.)

To
C&AG
(Kind Attn: Shri S. Lakshminarayanan, ADAI (Def))

Ministry of Defence

Sub: **Evolution of a Standard Procedure for a mandatory and time bound scrutiny of all major Defence related purchase decisions by the Comptroller and Auditor General of India and the Central Vigilance Commission**

In view of the fact that allegations, direct or indirect of irregularities and corruption in procurements for meeting the requirements of the Armed Forces, both in respect of the equipment already procured and even in cases where final decisions are yet to be taken, continue to figure from time to time in the debates in the Parliament, the media, the communications received from the Honorable Members of Parliament and other quarters, the Raksha Mantri had on 4th February' 2000 inter-alia directed that a standard procedure be evolved for a mandatory and time bound scrutiny by the C&AG/CVC of all major defence related purchase decisions to be taken in future.

2. In compliance of the above directions of the Raksha Mantri and after consultation with the C&AG and the CVC, it has since been decided that all decisions taken by the Ministry of Defence/Service Headquarter / ISOs etc. relating to major defence procurement /purchases/award of works etc. of a value of Rs 75 crores and above would be subjected to a time-bound scrutiny/audit by the C&AG in accordance with the following procedure.

- (a) The Ministry of Defence will furnish details of all purchase/procurement decisions/ award of works of a value exceeding Rs.75 crores taken by the Government/ Ministry of Defence/Service Headquarters to the C&AG along with relevant files normally within a month but not later than three months after conclusion of the contract for scrutiny/special audit by the C&AG. Cases of delay in submission of the relevant details/ files beyond three months will be brought to the notice of the concerned Joint Secretary. In addition, all cases of delay in submission of such details along with relevant files in respect of procurements/purchases/ award of works etc. made under the delegated powers by the Service Headquarters would also be brought to the notice of the concerned Service Chief by the PSO concerned.
- (b) In supercession of all existing orders, practices, details/cases files of such cases will not be withheld from audit on the ground of the sensitiveness of the case except with the prior approval of the Secretary concerned.
- (c) The C&AG will have all such decisions referred to them scrutinised in a time bound manner by their officers and render a Report thereon to the Government as expeditiously as possible. Considering the nature of the transaction and the complexities involved, the Audit authorities may require such further clarifications as considered expedient by them which shall be promptly replied to by the Ministry of Defence. In all cases, such clarifications/replies would be furnished to Audit within a period of four to six weeks positively after approval by the Joint Secretary concerned and concurrence by the Finance Division. In cases, where in view of the sensitivity of the Audit observations/findings and where the concerned Joint Secretary deems it necessary, these observations and replies thereof may also be submitted to other concerned senior officers at the level of Additional Secretary/ Secretary in the Ministry of Defence.

- (d) Besides examination by the concerned wings, all reports rendered by the C&AG on these cases will be scrutinised by the Chief Vigilance Officer, Ministry of Defence to ascertain if there is any case for initiating further disciplinary/vigilance/legal action in the matter. Within one month of the receipt of the report from the C&AG, the CVC shall submit the highlights of cases in which further inquiries need to be conducted from vigilance/legal/disciplinary angle for perusal by the Secretary concerned and the Minister.
- (e) In cases, where the C&AG recommends further scrutiny of any particular decision from the vigilance/legal angle or where the Government considers it necessary to do so, the Chief Vigilance Officer, Ministry of Defence shall make a formal reference to the CVC in the prescribed format for initiating necessary disciplinary/vigilance/legal inquiries/action by the CVC, CBI or other agencies as deemed appropriate by the CVC. Such references to the CVC shall be forwarded within a period of three months from the date the C&AG's Report becomes available to the Government for making references to the CVC, the CVO shall obtain further details, if any required from the concerned wing of Ministry of Defence or the Service Headquarters, as the case may be. Cases of delay in references being made to the CVC would be required to be brought to the notice of the Secretary by the concerned CVO.
- (f) The Ministry of Defence shall thereafter initiate expeditious legal/disciplinary action in accordance with the existing procedure in all such cases where the CVC after perusal of the cases recommends such action. The Central Vigilance Commission shall also be apprised of the action taken by the Government on the advice rendered by the Commission in the individual cases in a time bound manner.

3 The above procedure is in addition to the existing provisions/instructions relating to scrutiny by Audit or pursuance of cases by the CVC and in no manner supercedes the same. Further, the C&AG may at their discretion decide to incorporate their findings on these major transactions in the Audit Report.

(T.R. Prasad)
Defence Secretary

M of D I.D. No.3 (3)/2000-P.O.(Def) dated 21st September 2000

Ministry of Defence

Sub: **Expeditious resolution of pending Audit objections**

The Comptroller & Auditor General of India has drawn my attention to the fact that 8979 statutory Audit (C&AG Audit) objections are still pending at various lower formations of the Armed forces and some of these are pending from 1977-78 onwards. The details of these pending objections are available in the CGDA's certificates printed in the Appropriation Accounts, Defence Services for the year 1998-99. The C&AG has pointed out that these objections have not been resolved for a considerable period of time notwithstanding the provisions of Army Order 481/73, which inter alia stipulate that irregularities detected and reported to units/ formations by statutory Audit (i.e. Audit by C&AG) should be dealt with immediately and where these cannot be settled even through discussions, these should be reported to the next higher formation. It further stipulates that at the Command Headquarters level, no case should be retained for more than three months.

2. The number of pending audit objections and the considerably long period of time for which they have been pending is a matter of serious concern necessitating urgent time bound action.

3. In view of the above may I request that the matter be reviewed at your level in the first instance and thereafter a senior officer at the Service Headquarters be nominated for coordinating the expeditious liquidation of all pending Audit objections in a time bound manner not exceeding three months? Further, based on the directions, issued after review at your level, I would be grateful if you could have a report regarding progress made in liquidating pending objections sent to the FADS on a monthly basis with a copy endorsed to Ministry of Defence [JS (P&C)] and the CGDA, Since the database on these statutory Audit objections is managed by CGDA, all queries relating thereto by the concerned officers may please be addressed to CGDA. I further, propose to review the progress achieved in this regard at my level shortly.

(T.R. PRASAD)
Defence Secretary

COAS CAS CNS

M of D I.D. Note No. 3(3)/2000-PO (Def) dated the 21st September 2000.

- (2) Copy of the CGDA, New Delhi letter no. EDP/Mech/305/CDA Corr dated 18.08.2004 to the EDP and System Manager, EDP Centres, Chandigarh, Pune, Kolkatta, Jammu, Chennai, Merrut, Allahabad, and Patna.

Sub:- Soft copy of Sectional Compilation

Ref:- Deputy Director of Audit Defence Services D.O. No.EDP/3037/ITAudit/2003-04 dated 23-06-04 and 11-08-04

It has been requested by DADS vide letter under reference that the soft copies of Sectional compilation and other database files like GPF, pension etc may be made available to Defence Audit offices for facilitation of Audit Planning. It is requested that soft copies of Sectional Compilation and other requisite data base files may please be provided to Defence Audit offices as per details given in enclosed annexure.

(P.K. Singh)
Deputy CGDA (EDPs)

- (3) Copy of the Government of India. Ministry of Finance, (Department of Economic Affairs), New Delhi OM no. No. F. 10(20)-B/73 dated the 11th June, 1973

Sub: Introduction of computer-based accounting system in Government Department.

The undersigned is directed to state that the Comptroller and Auditor General of India has pointed out that the Ministries /Department etc. are not following a uniform procedure in regard to the manner and the stage at which reference seeking his concurrence to the introduction of Computer based accounting system by them should be made. It has been suggested by the Comptroller and Auditor General of India that proposals regarding introduction of the computer based system should be referred to Audit at the following two stages:

- (a) After the work of system design is completed but before the computer programmes are written up; and
- (b) After the computer programmes are written up and tested but before the now system is introduced.

The above suggestions have been made with a view to avoid the need for costly system modification and re-programming as a result of audit observation. In this connection a copy of letter No. 624/74-O&M/72 dated 12th December, 1972 together with its enclosures from the Comptroller and Auditor General of India addressed to this Ministry is forwarded herewith.

2. The Ministry of Agriculture etc. are requested to note the contents of the enclosed letter carefully and process proposals regarding introduction of computer based accounting systems etc. in the manner desired by the Comptroller and Auditor General of India. The information listed in the annexure to the enclosed letter must invariably be supplied at the relevant stage, to the Comptroller and Auditor General of India along with the other papers containing the proposals.

Sd/- M.S. Mathur,
Under Secretary to the Government of India

To
All Ministries/Department of the Government of India
Copy forwarded for information to the C&AG of India

Annexure to the letter dated 11.6.1973

Audit at first stage of reference

Detailed analysis of the existing system, bringing out:-

- (i) scope and functions of the system,
- (ii) volume, type and periodicity of transactions;
- (iii) records maintained in the system, with specimen copies of forms used;
- (iv) flow of information through the system;
- (v) significant weak points in the system and bottlenecks experienced in the actual operation of the system;

Detailed description of the proposed system indicating clearly:

- (i) the functions which will be transferred to the computer;
- (ii) the functions which will continue to be performed manually and the extent to which and manner in which these are proposed to be modified in theor introduction of computer;
- (iii) the records to be maintained manually with specimen copies of forms in which they are proposed to be maintained ;
- (iv) an overall narrative description and accompanying flow chart of the general flow of information through the system;

The design specifications, which describe the logic of the proposed system, including:

- (i) flow charts showing the significant operations to be performed by each proposed computer run;
- (ii) for each computer programme, a brief description of the functions to be performed, types of input and the resulting products;
- (iii) input and output forms and file lay-out, including the descriptions of physical characteristics of the data elements to be contained in the transaction records and data files and the media (punched cards magnetic tapes etc.) to be used;
- (iv) the system of codification and the compatibility envisaged between different types of codes;
- (v) the time-schedule of operations, with specific target dates prescribed for each operation;
- (vi) description of controls to be provided over data.
 - (a) inputs, including the types and purpose of edit and other purification and validation routines;
 - (b) processing, including the plan for back-up operations;
 - (c) storage, including plans for reconstruction of data files;
 - (d) outputs.
- (vii) deviations from the provisions of the relevant rules, codes or manuals.

Any changes in procedures or rules considered necessary or desirable in the context of computerizations or otherwise.

After the programmes have been written-up and debugged, and the system as a whole has been tested, the design specification as finally firmed up should be sent to audit at the second stage of reference. The other information required to be supplied to audit at this stage would be as under:-

- (1) the test data used for programme testing and system testing and corresponding printed outputs;
- (2) the results of experimental operation, which should clearly indicate, on the basis of the live data processed through the system, the following viz.
 - (i) the extent to which the system fulfilled the planned objectives;
 - (ii) the extent to which the programmes worked and were able to cater to the data;
 - (iii) based up to (i) and (ii) above, the extent to which the system could be relied upon for timely and accurate processing data.
- (3) the plan of switch-over to the new system, including –
 - (i) the phased programme of conversion;
 - (ii) any special difficulties anticipated in conversion, and the measures proposed to be taken to overcome them with particular reference to the special action, if any necessary for cleaning up or purification of manual records before transfer to computer;
- (4) copies of Procedure Officer Orders, Procedure Manuals etc. prepared in connection with the new system.

- (4) Copy of the Government of India, Ministry of Defence, New Delhi, letter no. No9/2004-D(Q&C) datedMay,2005 addressed to Director General of Audit, Defence Services, L-II Block, Brassey Avenue, New Delhi- 110001.

Sir,

Whereas according to the provisions contained in section 14(2) of the Comptroller and Auditor General's (DPC) Act, 1971 as amended in March, 1984, the Audit of Autonomous Bodies can be taken up with the prior approval of the President of India if the assistance received by the Body from the Government is not less than Rupee one crore.

2 I am directed to convey the sanction of the President for entrusting the audit of 62 Cantonment Boards across the country to the Director General of Audit permitting them to carry out the audit of Cantonment Boards as and when they attract the aforementioned provisions.

3 This issues with the approval of Finance Division vide ID No. 782/QB/05 dated 28.04.05.

(A.K.Upadhyay)
Joint Secretary to Government of India

(5) Copy of AO 481/73

Disposal of audit objections and draft audit paras

General

1. The Public Accounts Committee has several times stressed the necessity for the prompt disposal of audit objections and provision of complete information on draft audit paras prepared by the audit authorities for inclusion in the Audit Report of the Defence Services. The delay in the disposal of audit objections renders it difficult to take appropriate disciplinary and other actions connected with these objections. It is therefore, necessary that audit objections should be given priority consideration as soon as they are received by the units and formations who will also ensure their expeditious disposal. Audit objections will not be treated as mere routine enquiries. The procedure to be followed for the disposal of audit objections, draft audit paras, is given in the succeeding paragraphs.

Procedure for the disposal of audit objections

2. The following procedure will be observed for prompt disposal of audit objections:

- (a) Lengthy, prolonged and inconclusive correspondence on audit objections will be avoided. As far as possible, audit objections, as and when they are raised, will be settled locally by discussion with the audit officers. Where settlement of objections is possible either by discussion or by exercising the financial powers vested in the local Competent Financial Authority, they will be finally settled within two months from the date of receipt of the objections. Where such a settlement is not possible, the case will be reported with full details, immediately to the higher formation.
- (b) Audit objections which cannot be settled by discussion locally for example those relating to lack of sanction of the higher Competent Financial Authority, or those based on a difference of opinion in the interpretation of rules, will be referred to the next higher formation promptly. Units and formation will watch and note down the progress of such cases referred to the next higher authority in a register. Formation Headquarters will also maintain a corresponding register and serious cases will be referred promptly to Army HQ. In no case will any audit objection be kept pending for more than one month in a lower formation and for more than three months in a Command HQ after its receipt from the lower formation.
- (c) While referring cases of serious irregularities or those objections on which no settlement has been possible at lower levels, complete statements of cases be submitted to Army HQ in accordance with AO 315/73.
- (d) Irregularities deducted and reported to units and formations by statutory audit authorities will be dealt with immediately.

3. The powers given to the various officers will be exercised discreetly so as not to give any cause for suspicion that the powers delegated have been misused. All audit objections will be examined with reference to the powers delegated and disposed of. Copies of sanctions issued for the settlement of audit objections will be endorsed to the statutory audit officers concerned.

4. A list of typical cases of technical and non-financial objections which can be regularised by the officers concerned under the powers vested in them is given in Appendix 'A' to this Army Order.

5. Government of India, Ministry of Finance (Defence) letter No. 13074/AT Coord dated 18 Nov. 59 vesting the Controllers of Defence Accounts with powers to waive procedural or non-financial objections is reproduced as Appendix 'B' to this Army Order.

6. Government of India, Ministry of Defence Letter No. F 13(3)/66/D(Budget) dated 5.10.1966 regarding delegation of powers to dispose of audit objections/regularised losses or other irregularities is reproduced as appendix 'C' to this Army Order.

Waiving of audit objections

7. Generally traders issue cash memos in token of having received the amount for the articles sold and that they do not issue receipts of money from the person named therein. Stamped receipts are also not issued/obtained where the amount exceeds Rs. 20/-. The rule position in this regard is indicated below:

- (a) Rule 47(ii) F.R. II provides that cash memoranda will not be regarded as sub-vouchers in audit unless it contains an acknowledgement of the receipts of money from the persons name therein (with a stamp affixed) when the amount exceeds Rs. 20/-.
- (b) The provisions of Note below CTR 207 have been reproduced in Rule 47(ii) of FR Part II. This 'Note' derives authority from Section 2(23) of the Indian Stamp Act, 1899 read with item of the Schedule I thereof. While under Section 30 of the Act, a trader is required by law to furnish a proper receipt on demand by the purchasers, Section 29 provides that the expense of duty may be borne by either party as per mutual agreement. The Law, however, does not make it obligatory to issue a receipt, unless demanded. Not to grant a receipt when demanded is however, a punishable offence.

8. In certain cases, however, if due to certain genuine reasons, it is not possible to obtain a stamped receipt if the amount exceeds Rs 20/- this will tantamount to an irregularity and will have to be condoned/regularised by the competent financial authorities.

Disposal of draft audit paras

9. The Director of Audit, Defence Services, sends draft audit paragraphs for verification to the Ministry of Defence and also an advance copy thereof to the Army Headquarters. The audit paras are based on the notes of local audit officers, copies of which are forwarded to formations and units direct. To enable the Army Headquarters take necessary action expeditiously, all formations and units are required to forward to Army Headquarters, through the Command Headquarters all draft audit notes and paragraphs received by them from the Defence Audit Department or the Defence Accounts Department in their final form, along with properly edited briefs or lucid summaries of the cases clearly demarcating the extent of responsibility and other connected matters. This is intended to give advance information to Army Headquarters of draft paras which the Director of Audit, Defence Services may subsequently transmit and to enable them to forward their comments to the Ministry

of Defence not later than 15 days from the date of receipt of the advance copy from the Director of Audit, Defence Services.

10. Formations and units will therefore, accord high priority for the expeditious disposal of audit notes and audit paras received by them and forward the same along with a proper brief giving factual position of the case to the Branches or Directorates concerned in Army Headquarters through Command Headquarters, so as to enable them to take immediate action on the draft paras received from the Director of Audit, Defence Services.

11. All draft audit paras for Audit Report will be classified "CONFIDENTIAL".

12. It is imperative that the following information is included in the explanatory notes or briefs or statements of cases on draft audit paragraphs or on audit objections:-

- (a) Information will be given under the proper heading with full supporting data, statistical or otherwise.
- (b) As the Public Accounts Committee do not restrict themselves to discussing the audit comments only but also want details in regard to other facts, the briefs will be comprehensive in regard to various facts (Illustrative examples of types of information required in the explanatory notes on audit paras are given in Appendix 'D' to this Army Order).
- (c) Remedial measures adopted and improvements effected, if any, will be mentioned.
- (d) Action taken to fix responsibility for the lapses and irregularities and disciplinary action taken against persons held responsible, will be indicated. In cases, where no disciplinary action has been taken, the views or decisions of the Administrative Authorities will be included in the notes, briefs or statements of cases.

Documents and files to be made available to audit authorities

13. It had been reported that in a few cases, documents required by Audit were not made available to them by lower formations while conducting audit. The grounds for not providing the documents were that-

- (a) they related to draft Audit Paras or Paras included in the Audit Report and therefore they should be obtained from the Ministry of Defence, or
- (b) the question of supply of the documents had been referred to higher Headquarters

14. Documents having financial implications required by the audit authorities should be made available to them.

15. It has been clarified that audit authorities will not be interested in seeing documents as have no financial implications or in which a particular audit reference or Audit Para is being discussed between the lower formations and higher Headquarters

16. Difficulties are at times reported to be experienced by the Controllers of the Defence Accounts in obtaining information from Units and Formations on audit paras relating to matters within their jurisdiction. All units and formations will ensure

that the information required by the Controllers of Defence Accounts for dealing with the Audit paras is promptly furnished to them.

17. AOs 82/64, 312/64, 500/64, 352/65, 541/64, 192/68 and 288/ are HEREBY CANCELLED.

80231/AG(Bud)

(6) Extracts from Air Force Order 22/2002

STATUTORY (TEST) AUDIT AND DRAFT AUDIT PARAS

Nature, Scope and Functions of Test Audit

50. The Comptroller and Auditor General of India is required under Article 151 (i) of the Constitution, to place an audit report on the Annual Accounts of the Defence Services before the Parliament. This report is known as Audit Report (Defence Services).

51. The Audit Report (Defence Services) confines itself to the following: -.

- (a) Objections raised by the Director of Audit (Air Force and Navy) who carries out the Test Audit of Accounts of the Air Force through his officers at different places which remain unsettled and are of significant interest or importance.
- (b) The observations of the Audit on Appropriation Accounts of Defence Services.

52. Generally Test Audit of a Unit/Station is taken up once a year. The visit of the Test Audit to a unit will be intimated well in advance by the DA (AF & N) to enable the unit to keep all auditable documents/records ready for audit. Station /Unit Commanders are to ensure that every facility is given to the Director of Audit, his officers and Staff. To fully appreciate the duties and powers of the Comptroller and Auditor General on whose behalf, the test audit staff carries out the audit an extract of Section 18 of the Act No. 56 of 1971 is reproduced below:

“(18) Powers of Comptroller & Auditor General in connection with Audit of Accounts

- (1) The Comptroller and Auditor General shall in connection with the performance of his duties under the Act have authority:
 - (a) To inspect any office of accounts under the control of the Union or of a State including treasuries and such offices responsible for the keeping of initial or subsidiary accounts and submit accounts to him;
 - (b) To require that any accounts, books, papers, and other documents which deal with or form the basis of or are otherwise relevant to the transactions to which his duties in respect of audit extend shall be sent to such place as he may appoint for his inspection;
 - (c) To put such questions or make such observations as he may consider necessary, to the person in charge of the office and to call for such information as he may require for the preparation of any account or report which it is his duty to prepare.
- (2) The person in charge of any office or department, the accounts of which have to be inspected and audited by the Comptroller and Auditor General shall afford all facilities for such inspection and comply with requests for information in as complete a form as possible and with all reasonable expedition”

53. However, in so far as productions of performance data to Test Audit is

concerned normally the units/ stations / repair depots would not be in full possession of facts as to various policies and priorities allotted to various tasks in these fields, the overall position is known to higher formations only. Therefore, it is only appropriate that before any such data is made available to the Test Audit, it is fully examined by Command / Air Headquarters. Accordingly, working arrangements have been arrived at with Test Audit Authority whereby the demands for such information, wherever required, would be placed on Air Headquarters by Test Audit. Such information would be obtained by Air Headquarters through the concerned Command and would be furnished to Test Audit after necessary processing under intimation to Command Headquarters

Procedure for Conducting Test Audit

54. As audit progresses, verbal explanation on doubtful points and discrepancies will be obtained by the Test Audit Staff from the Section concerned. Where the replies are not satisfactory "Preliminary Observations" will be issued (in duplicate) to the Accounts Officer, who will retain one copy and forward the other to the respective section/flight commanders for their remarks. On receipt of remarks from the sections, the Accounts Officer is to furnish replies to the Preliminary Observations, to the Test Audit Staff through LAO or Group Superintendent within three working days. Where there is no local Audit Staff at the station the replies to preliminary observation are to be countersigned by the Commanding Officer. A copy of the same, together with a copy of the observation is to be sent for information to the LAO / Group Superintendent concerned simultaneously.

55. As the observations, not settled on the basis of the above replies will be included in the Test Audit Objection statement issued by the Test Audit authorities every effort should be made to ensure that all observations capable of settlement at the Unit level are so settled. Cases which, in the opinion of the Unit have not been fully appreciated by the Test Audit Staff are to be discussed by the Station/Unit Commander with the Officer-in-Charge of the party on his arrival at the Station after consultation with the LAO / Group Superintendent concerned wherever possible.

Local Test Audit Report

56. Test Audit objection statement raised on the Accounts of a Station/Unit is normally sent to CDA (AF)/JCDA (AF) Nagpur, who is responsible for furnishing replies to the objections contained therein to the DA (AF & N) in consultation unit authorities concerned, where necessary.

57. However, in the case of important financial irregularities which should be set right immediately, or warrant immediate remedial measures, or where any delay may prove detrimental to the financial interests of the State, an advance copy of such important objections is issued by the Test Audit Authorities direct to the Commanding Officer of the Station/Unit. A copy of such important audit objections will also be endorsed by the Test Audit authorities to the controlling Command/Air Headquarters who will take appropriate action and issue such remedial instructions as may be necessary.

58. Every important and serious irregularity included in the Test Audit report which in the opinion of the CDA (AF)/ JCDA(AF) Nagpur calls for immediate

attention on the part of Air Headquarter, will be communicated by him to Air Headquarters (Directorate of Accounts) for issuing instructions as may be deemed necessary. All concerned are to ensure that Test Audit Objections are accorded the highest priority and the irregularities brought to their notice are stopped forthwith. In case it is felt that discontinuance would adversely affect the Unit/Formation a detailed case is to be forwarded to Air Headquarters with the recommendations of the Command Headquarters

59. In respect of objections which could not be settled, the following action is to be taken:

- (a) Where the objections are not capable of settlement at unit level statement of cases are to be raised and submitted to the concerned Command Headquarters' without any undue delay.
- (b) Where objections are pending beyond one year at unit level statement of cases are to be prepared and progressed as similar to that given in para 99.
NOTE: Audit report required to be attached along with statement of cases pertaining to LTARs as applicable for stores audit objections.
- (c) Where the Command Headquarters is not in a position to satisfy the audit or where the objection is beyond their competency to settle, refer the same to Air Headquarters (Directorate of Accounts) for processing that case as applicable in other cases.
- (d) Air Headquarters (Directorate of Accts) would forward the statement of case to concerned Directorate for necessary action to progress the cases till its finality.

Draft Audit Notes

60. Draft Audit Notes are raised by Defence Audit Department and forwarded to the Air Force Formations/Units/CDA (AF). All Units/ Formations are to forward these notes to Air Headquarters through their respective controlling Command Headquarters, along with a properly edited explanatory note. This action is required in order to provide advance information to Air Headquarters in respect of the likely Draft Audit Paras and also enable them to prepare a detailed reply thereto.

Draft Audit Paras

61. Before any unsettled test audit objection is actually included in the Audit Report (Defence Services) it is raised as a draft audit para. This is done with the object of obtaining and also to give the Ministry a chance to settle the objection so that it does not have to appear in the Audit Report.

62. Since the appearance of any observation in the audit reports is an adverse reflection on the efficiency of the service, it is of utmost importance that draft audit paras are processed very carefully and expeditiously.

63. A draft audit para received in the Ministry of Defence is to be disposed off within six weeks of its receipt. Out of these six weeks the time allowed to Air Headquarters for comments is only 15 days. However, in the case of draft paras received from the CDA (AF), a reply is required to be sent to the CDA (AF) within 30 days. The necessity for handling these paras on immediate basis is, therefore, self evident.

64. All draft audit paras are to be treated as Confidential unless higher security classification is warranted in any particular case.

Receipt and Disposal of Draft Audit Paras

65. Draft audit paras are received through Ministry of Defence or in certain cases from the CDA (AF). These will be centrally received in the Directorate of Financial Planning which will pass the same to the Directorate concerned for necessary action, simultaneously, giving a copy to the PSO concerned for his information and if necessary, for apprising the CAS about it during one of the regular meetings. Draft audit paras may involve more than one Directorate and the Directorate primarily responsible for the para may need inputs/information/replies from other Directorates for a comprehensive reply. To this extent Directorate of Financial Planning is also to act as the coordinating Directorate. While forwarding the Para, Directorate of Financial Planning is to endorse the copies / extracts the para to other concerned Directorates also to save time. Every effort has to be made by the Coordinating Directorate to liaise with other Directorates.

66. If the Dte to whom a para has been assigned has any difficulty in answering it or coordinating its reply, the matter is to be discussed personally with Directorate of Financial Planning immediately and in case of no accord the Director concerned is to refer the matter to his PSO. In no case the para is to be returned to the Directorate of Financial Planning.

67. If the draft para is received direct by any Dte a copy of it is to be submitted to the PSO concerned for his information and if necessary for apprising the CAS. A copy is to be simultaneously sent to the Directorate of Financial Planning.

68 The Directorate which is responsible for preparing the final reply is to verify the facts stated in the draft audit para and prepare its comments on each sentence in the program attached as Appendix 'M'. In addition, it will also prepare a general explanatory note giving: -.

- (a) In proper sequence complete details of the circumstances as to how, when and why the irregularity /discrepancy loss etc., high-lighted in draft para, has occurred and whether all possible actions to avoid the same, under the circumstances were taken
- (b) Whether the loss/irregularity has been investigated by a Court of Inquiry, all aspects probed and proceedings finalized, comments of Command Headquarters on the findings and recommendations of the Court Inquiry, in case a Court of Inquiry has not been held, detailed justification why the same is not considered necessary.
- (c) In clear terms how the responsibility for irregularities/ lapses has been assessed, details of disciplinary / administrative action taken stating the names and ranks of the individuals concerned, and how it is considered adequate in the circumstances. In cases where no disciplinary/administrative action has been taken or the action taken is inadequate, specific remarks regarding the advisability of pursuing the disciplinary aspects and the future course of action are to be given.

- (d) Specific measure taken to remedy the lapses/ irregularities of the types brought out in the draft audit para. Copies of instructions issued on the subject are to be attached. The procedure enforced to watch the implementation of these instructions and the improvements, if any, since noticed as a result thereof, are to be indicated.
- (e) Confirmation that similar lapses/irregularities are not prevailing at any other unit(s) and that adequate action has been taken by unit(s) concerned and controlling Command Headquarters, to stop such irregularities.
- (f) If a Local Test Audit Report was raised, action taken thereon, the level at which taken and the reasons why the same could not be settled. Delay, if any, in dealing with the L.T.A.R. is to be explained.
- (g) By a careful study of facts brought out in the audit paras and also from experience, the Ministry of Defence have prepared an illustrative list of points on which information is generally required. This general information is shown in Appendix 'N' to this order.

69. Further, a chronological sequence of events, showing action taken on the Local Test Audit Report, if any, indicating specifically the reasons for non-settlement of test audit objection, is to be sent along with comments/self explanatory note.

70. It is imperative that sentence-wise comments, chronological sequence of events and the self-explanatory note should be exhaustive covering - all aspects, these are required not only for taking up with the DA (AF & N) for modification or dropping of the draft audit para, but also subsequently for preparation of the briefs for discussion with Public Accounts Committee, in case the para appears in the Audit Report (Defence Services). The points given in Appendix "N" should be kept in mind while preparing explanatory notes. While examining each draft audit para, it should also be seen whether any irregularity / lapses calling for fixing of responsibility had occurred and if so, action should immediately be initiated to fix responsibility for willful irregularity / lapse. It is reiterated that this aspect must be given adequate attention at the early stages of the examination of the draft para. In this context a copy of Ministry of Defence UO No. PC 10(2)-77/ D-Budget dated 10 Feb 78 is reproduced as Appendix "O".

71. Any additional information specifically required by the Ministry of Defence, DA (AF & N) or the CDA (AF) is also to be forwarded with the reply.

72. If comments/advice on matters of finance or internal audit are/is considered necessary, relevant file should be routed through the DFA (AF) ensuring that it reaches the Ministry by the stipulated date. Also while dealing with draft audit para containing reference directly or indirectly to the activities of the Defence R & D Organisation (such as condemnation of equipment due to defective design or due to deficiency in specifications leading to infructuous expenditure) the concerned Technical Directorate in the R & D Organisation should be associated from the preliminary stage and their comments obtained before preparation of the reply. Copy of the reply should, in that case, be endorsed to R & D Organisation as well.

73. Replies are to be issued with the approval of the PSO concerned and this fact should be specifically stated in the note forwarding the reply. The paras dealing with important subjects will be shown to the CAS before issue. When the PSO concerned is absent on tour or on leave, the ACAS/Director concerned, who is then directly responsible to the CAS, will be competent to see and approve the material to be submitted to the Ministry. The Officer will invariably sign on behalf of the PSO concerned and the facts of his absence on leave or duty will be specifically stated in the forwarding note. Such replies are to be brought to the notice of the PSO concerned immediately on his return to Headquarters

74. The draft audit paras whether received from the Ministry of Defence or the CDA (AF) are to be dealt with in accordance with the instructions in the preceding paragraphs. In certain cases the paras received from the CDA (AF) are also received from the Ministry of Defence. In such cases the following procedure is to be followed:-

- (a) Draft Paras of the DA (AF & N) received through CDA (AF). If the para is received from the CDA (AF) before it is received through the Ministry of Defence, the Ministry will be apprised of this by the Directorate of Financial Planning. If the para is received from the CDA (AF) after a similar para has been sent by the Ministry of Defence, an interim reply will only be sent to CDA (AF) informing him that the para was already under consideration of the Ministry. No comments on the draft para need be sent to the CDA (AF) in that event. On finalisation of the case by the Ministry, three copies of the reply will be sent to the CDA (AF) by the Directorate of Financial Planning. This does not, however, preclude the CDA (AF) from seeking factual information / data from Air Headquarters as and when necessary. It is therefore, imperative that factual information required by the CDA (AF) will be furnished irrespective of the fact whether an audit para has been floated by DA (AF & N) and is being dealt with by the Ministry of Defence.
- (b) Draft Audit paras of Jt DADS received through CDA (AF). These paras will be dealt within the normal way and disposed off within a period of one month from the date of receipt. No reference to Ministry of Defence or Ministry of Defence (Finance) need be made at any stage except in cases involving matters of major policy. If, however the draft audit para raised by the DA (DS) is subsequently revised by DA (AF & N) and the copy of the letter is received from the Ministry of Defence, the CDA (AF) would be informed accordingly and further action progressed as in (a) above.
- (c) Follow up on Audit Reports taken up for Discussion by Public Accounts Committee. The Public Accounts committee in their 105th Report has inter alia made recommendations, which have been circulated vide GOI MOD letter No 2020/USID (Air-IV)/96 dated 28 May 1996 is reproduced and placed at Appendix 'AD' to this AFO for compliance.

75. In view of the implications mentioned in Para 62 above, the progress of all draft audit paras is to be kept under constant review personally by the Directors concerned so as to ensure their disposal within the normal time limit. However, in cases where it is not possible to adhere to the prescribed time frame as the comments/information may have to be obtained from other formations, an interim reply asking for short extension of time should invariably be sent under the

concerned Director's signature before expiry of the time limit to the Ministry of Defence or the CDA (AF), as applicable, with a copy endorsed to Directorate of Financial Planning. The request should give specific reason for the delay and indicate the date by which the comments would be sent.

APPENDIX- 'N' mentioned in APPENDIX- X (6)
(Refers to Para 68 of AFO 22/2000)

GENERAL INFORMATION REQUIRED FOR DRAFT AUDIT PARAS

1. Points common to all briefs and which should invariably be mentioned are given below;

- (a) On the Draft Para- When received, whether it was replied to in time, whether the facts in the para are correct, whether discrepancies have been pointed out to audit and get noted by them.
- (b) Remedial measures-Details of remedial measure taken by Air Headquarters to avoid lapses/irregularities of the type mentioned in the para. Copies of instructions issued by Air Headquarters on the subject should be attached or should be available in the file. The procedure to watch the implementation of these instructions and the improvements if any, since noticed as a result of these instructions should be indicated.
- (c) Disciplinary aspects-The explanatory note should indicate in clear terms, how the responsibility for the lapses has been assessed and what disciplinary action has been taken, how it has been considered adequate in the circumstances. In cases, where no disciplinary action has been taken or the action taken is inadequate and Air Headquarters is not satisfied with the explanation of the lower authorities, a definite decision should be taken by the Air Headquarters regarding the future course of action so that the Ministry can be informed of the Air Headquarters views in the matter. .

2. Illustrative examples of types of information required in the explanatory notes on audit paras.

- (a) Irregularities in works expenditure like delay in execution, defective planning etc.
 - (i) Date of administrative approval of the work and amount sanctioned, copies of the sanction should be available on the file.
 - (ii) Chronological data in regard to the various stages in the progress of work.
 - (aa) Date of Administrative approval.
 - (ab) Date of technical sanction.
 - (ac) Date of contract(s) and period of completion specified in the contract(s).
 - (ad) Date of order to commence work.
 - (ae) Dates of completion of the various stages of the project (Main building, internal and external water connections and drainage, electrification, outside roads and parks etc.)

- (iii) Reasons for delays, if any, between various stages mentioned above.
- (iv) (aa) If delays are found to be due to non-receipt of stores in time, factual data in support of the contention should be given; or
 - (ab) due to delay on the part of contractors, details of adequate action taken against contractors, should be indicated; or
 - (ac) due to procedural faults, remedial measures taken should be given; or
 - (ad) due to poor supervision, a clear account of the disciplinary action taken should be furnished.
- (b) irregularities in provisioning of stores in excess of requirements--delays in notifying excesses etc.
 - (i) If the item is covered by normal provisions reviews, full details regarding the liabilities, stocks dues in etc., of the item in question at various periods of time should be given.
 - (ii) Reasons for abnormal variation in the liabilities (due to changes in the scales of reserves or training requirements. or .for other consumption etc.) rate of issues or stocks held should be explained.
 - (iii) Whether rates of issues and stocks held have been taken into account while calculating liabilities; if not, why not?
 - (iv) Whether assets of a similar interchangeable item have been taken into account; if not, why not?
 - (v) If procurement action is continued even though the provision review disclosed statistical surpluses, the reasons for continuing the procurement action should be clearly indicated. The levels at which decision to continue the procurement action was taken should also be mentioned.
 - (vi) If the surplus has resulted from a decision of Government to phase out or reduce the numbers, the date of the decision and its actual effect.
 - (vii) A clear assessment of the future requirements of the item, the period within which the surplus, if any, would be fully utilised etc., should be furnished.
 - (viii) Whether the surpluses have been notified to DGS&D and recoveries, if any credited.
- (c) Irregularities connected with the production of stores, production without firm demand, non-cancellation of work under in time etc.
 - (i) A clear account of the orders governing the procedure for drawing up production programme existing at the time, the case in question is reported to have occurred, should be given.
 - (ii) Any Modifications to the procedure indicated in (i) above, copies of Government orders on the subject should be available on the file.
 - (iii) Any unsatisfactory features noticed in the planning and progressing and the remedial measures taken should be indicated.
 - (iv) If non-utilisation of equipment has been due to delay or lack of facilities required for installation maintenance and operation of the

equipment whether provision of such arrangements facilities/works-services/ technical knowledge etc., required for the use of the equipment was considered at the time of placing the indent for the equipment. If not, when was the delay brought to the notice of the Government and whether periodical reports have since been submitted to them.

- (v) A clear assessment of the responsibility for individual lapses, if any, should be made and a clear account of the disciplinary action that has been taken or is proposed to be taken should be given.
- (d) Losses and other procedural irregularities
- (i) A clear account of the irregularity in question and how it happened should be given.
 - (ii) Extenuating circumstances, if any, under which the irregularity occurred should be clearly explained.
 - (iii) Remedial measures taken to avoid recurrence of the irregularity in future should be stated. Improvements noticed in the subsequent years should also be mentioned.
 - (iv) Was any Court of Inquiry held and if not, why not?
 - (v) Was any individual(s) held responsible?
 - (vi) Was any disciplinary action taken or contemplated to be taken (name of the individual, rank and the nature of the disciplinary action etc.) and if not, why not?
- (e) Stock verification and discrepancies
- (i) Lists of Depots where stock verification was not completed as per report.
 - (ii) Depots out of these where it has since been completed with reasons for delay.
 - (iii) Reasons for non-completion in other Depots and the probable date by which it is expected to be completed.
 - (iv) Whether surpluses have been taken on charge in all depots, if not, why not
 - (v) Whether action has been initiated to reconcile the deficiency in each of the Depot and the Stage at which it stands with the amount since cleared in respect of each depot.
 - (vi) General causes of discrepancies.
 - (vii) Instructions, if any, issued.
- (f) Unverified credits/unlinked vouchers
- (i) General reasons for long outstanding.
 - (ii) Number of items reported and number since cleared with amount and with year-wise break up.
 - (iii) Steps taken for early clearance and instruction, if any, issued.
 - (iv) Detailed explanation for items over 6 years old.
- (g) Outstanding dues/rent recoveries

- (i) Amount of dues reported and since cleared and balance due year wise also category-wise i.e. Defence Central Government, State Government, Railways, Public Parties and Total.
 - (ii) Reasons for delays, steps taken for clearance.
 - (iii) Detailed explanations for amount outstanding for more than six years for each case of loss.
- (h) Losses awaiting regularisation
- (i) Whether the loss has since been regularised.
 - (ii) Reasons for delay in regularisation and stage of the case.
 - (iii) Whether disciplinary aspect has been/is being considered and the extent of such action where taken.
- (j) Outstanding objections
- (i) A statement showing objections (internal audit/test audit) as reported, since cleared, balance outstanding (Nos. and amounts) should be furnished.

APPENDIX 'O' mentioned in APPENDIX- X (6)

(Refers to para 70 to AFO 22/2000)

Government of India, Min of Def No PC 10(3)-77/D Budget, Dated 10 Feb 78

Fixing of Responsibility of officers for irregularities pointed out in audit paragraphs

1. The Comptroller & Auditor General of India's Audit Report on the Defence Services which is presented to the Parliament every year usually contains a number of Audit Paragraphs commenting on various irregularities detected in course of audit. In some of these cases, it may be considered necessary or desirable to fix responsibility on the officers for the lapses/ irregularities revealed in the Paras. It has been observed that due to delay in initiating action in this regard, the officers, in most of the cases, would have either retired or left service long before fixing responsibility for the irregularities pointed out in the Audit Paragraphs. As a result, the officers responsible for major willful irregularities might have escaped punishment.

Sd/-
PS Kohli
Joint Secretary (P&C)

APPENDIX 'AD' as mentioned in APPENDIX- X (6)
[Refers to para 74(c) 01 AFO 22/2000]
FORMAT OF ACTION TAKEN NOTE

- I. (a) Ministry/Department.
(b) Subject/Title of the review/Paragraph.
(c) Paragraph No.
(d) Report No and year.
- II. (a) Date of receipt of the Draft Paragraph/Review in the Ministry.
(b) Date of Ministry's reply.
- III. Gist of Paragraph/Review.
- IV. (a) Do the Ministry agrees with the facts and figures included in the paragraph.
(b) If not, please indicate the areas of disagreement and also attach documents in support.
- V. (a) Main Audit conclusions.
 1. Deficiency in the existing system including system of internal control.
 2. Failure to follow the systems and procedure.
 3. Failure of individuals.
 4. Amount of loss/short assessment/short levy.
(b) Do the Ministry agree with the Audit conclusions? If not, please indicate specific areas of disagreement, reasons for disagreement. and also attach copies of relevant documents, where necessary.
- VI. Remedial actions taken.
 - (i) Improvement in system and procedures including internal controls.
 - (ii) Recovery of overpayment pointed out by Audit.
 - (iii) Recovery of under assessment, short levy or other dues.
 - (iv) Write off of amount of losses/wasteful expenditure/irrecoverable amount.
 - (v) Modifications in the scheme, including financing pattern.
 - (vi) Review of similar cases/complete scheme/project in the light of findings of sample check by audit.

(7) Extracts from '*STANDING GUARD FILE*' (3rd Edition)(1991) issued by G of I, M of F (Department of Expenditure) on constitutional and statutory provisions relating to CAG

a) **Copy or D.O. letter No. 26/SF/55, dated the 6th January, 1955 from the Secretary (Revenue and Expenditure), addressed to all Secretaries.**

Will you kindly refer to para. 5 of the recorded note of the discussions at the meeting of Secretaries with the Comptroller and Auditor General held on the 18th November, 1954, dealing with the expeditious settlement of audit objections? It has been decided in consultation with the C. & A.G. and the Cabinet Secretary that the following procedure should be adopted :

(a) Irregularities of a serious nature, such as defalcations. culpable negligence. etc., should be reported by the Accountant General concerned as soon as they are discovered, to the Secretary of the Ministry by name. The latter should give urgent attention to the rectification of the defect or remedial action to be taken and inform the Accountant General, as quickly as possible, of the action Government are taking or propose to take.

(b) Other irregularities discovered in the course of audit, which are likely to find a place in the Audit Report should be discussed by an officer of the status of Deputy Accountant General and above with the Deputy Secretary dealing with the subject in the Ministry concerned. If these discussions do not result in the settlement of the differences and the removal of the objection, the matter should be taken up by the Additional Accountant General or the Accountant General, as the case may be, with the Joint Secretary or Secretary of the Ministry concerned. The Deputy Secretary should keep the Secretary of his Ministry informed from time to time of the progress of the disposal of these objections, to give the latter an opportunity to intervene if necessary, and expedite a settlement.

(c) As soon as the Accountant General decides that a particular case should be mentioned in the Audit Report, he would send the draft paragraph to the Secretary concerned for his information and to enable him to look into the papers and make himself familiar with the case before it comes up for the consideration of the Public Accounts Committee if he has not already seen them. It is not necessary that the content or the language of the paragraph should be specifically agreed to or that there should be any prior agreement as to what should be mentioned in the Audit Report, but it is desirable that on the facts as stated there should be no dispute though the conclusions and opinions will be those of the A.G. This does not, however, preclude a Secretary from taking up with the Accountant General the desirability or otherwise of mentioning particular cases in the Audit Report.

2. The question of making files available to audit was also considered at that meeting. It has now been settled that files required by Audit Officers should be readily made available to them without any apprehension that objections may be taken in audit 'merely based on contradictions in the views expressed in notes by subordinate officials and higher authorities. If the contents of the files or any pan of it are "secret" or "top secret" the file may be Sent personally to the Accountant General

or the head of the Audit Office specifying this fact, who will then deal with it in accordance with the standing instructions for the handling and custody of such documents.

3. I shall be glad if necessary instructions are issued by you to ensure that the procedure set out in this letter is followed in your Ministry.

- b) **Copy of Ministry of Finance (Deptt. of Economic Affairs)'s O.M. No, F.I(43)-B/78, dated the 23rd September, 1978, addressed to all Ministries/Deptts. of Govt. of India and Chief Secretaries of State/Territories.**

OFFICE MEMORANDUM

Subject : *Production of documents to Audit.*

In D.O. letter No.F26/SF/55 dated 6th January, 1955 from Secretary, Department of Revenue & Expenditure, Ministry of Finance addressed to all the Secretaries to the Government of India, it was *inter alia* stated that :-

".....files required by Audit Officers should be readily made available to them without any apprehension that objections may be taken in audit merely based on contradictions in the views expressed in notes by subordinate officials and higher authorities. If the contents of the files or any parts of it are 'secret' or 'top secret' the file may be sent personally to the Accountant General or the head of the Audit Office specifying this fact, who will then deal with it in accordance with the standing instructions for the handling and custody of such documents."

2. Subsequently, the Ministry of Finance informed all Ministries/Departments etc. - vide Department of Economic Affairs O.M. No. F.I(44)-B/75 dated 25th September 1976 - that confidential files containing the views of the Government officer at different levels, Cabinet notes and decisions etc. in the course of formulation of Governmental policies fall outside the scope of the instructions mentioned in paragraph 1 above and need not be shown to Audit.

3. The matter has since been examined further and it has been decided to withdraw the instructions contained in the O.M. dated 25th September, 1976 referred to above and restore the *status quo ante*. Accordingly, all Ministries/Departments etc., are requested to observe the procedure referred to in paragraph 1 above in the matter of making files available to Audit Officers.

- c) **Copy of Ministry of Finance (Deptt. of Expenditure)'s O.M. No. F13(2)-E.Coord/88, dated the 23rd May, 1989, addressed to all Ministries/Deptts. of Govt. of India.**

OFFICE MEMORANDUM

Sub:- *Responsiveness to audit objections-accountability in administration Implementation of the Report thereof.*

The undersigned is directed to say that the conference of Chairman, PAC and Chairmen, PACs of the State Legislatures, held in September, 1986, set up a sub-committee on "Responsiveness to audit objections-Accountability to Administration". The sub-committee submitted its Report in February, 1987. In paras 1.4 & 1.5, the extracts of which are forwarded herewith, the sub-committee have pointed out the difficulties, such as, delayed replies to the audit objections, indifferent attitude towards audit, suppression of information, non-production of relevant files, etc. that are being faced by Comptroller & Auditor General while arranging the audit of various central organisations and public undertakings. Keeping in view these fundamental requirements, this Ministry, etc. have been issuing instructions from time to time laying down the procedure for dealing with the objections and the system for making available the desired records to the audit and also stressing the essentiality of prompt settlement of audit objections. However, attention, in this connection, is drawn to the following few communications:

- (i) D.O. letter NO.26/SF/55, dt.6th January, 1955 from Secretary (Revenue) to all Secretaries.
- (ii) D.O. letter No.9/18/57-0&M, dt.6th July, 1957 from Director, O&M, Cabinet Secretariat to all Secretaries.
- (iii) Ministry of Finance O.M.No.35/5/EGI/59, dt.20th Feb.1959 to all Ministries.

2. In accordance with the provisions of Article 151 of the Constitution of India, Comptroller & Auditor General is required to present the audit reports relating to the accounts of the Union, to the President who shall cause them to be laid before each House of Parliament. Thus, it is all the more necessary for all the Ministries/Departments of the Government of India, public undertakings etc. to cooperate with the audit and to meet their requirements necessary for conducting the audit, on priority basis so as to avoid inclusion of any unwarranted audit para in the audit report, which could have easily been settled on the basis of the information already available with them. However, all the Ministries/Departments of the GovlItntent of India/Financial Advisers are once again requested to take appropriate steps to ensure smooth conduction of audit, supply of all relevant information, expeditious settlement of audit objections and availability of records desire4 by the audit authorities.

Extracts of Paras 1.4 & 1.5 of the Report of the Sub-Committee constituted by the Conference of Chairmen of Public Accounts Committees held in September, 1986.

1.4 To quote an eminent authority in Public Administration, wherever State Audit has not been given the importance that is due, "order, system, regularity, legality, frugality and public trust have quickly declined". It is for the Comptroller and Auditor General to decide what documents and information are needed for the purpose of Audit and reporting, as required in Article 151 of the Constitution. Denial of documents and information on grounds of relevancy or otherwise, or delay in furnishing them will prevent the Comptroller & Auditor General from discharging the functions entrusted to him under the Constitution and his reports will be conditional and qualified. Further, there is a risk of mis-reporting based on inadequate information.

1.5 C&AG has brought it to our notice that as soon as Audit begins its work the initial resistance starts. In the very beginning, when the dates are suggested for discussion with the departments, even at that stage, the resistance comes in. Very often, there are requests for postponement of the discussions. It happens in the government and much more in the public sector. Hardly 50 per cent of the information is readily made available to the Audit officers and there is dragging of feet with regard to supply of the rest of the information. Even when the information is made available the concerned officers who really can give the authentic as well as authoritative information will not be available. When the findings of the Audit are sent to the departments formally, at that time also there is a lot of delay and the comments do not come forth, with the result that the finalisation of the report by Audit becomes difficult without full facts. C&AG is not satisfied with the extent of cooperation of the departmental officials regarding timely availability of the records required and availability of officers for discussion. In this connection, the C&AG has informed us that in the normal way it takes about six months or a year from the time of the initial audit objection till the para is finalised by Audit. He has written a letter to the Cabinet Secretary and in the States to the Chief Ministers urging them that there is need to improve the responsiveness to the Audit findings and finalising them early. For a proper and accurate diagnosis of the financial ailment of any department apprising the Audit department of the totality of facts without withholding any information is a condition precedent.

FORM NO. DGADS-100

TOP SHEET

Name of Command Office/Sub-office _____

Name of the unit/organization inspected _____

Complete Postal Address with phone and fax no. _____

SUS No.(As allotted by MISO) _____

Auditee Identity No. (As allotted by DGADS)

Section 'A'

(To be filled by the Local Audit Party)

1. Period of Inspection From _____ To _____
 - i) Actual number of party days excluding holidays _____
 - ii) Last inspected spell _____
 - iii) Period of accounts covered during last inspection _____
 - iv) Period of accounts covered during the current inspection _____
 - v) Whether extension was applied for ? Yes/No
 - vi) If yes, the number of party days for which (a) extension sought____
(b) extension granted____
 - vii) Composition of local audit party
Name of Party Members
(a) Name of Inspecting Officer 1. Shri _____ Sr.AO/AO
Period of Inspection from ____ to____
(b) Asstt. Audit Officer/
Section Officer 1. Shri _____
2. Shri _____
(c) Sr. Auditor/Auditor 1. Shri _____
2. Shri _____
(d) Dates of inspection by CO _____
2. Whether the Draft Report was discussed with the Head of the Auditee unit
Yes/No
 - (i) If yes, by whom and the date of discussion
 - (ii) If no, the reasons may be given
 - (iii) Is the List of preliminary observation slips issued indicating result of discussion enclosed?

- (iv) Is the List of old IRs/Paras discussed indicating results enclosed?
3. Work Completion Certificate (Form DGADS-102) duly filled in by each party member is enclosed.
 4. Auditee Profile Update in Form (DGADS-101) is enclosed (Only for Annual and Biennial Units)
 5. IT survey questionnaire in prescribed form and update only where already submitted duly filled in is enclosed.(Refer DGADS Headquarters office letter no. 4086/A.Coord/ 129/I.T. Audit/Vol.II/2003-04 dated 20.2.2003 and 7.3.2003).
 6. Objections considered fit for inclusion in the :
 - (i) Audit Report
 - (ii) Monthly DO
 - (iii) Quarterly report of important points
 7. Defence Audit Manual amendment proposal in form DGADS -103 is enclosed
 8. List of Special Inquiries conducted is enclosed.
 9. List of documents required to be audited and actually audited by the party showing distribution of work amongst party members is enclosed
 10. Certified that scrutiny of all losses included in the Register of losses maintained by the unit since the date of last audit has been completed.
 11. Certified that the linking of issues/receipt from supply depot in the units record has been completed.
 12. Certified that verification of documents obtained from LAO/RAO as indicated in Form DGADS-114(Audit intimation) with the unit record has been completed.
 13. Certified that Rules of Stores Accounting are being observed by the unit.
 14. Certified that verification of the opening and closing balance received from the PAO (ORs) in respect of the month selected for audit of the imprest account of the Unit/Formation has been done.
 15. Certified that all the statements and the details in the Top Sheet given above and the details given below are complete and correct
 16. Submitted to the Director/Deputy Director/Sr. Audit Officer Incharge, Command Office/Audit Groups for further necessary action.

Place Camp:

Date

Sr. AO/AO/AAO/SO

Section 'B'
(For C.O's Office)

1. Date of receipt of Report by Coordination Section
2. Date of submission of LTAR to Sr. AO/AO Coordination Section
3. Date of submission to Director/Deputy Director
4. Suggestions if any received from Inspection Officer
The draft audit Inspection Report with the preliminary observation slips issued, replies thereto and connected records are submitted for approval after scrutiny.
5. Results of examination of Draft LTAR

Disposal of OL	OL Numbers
Included in LTAR	
Issued as Test Audit Note	
To be seen in next audit	
Closed	

Section 'C'
(To be filled by Coordination Section after approval of Inspection Report by Director/Deputy Director)

1. Date of approval by Deputy Director/Director
2. Date on which sent for Typing
3. Date of return from Typing
4. Date of dispatch to Auditee unit
5. Action taken on points cases sent by HQ for investigation during inspection
6. Part II-A paras marked as PDP _____ DP _____
_____ and action taken.
7. Contributions by party members :

S.No.	Name & Designation	Part-IIA No.of paras	Financial effect	Part-IIB No. of Paras	Financial effect
1.					
2.					
3.					
4.					
5.					
6.					
7.					
8.					

8. (i) Remarks of CO/Sr.AO/AO about the quality of the LTAR

- (ii) Important points in LTARs fit for circulation to other Parties/COs

FORM No. DGADS -101

AUDITEE PROFILE UPDATE

PRELIMINARY INFORMATION

1. Name of Unit/Formation/Establishment/Section/Branch_____
2. Name of DDO/Unit Commander/Head of Office/Controlling Officer
3. Organization Chart and the charter of duties of all Constituent Sections are enclosed
4. Auditee Identity No. (as allotted by DGADS)
5. SUS No. (as allotted by MISO):
6. Budget Centre Code (as allotted by CDA):
7. Unit Code/Imprest Account No. (as allotted by CDA/PAO):
8. Name of AAO/ZO/PAO :
9. Name of Defence Accounting Circle – PCDA/CDA_____
10. Name of Internal Auditor : LAO_____
11. Name of Integrated Financial Adviser :
12. Name of Defence Estate Officer :
13. Name of Construction Agency/Maintenance Agency
14. Area of Defence Land under unit's occupation
15. Details of Commercial Complex/Unit Run Canteen (URC) is given below:

16. Misc./Other information.

FINANCIAL MANAGEMENT

17. The expenditure under various Code Heads for last three years is given below:

Code Head	Year		Year		Year		Year (BE) Amount(Rs.)
	BE	Exp	BE	Exp	BE	Exp	

18. Exercise of delegated financial powers under MOD letter No. A/89591/FP-1/693/2002/D(GS-I) dated 22nd April, 2002 as amended is given below for the current and previous financial year :

Schedule No. & items No. of MOD letter dated 22.4.2002	No. of sanctions accorded by CFA without consulting IFA	Amount of sanctions in respect of previous col.	No. of sanctions accorded by CFA in consultation with IFA	Amount of sanctions in respect of previous col.

19. List of Major Projects/Works/Sanctions/Supply Orders for last three years is given below :

Name of Project/Work/Supply Order	Name and address of Vendors/Suppliers along with PAN No.	Performance of Vendor/Supplier as per dept. records	Findings by Audit (Refer LTAR Para No.)

Note: COs may decide monetary limits at the beginning of financial year.

20.. Authorization and holdings of controlled and census Stores, Class-A Store, Engineer Store etc. based on returns submitted to higher formations/MISO is given below :

Category of equipment/motor vehicle	Authorization	Holding	Details of equipments/motor vehicles on loan	Findings by Audit (Refer LTAR Para No.)

--	--	--	--	--

HUMAN RESOURCE DEVELOPMENT (HRD)

21. The staff strength as on 1st March of _____ sanctioned vide Ministry of Defence letter No. _____ dated _____ is given below :

Category of persons	Sanctioned	Men-in-position		Findings by Audit (Refer LTAR Para No.)	Remarks
		Regular	Temporary attachments		
Officers/Group.A					

Note : Copy of latest RE/PE/WE should be enclosed.

22. List of Court of Inquiry, Court cases, arbitration cases and disciplinary cases for major penalty is given below :

COI/Court case No.	Name of Court/ Composition of Board	Subject	Findings by Audit (Refer LTAR Para No.)

23. Disposal and pendency of statutory and non- statutory complaints under provision of Para 364 of Regulations for Indian Army(1987 edition) for last 3 years is given below:

Year	Statutory complaints by Officers	Statutory complaints by PBORs	Audit conclusions, if any

CONTROL ENVIRONMENT:

24. The auditee unit is governed by following set of codes, manuals, regulations, instructions, army orders, Standard Operating Procedures (SOP) and local orders:

Name of Code etc.	Authority	Subject	Remarks of Audit on their adequacy and relevance

--	--	--	--

25. List of quarterly, half yearly and annual Reports and Returns to higher authorities is given below :

Name of Report and Return	Authority	Periodicity	To whom	Results of check by Audit

26. The auditee unit is subjected to following reporting/control channels :

	Designation/ Authority	Dates of Inspections by	Key findings of Inspections	Findings of Audit
Initiating Officer				
Reviewing Officer				
Senior Reporting Officer				
First Technical Officer				
Higher Technical Officer				
Head of Arms/Service				
Any other Inspecting Authority				

27. Efficacy of Internal Audit :

(A) Review of LAO's inspection/super audit conducted by JCDA

Period of Inspection by LAO	Scope of Inspection	Key Findings by LAO	Remedial Action Taken

(B) Comments on review of LAO's work by Joint CDA/CDA

PERFORMANCE AUDIT

28. The following performance indicators are suggested to conduct review of the Unit/Subordinate Units :

Name of Performance Indicator	Source of Performance Data	Criticality of the Performance Indicator	Remarks

--	--	--	--

RISK ANALYSIS

29. The following risk areas (Accounting Code Head, Projects, Contracts, Vendors) have been identified

Name of Risk Area	Reasons for categorization as High Risk Area	Remarks

NOTE : The detailed instructions on risk analysis may be seen in C&AG’s Auditing Standard – 2nd Edition and Performance Auditing Guidelines (May 2004), and other orders issued from time to time.

ENVIRONMENTAL RELATED ISSUES

30. Whether Environmental Impact Assessment and corrective action as indicated in MSO (Audit) 2nd Edition (Chapter 19) have been carried out? If yes, examine steps in implementation.

31. Are the provisions of Environment Protection Act 1986, Water (Prevention and Control of Pollution) Act 1974, Air (Prevention and Control of Pollution) Act 1981 and Hazardous Wastes (Management and Handling Rules) 1989 applicable to the activities of the auditee? If yes, examine steps in implementation.

FORM NO. DGADS-102

Work Completion Certificate

Name: _____ SAO/AO/AAO/SO/Sr. Auditor/Auditor

Nature of Audit Checks	Quantum as per standing orders	Actual quantum of audit checks	Nature of audit findings (Refer LTAR Para No.)

Certified that :

- a) I have generally followed provisions contained in Auditing Standards (2nd Edition), MSO Audit (2nd Edition) and other supplementary instructions issued by the Office of the Comptroller and Auditor General of India and O/o the Director General of Audit, Defence Services, New Delhi.
- b) I have exercised the audit checks prescribed in the relevant sections and paras of Defence Audit Manual as amended and that no item of check prescribed or to be carried out under special orders issued from time to time has been overlooked, either in the distribution of the duties or in the actual performance of work during the inspection.
- c) That all observations pointing out lapses in the implementation of systems and procedures and all weakness in the responsibility centers have been discussed with the heads of administrative departments and assurances obtained in regard to corrective measures for arresting potential risks.
- d) That all contested evidences have been conclusively handled with reference to the facts at the disposal of audit.
- e) Samples for audit checks, wherever required, have been taken strictly on random basis.
- f) List of high value purchases and audit notes issued by CTA have been obtained from CTA Section at the time of commencement of the local audit.
- g) I have studied the Auditee Profile Update (Form DGADS-101) of previous years and have planned current audit accordingly.
- f) All relevant papers/vouchers and internal reports from concerned LAO/UA/SLA were collected before the commencement of local audit.

Sr. AO/AO/AAO/SO/Auditor

FORM NO. DGADS-103

DEFENCE AUDIT MANUAL AMENDMENT PROPOSAL

Based on Central Audit/Local Audit of _____ the following amendments to the various provisions of Defence Audit Manual (_____ Edition) are proposed as a result of new orders/instructions issued relating to functioning of the auditee unit and/or due to procedural difficulties:

Para No./Annexure/Appendix of Manual	Existing Provision	Proposed provision	Authority of the Dept.	Remarks

Name and Signature of Sr.AO/AO/AAO/SO

FORM DGADS-104

(Referred to in para 47 (v))

Statement showing the progress of cases reported earlier in bi-monthly D.Os.

SI. No.	Number & Date	Number of items in the D.O.	Name of the Official who picked up the point	Subject	Amount involved	Present Position
1	2	3	4	5	6	7

FORM DGADS -105

(Referred to in Paragraph 51 (ii))

Progress Report on the test audit of theSection of the
Office of the Controller of Defence Accounts..... from.....
19.....to

1. Dates of commencement and completion according to the detailed programme.
2. Actual dates of commencement and completion, together with reasons for deviations, if any.
3. Period of account selected for test audit.
4. Standard percentage of test audit.
5. Standard percentage of test audit according to approved programme and actual percentage of test audit.

Director of Audit, Defence Services
Deputy Director of Audit, Defence Services
Sr. Audit Officer/Audit Officer,
Defence Services.

FORM DGADS -107

(Referred to in para 56 (ii) and 63 (ii))

Register for watching progress of audit and disposal of Objection Statements/ Local Test Audit Reports

Sl. No.	Particulars of CDA's Section/ Unit and Formation audited with station	Dates of audit	No. and Date of Objection Statement/ Local Test Audit Report	Item No. of Objection Statement/ Local Test Audit Report	Money value of objection if any	Date of reply received from CDA	Date of further rejoinder to CDA	Date on which settled	Name of the AAO/ SO/Sr.Ar/Ar. who audited the accounts and the GO who supervised the audit	Remarks
1	2	3	4	5	6	7	8	9	10	11

DGADS-109
[Referred to in para 63 (i)]

Local Test Audit Programme of.....Party for the half year ending

StaffSO
Auditor
GROUP 'D'

Sl. No.	Names of Units or formation	Dates of test audit		Number of Mandays allowed in		Dates of G.O.'s visit	Dates of last Test Audit	Remarks
		From	To	Test Audit	DAD			
1	2	3	4	5	6	7	8	9

FORM DGADS-110
(Referred to in para 63 (ii))
Statistical Chart in regard to Local Test Audit

Sl. No.	Class of units or formation	Total number in	No. of un-audited units included in Column (3)	No. required to be audited during the year according to prescribed quantum	No. proposed to be audited during the year	No. of un-audited units provided in column (6)	Remarks
1	2	3	4	5	6	7	8

Note: A detailed list of un-audited units in the Command in support of the figures included in column 3 should be furnished with the chart.

FORM DGADS-111
(Referred to in para 64 (vii))
Register of Auditable Units

Sl. No.	Name of Unit or Formation with Location	Frequency of Audit	Mandays taken by CDA/LAO	Mandays taken by the Audit	When audited	Names of persons who audited and supervised	Remarks
1	2	3	4	5	6	7	8

Note: This register will show a complete list of units and formations (stationary and mobile in the audit area). The register will be maintained stationwise and in strict alphabetical order, separate page being allotted to each Station. The stationary units will be entered first and then the moving units. Some blank space will be kept under each section for further amendments. When information is received regarding move of any unit, suitable notes of changes will be kept in the register.

FORM DGADS -112

[para 64 (xii) Refers]

Progress Report of Local Test Audit for the Quarter Ending.....

Sl. No.	Type of units provided for audit based on extent of Supervision	Name of Unit/ Formation	Mandays/ party days prescribed as per quantum as per programme		Mandays/ Party days actually availed		Reasons for variation if any	Number of GO's Supervision days required to be provided	Number of GO's Supervision days actually provided	Reasons for Excess (+) Shortfall (-)
			Man days	Party days	Man days	Party days				

75% Supervision

50% Supervision

33¹/₃% Supervision

25% Supervision

FORM DGADS-113

[Referred to in Paragraph 64(xiii)]

Statement showing outstations to be visited by the LTA Parties

Sl. No.	Name of the LTA Party visiting the outstation	Name of Unit/Formation to be audited with the name of the outstation	Date of Audit		Date of GO's visit		Remarks
			From	To	From	To	

FORM DGADS-114
(See Para 65)

OFFICE OF THE

No
To

Dated the

Dear Sir,

Under directions from Director General of Audit, Defence Services, New Delhi, it is proposed to conduct statutory audit of your unit/formation/office from to on behalf of the Comptroller and Auditor General of India (C&AG) under the authority of Article 149 to 151 of the Constitution of India read with sectionsof CAG(DPC) Act, 1971. You may also refer to Ministry of Defence ID No. 3(3)/2000-po(Def) dated 21.9.2000 and Army Order AO 481/73 regarding statutory audit by C&AG.

2. The audit will be done in accordance with Auditing Standards issued by C&AG. Further, the term audit includes financial audit, regularity audit and performance audit.

3. By virtue of the provisions in Sub-Section (1) of Section 18 of the C&AG's (DPC) Act, 1971, the C&AG has, in connection with the performance of his duties under the Act, the authority
- a) to inspect any office of accounts under the control of the Union or of a State, including treasuries and such offices responsible for the keeping of initial and subsidiary accounts, as submit accounts to him.
 - b) To require that any accounts, books, paper and other documents which deal with or form the basis of or are otherwise relevant to the transactions to which his duties in respect of audit extend, shall be sent to such place as he may appoint for his inspection, and
 - c) To put such questions or make such observations as he may consider necessary, to the person in charge of the office and to call for such information as he may require for the preparation of any account or report which it is his duty to prepare.

Sub-section (2) of Section 18 *ibid* requires the persons in charge of the office or department the accounts of which are to be inspected and audited by the CAG, to afford all facilities for such inspection and comply with requests for information in as complete a form as possible and with all reasonable expedition.

4. It is the responsibility of audited entity to develop adequate internal control systems to protect its resources. It is also its obligation to ensure that controls are in

place and functioning to help ensure that applicable statutes and regulations are compiled with and the probity and propriety are observed in decision making. However, this does not relieve the auditor from submitting proposals and recommendations to the audited entity where controls are found to be inadequate or missing.

5. The results of audit will be communicated to you/your superior authority/CDA/IFA after considering your replies, if any, to audit observations. Some of these observations which are considered material/significant in nature will be reported to the Parliament through CAG's Audit Report.

6. The audit will be undertaken by Local Audit Party No..... of this office.

7. You are requested to send Audit Commencement Report on the day audit of your unit /office commences.

8. You can also visit us at www.cag.gov.in

Yours faithfully,

Sr. AO/AO
Office of

- Copy to:**
1. L.A.O./R.A.O. for information with a request to produce the documents like Inspection Report, MFAI, Vouchers both for Cash/stores etc. as and when called for by the audit party.
 2.(Next Superior Officer)

Sr.AO/AO
Office of.....

FORM DGADS-115
(para 71 refers)

Register for watching the receipt and issue of Local Test Audit Reports

SI. No.	Name of the office audited	Name of the Officers & Staff of LTA party	Month up to which the account is now audited	Date of audit		Due dates for receipt of draft report from the LTA party	Particulars of reminder issued in case of non receipt of LTARs by the due date	Date of receipt of draft Report	Date of submission of LTAR to AD/CO	Date of approval
				From	To					
1	2	3	4	5	6	7	8	9	10	11

“CONCORDANCE TABLE”

**Corelating the paras/forms of Manual of Audit Deptt.,DS.,Vol-I, Part ‘A’ (8th Edition)
with those of Manual of Audit Deptt., DS.,Vol-I, Part ‘A’ (9th Edition)**

New Paras (2005)	Old Paras (1994)	New Paras (2005)	Old Paras (1994)	New Paras (2005)	Old Paras (1994)
1- 6	1- 6	52 (Blank)		96	New
7-18	7-18	53	53	97	New
7	7	54	54	98	New
8	8	55	55	99-112	New
9	9	56	56	99	New
10	10	57	57	100	New
11	11	58	58	101	New
12	12	59	59	102	New
13	13	60	60	103	New
14	14	61 (Blank)		104	New
15	15	62	62	105	New
16	16	63	63	106	New
17	17	64	64	107	New
18	18	65	65	108	New
19-25 (Blank)	19-25	66	66	109	New
26-42	26-42	67	67	110	New
26	26	68	68	111	New
27-29 (Blank)	27-29	69	69	112	New
30	30	70	70	113-128	New
31	31	71	71	113	New
32	32	72 -72.A	72-72.A	114	New
33	33	73	73	115	New
34	34	74	74	116	New
35	35	75	New	117	New
36	36	76	New	118	New
37	37	77	New	119	New
38	38	78-82 (Blank)		120	New
39	39	83	New	121	New
40	New	84	New	122	New
41	40	85	New	123	New
42 (Blank)		86	New	124	New
43	43	87	New	125	New
44	44	88	New	126	New
45	45	89	New	127	New
46	46	90	New	128	New
47	47	91	New	129-181	New
48	48	92	New	129-131	New
49	49	93	New	132	New
50	50	94	New	133	New
51	51	95	New	134	New

		New Forms(2005)	Old Forms(1994)
134	New		
135	New	100	New
136	New	101	New
137	New	102	New
138	New	103	New
139	New	104	A
140	New	105	B
141	New	106 (Blank)	
142	New	107	D
143	New	108 (Blank)	
144	New	109	F
145	New	110	G
146	New	111	H
147	New	112	I
148	New	113	J
149-151	New	114	New
152	New	115	L
153	New		
154-155	New		
156-158	New		
159-161	New		
163-169	New		
170-173	New		
174-180	New		
181	New		
182-194	New		
182	New		
183	New		
184	New		
185	New		
186	New		
187	New		
188	New		
189	New		
190	New		
191	New		
192	New		
193	New		
194	New		

