



# Guidelines for Financial Audit of Panchayati Raj Institutions

Comptroller and Auditor General of India  
November 2021



# Guidelines for Financial Audit of Panchayati Raj Institutions



**Comptroller and Auditor General of India**

**November 2021**



# CONTENTS

Chapter	Chapter Heading	Page No.
	Preface	iii
Chapter I	Financial Audit - An Overview	1
Chapter II	Operational Guidelines for Financial Audit of PRIs	9
Annexure - A	System of Accounts in Government and PRIs	13
Annexure - B	Audit Working Papers (AWP) formats	21
AWP-1	Audit Plan AWP-1A- Background information and macro issues relevant to audit plan. To be filled up using information circulated annually by DLFA/LFA/equivalent AWP-1B- Planning by auditor before visiting the auditee for conduct of audit AWP-1C- Supplement to Audit Plan after initial procedures in the Auditee Organization	22
AWP-2	Analytical Procedures	29
AWP-3	Substantive checking of Receipt and Payment Account	31
AWP-4	Substantive checking of Receipt Vouchers	33
AWP-5	Substantive checking of Payment Vouchers	35
AWP-6	Substantive checking of Treasury and Bank Reconciliation Statement	37
AWP-7	Substantive checking of Register of Immovable property	40
AWP-8	Substantive checking of Register of Movable property	42
AWP-9	Substantive checking of Inventory Register	44
AWP-10	Substantive checking of Demand Collection and Balance Register	46
AWP-11	Compliance with Auditing Standards / Guidelines for Financial Audit of PRIs	47
Annexure-C	Format of Audit Certificate with appended report	48



## PREFACE

More than sixty-three per cent of India's population resides in areas under Gram Panchayats. Thus, the Panchayati Raj Institutions are the most important link in the governance chain to deliver benefits at the grass roots level. This is reflected in the progressively increasing devolution of funds to these bodies. It is an imperative of 'good governance' and 'transparency' that the accounts of the Panchayati Raj Institutions are prepared in time, audited and made available in the public domain.

The auditing arrangements for Panchayati Raj Institutions comprise of Primary Audit by Local Fund Auditors or equivalent authorities. In addition, the CAG of India provides 'Technical Guidance and Support' by way of setting of auditing standards, prescribing audit methodologies, imparting training and by conducting transaction audit as well as supplementary audit. The assurance on the veracity and reliability of accounts is provided to stakeholders through Financial Audit of Panchayati Raj Institutions by the Primary Auditors. This entails examination of their Annual Accounts and supporting records to express an opinion as to whether the accounts are free from material misstatements and present a true and fair view of the activities of the entity.

For facilitating Financial Audit, the CAG of India had issued 'Guidelines for Certification Audit of PRIs' in 2002. The current 'Guidelines for Financial Audit of Panchayati Raj Institutions' has been prepared to replace the earlier guidelines by incorporating the changing professional practices in Financial Audit and the modifications in the accounting systems/fund flows. These Guidelines bring clarity to Financial/ Certification Audit process and reporting requirements as being different from 'Compliance' and 'Performance' Audit. Also, these Guidelines encapsulate the framework of Financial Audit and the structure of accounts in Central Government, State Governments and Panchayati Raj Institutions. The sequential stages in the entire audit exercise and the detailed checks and processes to be carried out at each step are also presented in a user friendly manner. These Guidelines have been prepared in consultation with the Ministry of Panchayati Raj and the Local Fund Audit Departments in the States.

I am confident that these Guidelines would be a great enabler for conduct of timely Financial Audit by the Local Fund Auditors leading to transparency and credibility of the accounts prepared by Panchayati Raj Institutions.



**Girish Chandra Murmu**  
Comptroller and Auditor General of India  
November 2021





## Introduction

**1.1** Auditing of the Government and its entities can be described as a systematic process of objectively obtaining and evaluating evidence to determine whether information or actual conditions conform to established criteria. This audit is of three types: Financial Audit, Compliance Audit and Performance Audit.

**1.2 Financial Audit:** focuses on determining whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework. This is accomplished by obtaining sufficient and appropriate audit evidence to enable the auditor to express an opinion as to whether the financial information is free from material<sup>1</sup> misstatement due to fraud or error. The purpose of an audit of financial statements is to enhance the degree of confidence of intended users in the financial statements. This is also known as Financial Attest Audit or Certification Audit.

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

**1.4 Performance Audit:** focuses on whether interventions, programmes and institutions are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. Performance is examined against suitable criteria and the causes of deviations from those criteria or other problems are analysed. The aim is to answer key audit questions and to provide recommendations for improvement.

Table below gives comparative picture of the financial, compliance and performance audits.

---

<sup>1</sup> Materiality is elaborated in Para 1.15 (iii).

**Table 1.1: Types of Audit**

	<b>Financial</b>	<b>Compliance</b>	<b>Performance</b>
<b>Audit Objectives</b>	Obtain reasonable assurance that the financial statements are free of material misstatement.	Gauge how well an organization adheres to rules and regulations, standards, internal bylaws and codes of conduct	Assess whether interventions, programmes and institutions are performing in accordance with the principles of economy, efficiency and effectiveness.
<b>Reporting of audit findings</b>	Audit opinion/ Audit certificate	Opinion on compliance to laws, regulations and rules  (Compliance Audit Report)	Report containing assessment of economy, efficiency and effectiveness.  (Performance Audit Report)
<b>Criteria derived from</b>	Applicable financial reporting framework	Relevant laws, regulations, standards, by laws and agreements which are applicable to the auditable entity.	Audit specific, reasonable standards of performance against which the economy, efficiency and effectiveness of operations can be evaluated and assessed.

## **Features of Financial Audit**

**1.5** It needs to be recognized that a financial audit is conducted with reference to the assertions of the management that underline the preparation and presentation of financial statements, which constitute enabling audit objectives. According to Model Accounting System (MAS) for PRIs issued jointly by the C&AG and the Ministry of Panchayati Raj (MoPR) in 2009, the accounts of any PRI would consist of Annual Receipt and Payment Account duly supported by a set of prescribed forms. The assertions relating to Receipt and Payment Accounts are as under:

**Table 1.2: Assertions for Receipt and Payment Accounts**

<b>Assertion</b>	<b>Explanation</b>
Completeness	All transactions relevant to the year of account have been recorded
Occurrence	All recorded transactions pertain to the entity and properly occurred (i.e. the underlying event took place) and were relevant to the year of account.
Measurement	The recorded transactions have been correctly valued, properly allocated to the period and measured with reliability in accordance with established accounting policies, on acceptable and consistence basis.
Regularity	The recorded transactions are in accordance with primary and secondary legislation and other specific authorities required by them.
Disclosure	The recorded transactions have been properly classified, accounted for/disclosed where appropriate.

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

**1.7** In case of Panchayati Raj Institutions, the financial reporting framework would be Financial Statements as per State Panchayat Accounts Rules and/or as per CAG's Model Accounting System (MAS). The CAG's MAS requires preparation of annual Receipt and Payment account having both budget provisions and actuals.

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

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

misstatement in the financial statements. Two types of intentional misstatements are relevant to the auditor - misstatements resulting from fraudulent financial reporting and those resulting from the misappropriation of assets.

**1.10** Areas in which auditors shall be alert to fraud risks leading to material misstatement may include procurement, grants, payment to labour, intentional misrepresentation of results or information and misuse of authority or power.

### **Considerations relating to Laws and Regulations in Audit of Financial Statements**

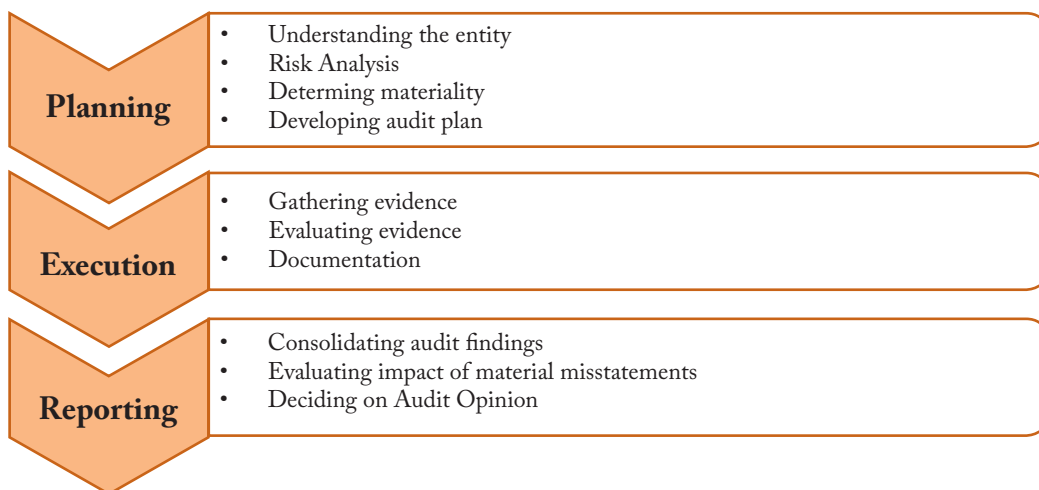
**1.11** The auditor shall identify the risks of material misstatement due to direct and material non-compliance with laws and regulations.

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

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

### **Phases of the financial audit process**

**1.14** The phases of the audit process in a financial audit and the main activities against each of the phases are as under.



## Planning for financial audit

**1.15** The primary objective of the planning process is to ensure that audit is carried out in an effective, efficient and timely manner and to reduce the audit risk to an acceptably low level. The audit procedures that are required to be carried out against each of the main planning activities comprise the following:

**(i) Understanding the entity:** This includes understanding the relevant objectives, operations, regulatory environment, internal controls, finance and other systems and researching on potential sources of audit evidence. This would involve obtaining an understanding of:

- **Nature and objectives of activities of the entity:** This comprises understanding its operations, its ownership and governance structures, the way the entity is structured and financed;
- **Legal and regulatory framework:** governing the entity and how the entity is complying with them;
- **Financial reporting framework:** This includes review of accounting manuals, review of accounting principles and conventions adopted to understand their consistency with the reporting framework;
- **Internal control mechanism relevant to audit:** This includes understanding the internal control culture set by the governing body, controls surrounding preparation and presentation of financial statements;
- **Extent to which Information Technology systems have been used** to initiate, process, record and report financial information and how they integrate with manual processes; and

- **Extent to which financial information processing has been outsourced**

**(ii) Risk assessment:** From the understanding gained of the entity, this activity involves assessment of the risk of material misstatement at the financial statement level and at the assertion level for classes of transactions, account balances and disclosures so as to provide a basis of designing and performing further audit procedures. This would include assessment of:

- **Compliance with laws and regulations:** Not all laws and regulations applicable to the entity would impact the financial statements. Some laws may have a direct effect on the financial statements as they determine the nature and extent of reported amounts, while some laws may have an indirect effect and non-compliance could have financial implications such as fines, penalties etc. which have to be recognised in the financial statements;
- **Changes in legal or regulatory requirements, policies of Government and accounting policies adopted by the entity:** Review of applicable laws, rules and regulations and orders issued by the Administrative Department responsible for implementing State Panchayati Raj Act and Rules would help identify risk exposures;
- **Risk of fraud:** Some of the areas prone to risk of fraud are procurements, grants, misrepresentation of financial information and misappropriations of assets;
- **Management override of financial reporting controls:** Cases of rectification journal vouchers being periodically initiated by other than the authorised personnel could potentially involve financial misstatements;
- **Events occurring after the date of financial statements:** Financial statements may be affected by certain events occurring after the period of financial statements that impact the presentation of financial statements;
- **Internal audit function:**
- **Issues and irregularities that featured in the previous year's Audit Report.**

**(iii) Materiality:** Materiality is judged from the users' perspective. Based on the risk assessment a materiality threshold would have to be determined for the financial statements as a whole. Where one or more classes of transactions, account balances or disclosures could reasonably be expected to influence the decisions of users on the basis of the financial statements, the auditor shall also determine materiality level or levels for the classes of transactions, account balances or disclosures concerned. The materiality level denotes the upper limit up to which

a misstatement, individually or when aggregated with other misstatements could be tolerated and misstatements beyond this threshold(s) would be considered material.

**(iv) Developing an audit plan:** Based on risk assessment and materiality, the audit plan should be developed. The audit plan should determine the audit approach, sampling methods and a detailed audit program describing the audit procedures required to be carried out as a response to the assessed risks and the roles and responsibilities of team members so as to ensure that resources are deployed efficiently and effectively.

### **Execution of financial audit**

**1.16** The primary objective of the execution process is to apply the planned audit procedures to gather sufficient and appropriate evidence and evaluate the same to arrive at the appropriate audit opinion on the financial statements. The audit procedures include test of controls, analysis of classes of transactions, account balances and disclosures and substantive testing of sample of transactions. During the entire execution phase, auditors need to be alert to the risk of material misstatements. Therefore, when the audit procedures are carried out on a selected sample of accounts and transactions indicate any potential deviation, abnormality or doubt, conducting further audit procedures should be considered either to confirm or dispel the doubt of deviation or abnormality. While the techniques for evidence gathering in financial audit are essentially record based analysis/review, they would also include Computer Assisted Audit Techniques where the financial systems are maintained in IT platforms.

### **Reporting of financial audit**

**1.17** The objective of financial audit is to express an opinion on the financial statements. In order to form an opinion, the auditor must first conclude whether reasonable assurance has been obtained as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Therefore, the auditor needs to determine whether the uncorrected misstatements are material, individually or in aggregate.

**1.18** The uncorrected misstatements should therefore be judged for their reporting materiality and may be related/mapped against the assertions of the management to determine whether the material misstatements are applicable to a particular assertion or are pervasive across various assertions. This forms the basis for expression of the audit opinion. Audit opinion can be of the following types:

- **Unqualified:** Where the Auditor has obtained reasonable assurance on the financial statements;
- **Qualified:** Where the Auditor disagrees with, or is unable to obtain sufficient and appropriate audit evidence about certain items in the subject matter which are, or could be material but not pervasive;
- **Adverse:** Where the Auditor, having obtained sufficient and appropriate audit evidence, concludes that deviations or misstatements, whether individually or in aggregate, are both material and pervasive<sup>2</sup>; and
- **Disclaimed/ Disclaimer of opinion:** Where the Auditor is unable to obtain sufficient and appropriate audit evidence due to an uncertainty or scope limitation, which is both material and pervasive.

**Table 1.3: Types of Audit opinion and Associated Circumstances**

Nature of materiality and pervasiveness	Material, but not pervasive	Material and pervasive
	Nature of audit opinion	
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient and appropriate audit evidence (not due to the auditor)	Qualified opinion	Disclaimer of opinion

### Emphasis of matter paragraphs or other matters

**1.19** An auditor may express an unqualified opinion and also include explanatory paragraphs, known as ‘Emphasis of Matter’ in the report. Emphasis of matter may be required in circumstances where the Auditor is of the view that Financial Statements do present a true and fair view, but there are certain issues or concerns which must be brought to the notice of stakeholders as part of the audit opinion. The emphasis of matter may relate to appropriateness of accounting policies, adequacy of disclosures, internal control management issues or significant transactions to name a few.

<sup>2</sup> Pervasive effects on the financial statements are those that are not confined to specific elements, accounts or items in the financial statements. These misstatements represent a substantial part of the financial statements.



## Introduction

**2.1** Chapter 1 brings out the significance of three types of audit, namely financial, compliance and performance audits and covers in detail, the features of financial audit. This chapter covers operational guidelines for financial audit of Panchayati Raj Institutions (PRIs) which have adopted Model Accounting System for PRIs issued jointly by the Comptroller and Auditor General of India and the Ministry of Panchayati Raj, Government of India in 2009. States that have adopted other accounting structures may also suitably adapt the operational tools mentioned in this chapter mutatis mutandis while keeping in mind fundamentals of financial audit as mentioned in Chapter 1 of these Guidelines.

**2.2** The financial audit of the PRIs leading to certification of their accounts is an annual exercise whereas Compliance/ Performance audit may be conducted periodically (normally in one to 5-year cycle) depending upon resources, materiality and audit priorities.

**2.3** According to Model Accounting System (MAS) for PRIs, the accounts of any PRI would consist of Annual Receipt and Payment Account duly supported by Consolidated Abstract (Form-II), Reconciliation Statement (Form-III), Statement of Receivable and Payable (Form-IV), Register of Immovable Property (Form-V), Register of Movable Property (Form-VI). Inventory Register (Form-VII) and Register of Demand, Collection and Balance (Form-VIII).

**2.4** The MoPR had incorporated the MAS in the Panchayati Raj Institutions Accounting Software (PRIASoft) and thereafter, PRIASoft has been amalgamated into the 'e-GramSwaraj' which is a single stop IT platform catering to various requirements of the Panchayats. The details of PRIASoft as well the system of accounts in Government and PRIs are given in **Annexure A** to these Guidelines.

**2.5** To facilitate the automation of auditing processes in PRIs and thus assist the states in getting XV Finance Commission grants, the Ministry of Panchayati Raj (MoPR) has launched an IT platform called AuditOnline (<https://auditonline.gov.in/>) on 15<sup>th</sup> April 2020. The features of this platform include online recording of Risk based observations; Provision for recording responses against the observations; Streamline the audit process so that Audit Enquiry, Local Audit Report, Draft Note, Draft Para etc., can be replied online for better management; Monitor the closure of audit observations; Generate various reports/graphs for analysis and decision support. The format of Audit Certificate (Annexure C) as

given in these Guidelines would have to be incorporated in AuditOnline. For every audit observation in 'AuditOnline' a categorization of 'Major' or 'Other Observations' would have to be made corresponding to Part 1 and Part 2 of the Audit Report appended to the Audit Certificate. This categorization would have a bearing on the final opinion which the Auditor would be expressing on the accounts. (Unqualified/ Qualified/ Adverse/ Disclaimer opinion). As a long term measure, the audit working papers prescribed in these Guidelines could be taken up for incorporation in AuditOnline.

## Steps in Financial Audit Process

**2.6** It has been brought out in Chapter 1 that the phases of financial audit comprise of planning, execution and reporting. The execution of these three phases is detailed in the succeeding paras. Further, customized and user friendly Audit Working Papers (AWP) have been included in **Annexure B**, as described in the table below, to enable the Statutory Auditor to comply with Auditing Standards and basic principles of financial audit.

**Table 2.1: Audit Processes and Related Forms**

Sl. No.	Name of Audit Process /Stage	Audit Working Paper (AWP) and its content
1	Audit Planning	AWP-1 : Audit Plan AWP-1A: Background information and macro issues relevant to audit plan. To be filled up using information circulated annually by DLFA/LFA/equivalent AWP-1B: Planning by auditor before visiting the auditee for conduct of audit AWP-1C: Supplement to Audit Plan after initial procedures in the Auditee Organization
2	Audit Execution	AWP-2 : Analytical Procedures AWP-3 : Substantive checking of Receipt and Payment Account AWP-4 : Substantive checking of Receipt Vouchers AWP-5 : Substantive checking of Payment Vouchers AWP-6 : Substantive checking of Treasury and Bank Reconciliation Statement AWP-7 : Substantive checking of Register of Immovable property AWP-8 : Substantive checking of Register of Movable property AWP-9 : Substantive checking of Inventory Register AWP-10 : Substantive checking of Demand Collection and Balance Register
3	Quality Control & Review	AWP-11: Compliance with Auditing Standards / Guidelines for Financial Audit of PRIs
4	Reporting	<b>Annexure-C</b> : Audit Certificate with appended report

## **Nomination of the Audit Team and providing with background information**

**2.7** The audit of any PRI would be done by an audit team authorized to do so by the competent authority. As a measure of facilitation of all audit teams, the DLFA/ELA/Equivalent authority may compile the information shown in items under AWP-1A and distribute it to the audit parties, after updating on an annual basis.

### **Planning phase**

**2.8** Audit Working Paper AWP-1 may be used for planning. It is in three parts. The information received from DLFA/ELA/Equivalent authority (as referred in para above) may be kept in a permanent file /guard file by the audit parties, including all annual updates. The auditor may include this information in AWP-1A at the commencement of planning. After reviewing this information, the auditor may draw up his audit plan in AWP-1B after considering various aspects detailed therein. Details of internal control assessment and sampling would be included in AWP-1C.

### **Execution phase**

**2.9** Hold an Entry Conference/ Discussion with CEO, ZP or Secretary Block /Gram Panchayat where objectives of the audit and its scope (period for which accounts have to be audited and certified) will be explained. The auditor may inform that at the end of the audit assignment, he would give an Audit Certificate on the accounts. The Auditor may clarify that the certified accounts would provide assurance to stakeholders and also facilitate the flow of funds from various sources to the PRI.

**2.10** Obtain relevant records/accounts such as Annual Receipt and Payment Account (Form-I), Consolidated Abstract (Form-II), Reconciliation Statement (Form-III), Statement of Receivable and Payable (Form-IV), Register of Immovable Property (Form-V), Register of Movable Property (Form-VI). Inventory Register (Form-VII) and Register of Demand, Collection and Balance (Form-VIII).

**2.11** Perform analytical procedures to identify high risk/thrust areas. Analytical procedures involve examining of trend of significant receipt and payment items and/or ratios over a period of time. Audit working paper AWP-2 gives illustrations of the analytical procedures.

**2.12** The Auditor will consider results of analytical procedures and review of internal controls performed at the outset and supplement the audit plan with details of internal control assessment and sampling in AWP-1C.

**2.13** The auditor will perform audit checks on the various statements of the MAS being maintained by the PRIs as per detailed checklists and instructions indicated in AWP-3 to AWP-10 and issue audit observations.

**2.14** During the entire execution phase, auditors need to be alert to the risk of material misstatements which have direct bearing on the audit opinion and account certification. Therefore, when the audit procedures carried out on a selected sample indicate any doubt of deviation or abnormality, auditing a larger sample or conducting additional audit procedures should be considered either to confirm or dispel the doubt of deviation or abnormality.

**2.15** While the techniques for evidence gathering in financial audit are essentially record based analysis/review, they would also include Computer Assisted Audit Techniques where the financial systems are maintained in IT platforms.

**2.16** After conclusion of execution phase, the auditor will record entries in AWP-11 which will serve as his own check list to ensure compliance with auditing standards/ guidelines.

### **Reporting phase**

**2.17** The auditor may consider the replies to all audit observations, finalize his conclusions on the audit working papers and assess whether the unresolved misstatements are material, either individually or in aggregate. Based on such assessment the auditor may give his audit opinion as unqualified / qualified / adverse / disclaimer. (para 1.18 refers)

**2.18** This would be followed by issue of the audit certificate expressing the appropriate opinion. Recommended format is enclosed at **Annexure-C**.

# ANNEXURE-A

## System of Accounts in Government and PRIs

### Introduction

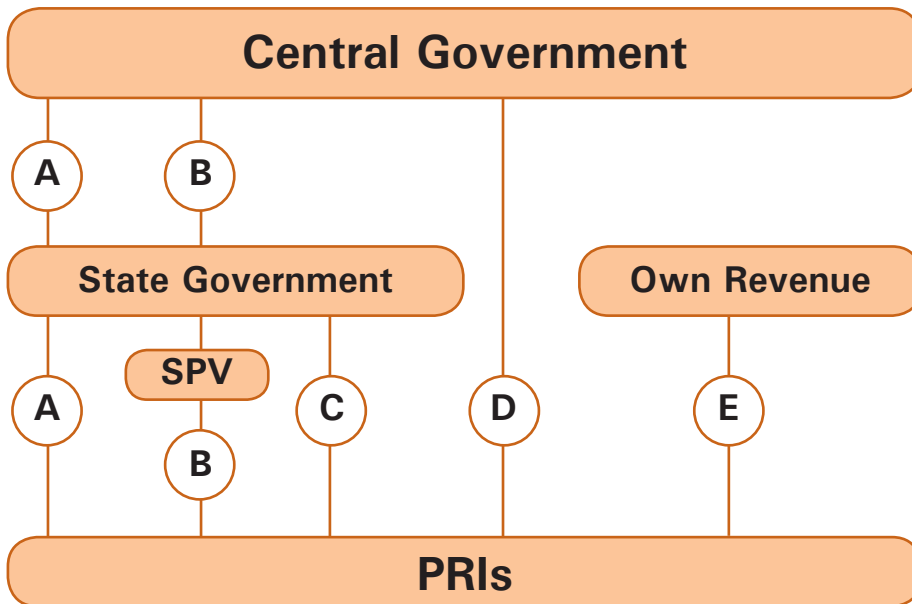
1. India presents a picture of fiscal federalism in which finance and accounts of all the three tiers of Government are closely and uniquely intertwined. This calls for understanding of Government accounts as a prelude to understanding of PRI accounts.
2. PRIs receive funds from Central Government (Central Finance Commission grants, Scheme funds), State Government (State finance commission grants, scheme funds, other grants-in-aid, assigned revenue). They also generate their own revenues. Table 1 and Graph below depict the said fund flows.
3. PRIs may keep funds in treasury or in bank account as per directions of the State Government for funds received from State Government and in bank accounts for funds received under Central Schemes, Central Finance Commission grants as well as for own sources of revenue.

**Table 1: Fund flow to PRIs**

<b>Fund flow Route</b>	<b>Entities involved in fund flow</b>	<b>Example</b>
A	Centre-→State→PRI	Central Finance Commission Grants
B	Centre→State→ SPV→PRI	CSS like MGNREGS, SBM, IAY.
C	State-→PRIs	State Finance Commission Grants, Assigned Revenues, State schemes
D	Centre-→PRIs	National Panchayat Award
E	Tax payer or User-→ PRIs	Property tax, Registration charges, User fee

*(SPVs could be State National Rural Employment Guarantee Fund, Mission Director under Sarva/ Samagra Siksha Abhiyan Mission, National Health Mission, ICDS, Umbrella scheme for agriculture sector)*

## Fund Flow to PRIs



### Legal framework for Government accounts

4. The Government accounts are prepared on the basis of following legal framework:
  - a. Constitution- Article 150 of the Constitution of India envisages the accounts of the Union and the States to be kept in such a form as the President may prescribe on the advice of the Comptroller and Auditor General of India.
  - b. Government of India has framed various statutory Rules, Regulations and Instructions in relation to budget and accounts and which are followed by Union and State Governments such as Government Accounting Rules, 1990; Accounting Standards notified under Article 150 of the Constitution; Central Treasury Rules; List of Major and Minor Heads of Account; General Financial Rules of the Union and each State Government (by whatever name); Account Code for Accountant General; Budget Manual of the Union and of each State Government; and Central/State Public Works Account Code.

## Basic Principles/Features of Government Accounts

5. The Government accounts have following basic features:
  - a. Cash basis of accounts: With the exception of some book adjustments, the accounts represent the actual cash receipts and disbursements during the account period. Physical assets and financial assets such as investments etc., are shown at historical cost, i.e., the value at the year of acquisition/ purchase. Physical assets are not depreciated or amortized. Losses of physical assets at the end of their life are not expensed or recognized. However, commercial units under a ministry or a department may be allowed to adopt commercial basis of accounting;
  - b. Distinction between revenue and capital expenditure: Revenue expenditure is recurring in nature and is intended to be met from revenue receipts. Capital expenditure is defined as expenditure incurred with the object of increasing concrete assets of a material and permanent character or of reducing permanent liabilities. Further, as per the Indian Government Accounting Standard (IGAS)-2, expenditure on Grants-in-aid is to be classified as Revenue expenditure regardless of end use;
  - c. All transactions are booked under the three parts of Government Accounts i.e. Consolidated Fund, Contingency Fund or Public Account. All expenditure out of Consolidated Fund requires legislative approval through an Appropriation Act. Similarly, tax revenues are collected on authority of legislations (Finance Act, GST Act, VAT Act etc.);
  - d. The account coding system is designed to classify all transactions according to nature of expenditure (revenue or capital), function (police, health, education etc.), programme or scheme (National Health Mission, MGNREGS, ICDS, Swachh Bharat Mission etc.) and end use (salary, construction work, travel, grant-in-aid etc.). This classification is given up to minor head level in the List of Major and Minor Heads of Account (<https://cga.nic.in/Book/Published/7.aspx>). Table 2 below gives illustrations of some common transactions in Union Account;

**Table 2: System of coding of transactions in central Government accounts**

Sl. No.	Name of code	Significance of code	Illustration
1	Major Head (4 digit)	Captures functional nature	2202 for Education
2	Sub Major Head (2 digits)	Captures sub function under function	01 for Elementary Education
3	Minor head of Account (3 digits)	Captures programme	111 for Sarva Siksha Abhiyan
4	Sub Head (2 digits)	Captures nature of scheme	01 Central Plan / Centrally Sponsored Schemes
5	Detailed Head (2 digits)	Captures components of scheme/ other aspect of expenditure	02 Appointment of Teachers/ Shiksha Mitra
6	Object Head (2 digits)	Captures end use like salary, office expenses, construction work, grant in aid	43 Grant-in-aid for pay, allowances, etc.

*Note: Sub Head, Detailed Head & Object Head may vary from state to state*

- e. The list of Major and Minor Heads of Accounts prescribes designated Minor Heads to capture Transfer of funds from Central and State Governments to PRIs as depicted in table below:

**Table 3: Depiction of Transfer of funds to Local Bodies in State Government**

Sl. No.	Type of Local Body	Designated Minor Head of Account
1	Municipal Corporation	191
2	Municipality	192
3	Nagar Panchayat	193
4	Zilla panchayat	196
5	Block Panchayat	197
6	Gram Panchayat	198



## Accounting arrangements in Panchayati Raj Institutions

6. According to 73<sup>rd</sup> Constitutional Amendment Act, the state legislature may, by law, prescribe accounts and audit arrangements of Panchayati Raj Institutions. However, considering the state of maintenance of Panchayat accounts in different states, the Eleventh Finance Commission recommended (2001) that the C&AG should prescribe the format for the preparation of budgets and for keeping of accounts for the local bodies.

7. 13<sup>th</sup> Finance Commission (FC) recommended that while the CAG should provide technical guidance and supervision, a major portion of the actual auditing would have to be undertaken by the local fund audit departments. Hence, all State Governments should strengthen their local fund audit departments appropriately through both capacity building of existing manpower as well as augmentation of personnel. The 13<sup>th</sup> FC also recommended adoption of NMAM for ULBs and Model Accounting System (MAS) for PRIs which was formulated /issued by the CAG in conjunction with Union Ministry of Urban Development (now MoHUA) and Panchayati Raj respectively.

8. In 15<sup>th</sup> Finance Commission interim report (2020-21), the FC reiterated that timely availability of audited accounts separately at the local body level and jointly at the State and all-India level continued to be a problem despite the emphasis laid by previous Commissions. The XV FC considered the availability of accounts online, both before and after audit, of all three levels of Government a critical reform agenda. The FC recommended that the upgraded PRIASoft software needs to be integrated with the Integrated Financial Management Information System (IFMIS/IFMS) of the State Governments (wherever it exists) and the Public Financial Management System (PFMS) of the CGA in the Union Government in order to generate online accounts by each rural local body, enable online auditing of such accounts and their consolidation at the State and all-India levels.

## Status of adoption of CAG recommended MAS /Accounting Structure

9. The MAS has been developed through a consultative process involving representatives of C&AG, MoPR, Planning Commission, CGA, NIC, and State Governments. It is a simplified accounting system for PRIs with a Common accounting structure for all three tiers of PRIs. The accounting structure is capable of capturing funds flow under numerous schemes and its chart of accounts is similar to that of Union and State Governments.

**10.** A few illustrations of the depiction of funds transferred from Centre to State to PRIs in their respective books of accounts are given in **Table 4** below:

**Table 4: Depiction of Same Transaction in Central, State and PRI Accounts**

Sl. No.	Description of Transaction	In Central Govt Accounts (Head)	In State Govt. Accounts (Head)		In PRI Accounts (Head)	
			On receipt of funds	On making payment	On receipt of funds	On making payment
1	MGNREGA	2505-02-02-101-02-02-00-35	1601-06-101	2505-02-101	1601-101-11	2505-101-11
2	Sarva Siksha Abhiyan	2202-01-111	1601-06-101	2202-01-111	1601-101-19	2202-101-19
3	Mid Day Meal	2202-01-112	1601-06-101	2202-01-112	1601-101-18	2202-101-18

Source: Union Government Finance Accounts, State Government Finance Accounts & Model Accounting System (MAS)

### Features of MAS /PRIASoft

**11.** Based on the MAS, the MoPR has developed an accounting software called PRIASoft which now stands integrated in the e-GramSwaraj suite (accessible through [www.accountingonline.gov.in](http://www.accountingonline.gov.in) or <https://egramswaraj.gov.in/>). The operational features of PRIA Soft are as follows:

- a. It uses unique codes for PRIs as allotted in the Local Government Directory compiled by MoPR. This facilitates interoperability with other software applications used under e-GramSwaraj.
- b. It follows four tier accounting structure as proposed by Comptroller and Auditor General of India to simplify the accounting procedure with the schemes (Centre/State Government) getting mapped at the minor level or sub head level as the case may be.
- c. The system enables each state to manage its local object head (head of expenditure) setup by allowing it to define the local head of expenditure under any major/minor/sub head level.
- d. The system allows for Central/State Government Scheme Definition to be defined.

- e. The system allows for managing the following: master data • Banks • Employee / Agency / Citizen Database • Stock /Inventory.
- f. The system allows accounting units to enter the Cheque book details pertaining to Treasury / Bank / Post Office Accounts.
- g. The system allows for accounting units to specify the Initial and Revised Budget till the object head level.
- h. The system allows each accounting unit to manage various day to day transactions related to receipts and expenditure.
- i. It is a web-enabled software and is available on 24×7 basis with login authentication. It records each transaction with user id /data and time stamp for maintaining Audit trail.
- j. It follows the Cash-based Double-Entry system of book-keeping in a user-friendly manner. The user/data entry operator is required to enter only the scheme name and source of fund. The back-end system takes care of both the credits and debits for a transaction as well as the accounts classification.
- k. It facilitates viewing of PRI accounts up to voucher level by all stakeholders.
- l. It has a built in system of alerts/ notifications to users via SMS/Email.

### Integration of PRIASoft /e-Gramswaraj with PFMS

**12.** The integration of PRIASoft/ e-Gramswaraj with PFMS started with expenditure/payments related to Fourteenth Finance Commission grants. The XV Finance Commission has also recommended integration of PRIASoft with States' IFMS and with PFMS.

### Governance Reforms and their Impact on Accounts

In addition to increased outlays the Central and the State Governments have also undertaken governance reforms to promote service delivery, outcomes and accountability. Some of these initiatives impact fund flow, account keeping, availability of accounting data to the public at large and to the Auditor. Some of the salient governance reforms in last 15 years are given in subsequent paragraphs.

**13. Direct Benefits Transfer (DBT):** It refers to transfer of social welfare benefits (subsidies, pensions, scholarships) directly to the bank accounts of beneficiaries bypassing administrative/ bureaucratic layers. In DBT the cash transfers are done by fund holding authorities on the basis of Fund Transfer

Orders (FTOs) generated by PRIs or Government DDOs. Thus, for such cases, the PRIs implement a scheme activities and authorize transfers to the beneficiaries but the actual cash outgo and accounting are done in the books of the fund holding authorities. These expenditures do not appear in the PRI account.

**14. Enhanced Transparency:** The Right to Information, 2005 has ushered a new governance and transparency regime whereby any citizen can seek any information (including physical sample) except in cases covered by negative/prohibited list. Further, every public authority is supposed to pro-actively disseminate basic information about itself and processes. This pro-active disclosure *inter alia* includes disclosure of organization's budget. Further, many states have enacted Public Disclosure Act whereby LBs are mandated to disclose financial information on quarterly/ annual basis.

**15. Social Audit:** Social audit refers to examination of execution of schemes and projects by local community with the help of a facilitator. The Audit of Scheme Rules framed under National Rural Employment Guarantee Act, 2005 has institutionalized the social audit by creating appropriate structures, funding, procedures and processes. The notion of social audit has been adopted by several other CSS and state schemes. Recently, the MoPR has launched Social Audit guidelines for XV Finance Commission grants. The scope of the said Social Audit guidelines issued by MoPR includes reporting on conduct of financial audit, maintenance of records and safeguard of assets which can be an input to the Statutory Auditor for the purpose of financial audit.

## ANNEXURE-B

### List of Audit Working Papers

Sl. No.	Name of Audit Working Paper	Scope
1	AWP-1	Audit Plan
2	AWP-2	Analytical Procedures
3	AWP-3	Substantive checking of Receipt and Payment Account
4	AWP-4	Substantive checking of Receipt vouchers
5	AWP-5	Substantive checking of Payment vouchers
6	AWP-6	Substantive checking of Treasury and Bank Reconciliation Statement
7	AWP-7	Substantive checking of Register of Immovable property
8	AWP-8	Substantive checking of Register of Movable property
9	AWP-9	Substantive checking of Inventory Register
10	AWP-10	Substantive checking of Demand Collection and Balance Register
11	AWP-11	Compliance with Auditing Standards

## AWP-1 : Audit Plan

Office of the -----(name of audit office)

### FINANCIAL AUDIT PLAN

**AWP-1A: Background information and macro issues relevant to audit plan. To be filled up using information circulated annually by DLFA/ELA/equivalent**

- (i) Name of assignment and letter /instruction vide which this assignment has been approved by Director Local Fund Audit /Examiner Local Funds / District Audit Officer /Regional Director, Local Funds: -----
- (ii) Audit Team composition: -----, Supervised by-----, Date of field audit-----, target date of issue of audit report /audit opinion /audit certificate-----
- (iii) Authority for audit: -----Panchayat Raj Act, ---- Budget and Accounts Rules, --- Panchayat Audit Rules read with --- State Local Fund Audit Act and Rules
- (iv) Audit Objectives: To express an opinion on annual accounts of the Panchayat (i.e. to conduct financial audit); any other audit objective incidental to primary audit objective
- (v) Nature and scope of audit: Financial Audit for the period FY 20XX-YY
- (vi) Record the information received from DLFA/ELA/Equivalent authority in the tables below. (Para 2.8, Chapter 2 refers).

**Table 1: Organizational Structure of PRIs at all levels**

Level	Officer of State Government Handling PRIs	Panchayat Official (CEO/ Secretary)	Nature of employment of Panchayat official with reporting lines (full time, additional responsibilities, officer reporting to for the purpose of APAR or ACR)
State			
District			
Block/ Intermediate			
Village/ GP			

**Table 2: Delegation of administrative and financial powers in PRIs**

<b>Nature of Power</b>	<b>Departmental Officers</b> (₹ in thousand)	<b>CEO/ Secretaries of Panchayats</b> (₹ in thousand)	<b>Elected Functionaries</b> (₹ in thousand)
Spending out of own revenues			
Spending out of State Finance Commission Grants			
Spending out of Central Finance Commission Grants			
On implementation of State/ District sector schemes			
On implementation of CSS schemes			

**Table 3: Effectiveness of social audit of MGNREGA/ other schemes in Panchayats (overall state picture as conveyed by DLFA/ ELA/ Equivalent)**

<b>Name of Scheme</b>	<b>Assessment of Social Audit</b>
MGNREGA	

## AWP-1B: Planning by auditor before visiting the auditee for conduct of audit

- (i) **Materiality:** As brought out in Chapter 1, the audit opinion in a Financial Audit is based on the extent to which misstatements are material and pervasive. Thus, level of materiality provides the basic frame of reference to the auditor both for planning a Financial Attest Audit and for expressing opinion. An accepted principle in Financial Attest Audit is that determination of materiality level is a matter of professional judgment and is decided by the auditor for the audit he is about to take up, based on his perception of the requirements and expectations of users of the financial statements. The materiality level is usually set as a percentage of gross receipt or gross expenditure, depending upon the sensitivity of the account, as illustrated in the following table:

**Table 1: Materiality Levels in Cash Based Accounts**

Sl. No.	Classification of accounts with illustrations	Materiality base	Materiality as percentage (illustrative only)
1	Very sensitive (such as Cash, Suspense head, Grants-in-aid)	Gross Receipt	0.5
2	Sensitive (such as Interest receipts, market & fairs, Part II Heads in R&P account)		0.5 to 2.0
3	Not sensitive (Other items or heads)		Above 2.0
4	Very sensitive (such as Part II Heads in R&P account)	Gross Expenditure	0.5
5	Sensitive (such as CSS/SS schemes, FC grants,)		0.5 to 2.0
6	Not sensitive (Other items or heads)		Above 2.0

The fixing of materiality levels is a matter of professional judgement of the auditor but standardisation can reduce discretion and promote uniformity in reporting. These materiality levels are to be applied at aggregate levels for financial statement as a whole and/or for significant account area/account.

- (ii) **Risk assessment:** After fixing the materiality, the auditor will do a risk assessment to identify the thrust areas in his audit. Some of the key parameters to be considered are:
- Whether Budget and Accounting Rules have been framed and circulated by the State Government;



- b. Whether Manual /Instructions to guide panchayat functionaries in day-to-day affairs have been prepared and circulated;
- c. Reliance on work of Auditors/ Inspectors in the past: This can be studied using a tabulation as below to ascertain how past findings have highlighted risk areas in the auditee;

**Table 2: Past Audit findings and implications on risk areas**

Sl. No.	Authority who conducted audit or inspection	When audit / inspection was conducted	Major findings	Implications for current audit

- d. Identify Risks of Fraud & Corruption: Following Information about the fraud awareness and related environment of the auditee may be collected to assess such risk:
  - Policy and system to prevent and detect fraud / corruption and reporting;
  - System to establish accountability for fraud / corruption;
  - Instances of fraud and corruption noticed since last audit;
  - Action taken on such cases, including strengthening of internal control systems;
  - Special areas prone to risk of fraud and corruption; and
  - Guidelines issued by management with regard to control of fraud and corruption.
- e. Some of the fraud detection measures which could be used by the auditor are given below. They may be appropriately incorporated in the audit plan/ procedures for the relevant areas.
  - Joint physical verification.
  - Reconciliation of figures between different records of same unit or different units
  - Develop expected value based on norms/averages for block, district and state. This will be followed by comparison of expected figure with actual figure.

- f. Some of the known high-risk areas (illustrative) that the auditor must also consider are contracts for procurement of goods and services; inventory and asset management; issue of sanctions; programme management and performance management; revenue receipts (e.g. risk of embezzlement through incorrect accounting of receipts etc.); cash management; expenditure on AC bills/Advance bills; grants (e.g. intentional misstatements in financial reporting in order to receive unlawful grants; incorrect UCs etc.
- g. Compilation of identified risks to identify thrust areas for substantive checks during audit: Considering all the parameters (a) to (e) above, the identified risks, level of risk (Low -L; Medium-M; High-H); source of identifying risk and related thrust area for substantive audit checks may be tabulated as shown below:

**Table 3: Identified Risks**

Sl. No.	Nature of risk (illustrative)	Level of risk	Source	Related thrust area
1	Like - Unspent balance in Scheme, excess expenditure, Non production of records etc.	(L/M/H)	Like - from CAG's Audit Report/ATIR, DLFA/ELA Report etc.	Like - Check Scheme balance in Bank Account

## **AWP-1C: Supplement to Audit Plan after initial procedures in the Auditee Organization**

After performing initial procedures in the auditee office, the Auditor may supplement the audit plan with details of internal control assessment and sampling.

### **(i) Assessment of Control procedures**

The effectiveness of control procedures like documentation including Control Numbers, segregation of duties, physical verification & reconciliation, supervision and review of operating performance may be assessed to decide upon the quantum and nature of substantive checks to be carried out. Illustrative checks are given below:

- Full-fledged Accounts section exists and is well staffed;
- Accounts work is done by Panchayat Secretary (no dedicated accounts staff available);
- Accounts work is outsourced to CA firm /experienced personnel;
- Panchayat accounts are maintained through an IT system;
- Panchayat secretary /staff are well trained to operate IT system;
- Panchayat Secretary (Maker) and Panchayat President (Checker) are well trained in operating Digital Signature Certificate (DSC);
- All registers recommended in MAS are maintained;
- DSC is updated, password protected with security level of 3 and above;
- Primary mode of payment is digital;
- Rejection rate is high for digital payments;
- Whether only 15th Finance Commission expenditure is being done through digital mode;
- In case of payments by cheque, is there a system of dual signatories (two persons sign the cheque);
- Whether payments other than petty are made through cash.

**(ii) Thrust areas and Sampling**

<b>Sl. No.</b>	<b>Thrust area ( Head of Account, Scheme, etc.)</b>	<b>Sample plan</b>	<b>Remarks</b>

**(iii) Any other issue considered in planning**

Prepared by----

Checked by-----

Approved by -----

## AWP-2: Analytical Procedures

- (i) Analytical procedures are carried out on accounting heads to identify variations in amounts or ratios over a period of time. An Auditor should assess variations and trend against normal expectations/ averages and thoroughly examine cases of unusual variations. For performing analytical procedures, data for 3-5 years may be tabulated and used for trend/ variation analysis. Few illustrations of analytical procedures and implications of variations from trend/ expectations are tabulated below. Such variations should be investigated further and a larger sample of transactions should be scrutinized.

Sl. No.	Name of Account head with Account code	Illustration of Analytical Procedure
1	Interest Receipts-0049	Interest is earned by PRIs on balances in banks. As PRIs have low sources of own revenue, the interest is largely on the unspent schemes funds lying in the bank accounts. Thus, a sudden increase in interest receipts could be due to either receipt of large funds under some schemes or due to low expenditure as compared to previous year, leading to accumulation to unspent balances. This could also be due to misclassification in accounts.
2	Salaries (Object Head-01)	Salaries may have an annual increase of 5-10% due to dearness allowance and increment. Sudden increase in salary expenditure could be due to implementation of Pay Commission, increase in staff strength, misclassification or due to fraud /misappropriation. Sudden increase/ decrease should be investigated and sample size should be increased.
3	Wages ( Object Head-02)	Wages are paid under schemes like MGNREGS. Sudden increase could indicate fraudulent payments.
4	Tax Deducted at Source –Income Tax	Under Income Tax Act specified authorities including Panchayats are required to deduct certain sum (Tax Deducted at Source) while making payment to suppliers and contractors. Sudden decreases may indicate the TDS deductions may not have been carried out correctly and sudden increase may indicate higher level of procurements. Such unusual variations have to be examined.
5	Receipt from Market and Fairs 0206	Decrease in trend may be due to non-accountal of receipts from market and fairs. Increase in trend may be due to higher receipts or misclassification.

(ii) Conclusions for substantive checking of transactions i.e. sample size for detailed checking of different categories of transactions identified during analytical procedures.

a) ....

b) ....

c) ....

d) ....

Prepared by-----

Checked/Vetted by-----

## AWP-3: Substantive checking of Receipt and Payment Account

### Record the Status of Audit of Annual Receipt & payment Account of previous Year

- (i) Date of preparation of account
- (ii) Date of audit
- (iii) Who conducted the previous Financial Audit (name of office / CA firm /any other appointed auditor)
- (iv) Main audit opinion (unqualified, qualified, adverse, disclaimer)
- (v) Whether closing balances have been certified to be true?
- (vi) Remarks / Accounts related findings

**Table: Substantive checks on Receipt & Payment Account**

Sl. No.	Check points	Yes	No	Remarks
1	Whether the receipt and payment account has been drawn up in the Form 1 of MAS as recommended by C&AG of India and as adapted by Govt. of ____			
2	Whether opening balance of 'Cash In Hand' tallies with the closing balances of 'Cash In Hand' as per previous year Annual Receipt and Payment account.			
3	Whether opening 'Balance in Bank' tallies with the closing balances of 'Balance In Bank' as per previous year Annual Receipt and Payment account.			
4	Whether opening balance of 'Balance In Treasury' tallies with the closing balances of 'Balance In Treasury' as per previous year Annual Receipt and Payment account.			
5	Whether opening balance of 'Investments' tallies with the closing balances of 'Investments' as per previous year Annual Receipt and Payment Account.			
6	Whether the opening balances are based on audited accounts of previous year.			
7	Whether any discrepancy is noticed while checking arithmetical accuracy of Receipt and Payment Account.			
8	Whether all transactions relating to the year are recorded.			

Sl. No.	Check points	Yes	No	Remarks
9	Whether all recorded transactions pertain to the entity and properly occurred i.e. the underlying event took place?			
10	Whether any unauthorized head of account has been operated? (A head of account which is not available in MAS or updated PRIASoft /LMMH).			
11	Whether any wrong head of account has been operated? For instance, use of capital /DDR head in place of revenue head of account.			
12	Whether Annual Receipt and Payment account has been prepared without mentioning budget figures?			
13	Whether expenditure has been incurred /booked without budget?			
14	Whether Major Head 2515 has been used to book expenditure other than administrative expenses of the Panchayat i.e. to book developmental works under SFC/ 13FC/ 14FC/ 15FC Grants?			
15	Analysis of Suspense Head balances to check whether there are increasing trends and whether balances are not getting cleared for want of documentation?			
16	Whether all the online receipts are credited to the PRI account?			
17	Whether any unknown credits adjusted against cash collections are noticed in the PRI account?			
18	Conduct reconciliation of utilization certificates with scheme expenditures from the receipt and payment account and supporting records.			
19	Other substantive checks as decided by the auditor.			

### Conclusions for incorporation in Audit Certificate

- a. Are deviations /irregularities material?
- b. If yes, details thereof
- c. Are deviations /irregularities pervasive in nature? If yes, details thereof?

Prepared by -----

Checked /vetted by -----



## AWP-4: Substantive checking of Receipt vouchers

### Sampling Plan

- (i) Number of Receipt Vouchers in the audit period:
- (ii) Serial Number of Receipt Vouchers: From ----- to-----
- (iii) Receipt Vouchers for **mandatory** checking: Transactions on 1 April, 30-31 March /Last two working days; Transfer Entries; Any other high risk transactions; receipt vouchers relating to areas identified during analytical procedure for further examination;
- (iv) Number of Vouchers to be checked on random basis/ as prescribed in regulations;
- (v) Manner of selection of random vouchers: Use of Random Number Table (Use Internet/ Other method)

**Table: Results of substantive checking**

Sl. No.	Receipt Voucher Number	Assertion on -					Remarks
		Measure-ment <sup>3</sup>	Regula-ri-ty <sup>4</sup>	Occu-rence <sup>5</sup>	Comple-ness <sup>6</sup>	Disclo-sure <sup>7</sup>	
		Y/N	Y/N	Y/N	Y/N	Y/N	
1							
2							
3							

<sup>3</sup> Measurement: Whether the amount of receipt indicated in the receipt voucher tallies with the acknowledgement issued; Whether the total of sub-receipt vouchers, if any, equals the amount in the main receipt voucher; In case of receipt through bank transfers, the amount of receipt tallies with entries in the bank statement; In case of receipt of grants from the Government, amount tallies with the advice/ authorization/ sanction order received from the Government.

<sup>4</sup> Regularity: Whether the receipt voucher has been signed and authorized by the competent authority.

<sup>5</sup> Occurrence: Whether the receipt actually pertains to the same financial year in which it is booked in the PRI accounts. Receipts towards the beginning and closure of the financial year are more prone to errors on this assertion.

<sup>6</sup> Completeness: Whether the receipt vouchers are in the prescribed format and all documents required to be attached to the receipt vouchers are actually attached.

<sup>7</sup> Disclosure: Whether the amounts received are classified under proper head of accounts. Instances of misclassification are examples of errors against this assertion.

Conclusions for incorporation in Audit Certificate

- a. Are deviations /irregularities material?
- b. If yes, details thereof
- c. Are deviations /irregularities pervasive in nature? If yes, details thereof?

Prepared by -----

Vetted/Checked by -----

## AWP-5: Substantive checking of Payment vouchers

### Sampling Plan

- (i) Number of Payment Vouchers in the audit period:
- (ii) Serial Number of Payment Vouchers: From ----- to-----
- (iii) Vouchers for **mandatory** checking: Transactions on 1 April, 30-31 March /Last two working days; Transfer Entries; Any other high risk transactions; payment vouchers relating to areas identified during analytical procedure for further examination;
- (iv) No of Vouchers to be checked on random basis/ as prescribed in regulations.
- (v) Manner of selection of random vouchers: Use of Random Number Table, Use Internet, Other method

**Table: Results of substantive checking**

Sl. No.	Voucher Number	Assertion on -					Remarks
		Measure-ment <sup>8</sup>	Regul-arity <sup>9</sup>	Occurr-ence <sup>10</sup>	Comple-teness <sup>11</sup>	Disclosure <sup>12</sup>	
		Y/N/NA	Y/N/NA	Y/N/NA	Y/N/NA	Y/N/NA	
1							
2							

<sup>8</sup> Measurement: Whether the amount of the payment voucher tallies with the acknowledgement received from the payee; Whether the total of sub-vouchers, if any, equals the amount in the main payment voucher; In case of payment through bank transfers, the amount of payment tallies with entries in the bank statement; whether amounts deducted from bills are correctly booked in revenue receipt/ capital receipt head concerned.

<sup>9</sup> Regularity: Whether payments are effected with proper authorization/ sanction of the competent authority and fall within his delegated financial powers.

<sup>10</sup> Occurrence: Whether the payment actually pertains to the same financial year in which it is booked in the PRI accounts. Payments towards the beginning and closure of the financial year are more prone to errors against this assertion.

<sup>11</sup> Completeness: Whether the vouchers are in the prescribed format and contain all documents required to be attached to the vouchers; Whether items purchased have been correctly entered in the inventory register (value and numbers)

<sup>12</sup> Disclosure: Whether the amounts paid are classified under proper head of accounts. Instances of misclassification are examples of errors against this assertion.

## Conclusions for incorporation in Audit Certificate

- a. Are deviations /irregularities material?
- b. If yes, details thereof
- c. Are deviations /irregularities pervasive in nature? If yes, details thereof?

Prepared by -----

Vetted/Checked by -----

## AWP-6: Substantive checking of Treasury and Bank Reconciliation Statement

### 1 Treasury Reconciliation Statement (for each account maintained in the treasury)

- (i) Name of Treasury /Sub Treasury and Address:
- (ii) Account Number:
- (iii) Name of scheme /source of funds:

**Table 1: Substantive checks for treasury reconciliation**

Sl. No.	Check points	Yes / No	Remarks
1.	Whether treasury reconciliation statement for the month of March is available? In case, it is available, whether certified treasury statement is available and has been used for the Reconciliation Statement.		
2	If the treasury reconciliation for the end of the year (March) has not been prepared, auditor may insist on the preparation of reconciliation statement.		
3	Whether Auditor is satisfied that Treasury Reconciliation Statement has been prepared with due diligence? If yes, how?		
4	Whether Auditor is satisfied with the explanations for following items which appear in Cashbook but not in Treasury Statement? If yes, why?  List of items with date and amount / Reason for acceptance.		
5	Whether Auditor is satisfied with the explanations for following items which appear in Treasury Statement but not in the Cashbook? If yes, why?  List of items with date and amount / Reason for acceptance		
6	Whether any unreconciled amount of previous year are still unrectified ?		
7	Any other checks as decided by the auditors		

## 2 List of Bank Accounts

Obtain a list of all bank accounts maintained by the Panchayat duly certified by the Panchayat secretary in the following format.

**Table 2: List of Bank Accounts**

Sl. No.	Bank Account Number	Name of the Bank	Name of the Branch	IFSC Code	Type of Bank (for ex. schedule bank/ RRB, SFB, Local Area Bank etc.)
1					
2					
3					
4					

Note: Also refer to RBI letter No. DBOD.No.Dir.BC.35/13.03.00/2000-01 dated 17 October 2000 on Prohibition against Opening of Saving Bank accounts in the Name of certain Bodies/Organizations

## 3 Bank Reconciliation Statement (for each bank account maintained by the PRI)

- (i) Name of Bank, Branch and Address:
- (ii) Account Number:
- (iii) Name of scheme /source of funds:
- (iv) Mode of payment: NEFT/RTGS/PFMS/IFMS or Cheque or Withdrawal Slip

**Table 3: Substantive checks for bank reconciliation**

Sl. No.	Check points	Yes / No	Remarks
1	Whether bank reconciliation statement for the month of March is available? In case, it is available, whether certified Bank statement is available and has been used for the Reconciliation Statement.		
2	If the bank reconciliation for the end of the year (March) has not been prepared, auditor may insist on the preparation of reconciliation statement.		
3	Whether Auditor is satisfied that Bank Reconciliation Statement has been prepared with due diligence? If yes, how?		
4	Whether Auditor is satisfied with the explanations for following items which appear in Cashbook but not in bank Statement? If yes, why?  List of items with date and amount / Reason for acceptance.		
5	Whether Auditor is satisfied with the explanations for following items which appear in bank Statement but not in the Cashbook? If yes, why?  List of items with date and amount / Reason for acceptance		
6	Whether any unreconciled amount of previous year are still unrectified?		
7	Any other checks as decided by the auditors		

Conclusions for incorporation in Audit Certificate

- a. Are deviations /irregularities material?
- b. If yes, details thereof
- c. Are deviations /irregularities pervasive in nature? If yes, details thereof?

Prepared by ----- Checked /vetted by -----

## AWP-7: Substantive checking of Register of Immovable property

- (i) The register may be checked as per Table 1 and Table 2

**Table 1: Status of Maintenance of Register**

Sl. No.	Checks	Y/N	Remarks
1	Whether maintained as per format prescribed in MAS		
2	Whether closed on 31 March of Previous year and 31 March of year being audited.		
3	Whether this register is being independently inspected and reviewed. (during year of audit with dates of such review)		
4	Whether the location of the immovable property is recorded in the register.		
5	Whether the assets created are geo-tagged (where applicable);		
6	Whether serial numbers in the register identifying the asset, is done accurately		
7	Any other checks as decided by the auditors		

**Table 2: Regularity and correctness of entries in the Register**

Sl. No. of Entry in the Register	Type of asset (road, Land, building, ---)	Whether identification is possible through geo-tagging, photographs, etc?	Whether physically verified during the reporting year?	Whether ownership papers available?	Whether encroachment reported?	Whether expenditure under the this particular asset under different schemes in different years traceable?	Whether correct value of Asset has been recorded in the register	Write off detail	Remarks



(ii) Any other checks as decided by the auditors may also be carried out.

Conclusions for incorporation in Audit Certificate

- a. Are deviations /irregularities material?
- b. If yes, details thereof
- c. Are deviations /irregularities pervasive in nature? If yes, details thereof?

Prepared by -----

Vetted/Checked by -----

## AWP-8: Substantive checking of Register of Movable Property

- (i) The register may be checked as per Table 1 and Table 2

**Table 1: Status of Maintenance of Register**

Sl. No.	Checks	Y/N	Remarks
1	Whether maintained as per format prescribed in MAS		
2	Whether closed on 31 March of Previous year and 31 March of year being audited.		
3	Whether description and situation of the property are recorded		
4	Whether this register is being independently inspected and reviewed. (during year of audit with dates of such review)		
5	Whether serial numbers in the register identifying the asset, is done accurately		
6	Any other checks as decided by the auditors		

**Table 2: Regularity and correctness of entries in the Register**

Sl. No. of Entry in the Register	Type of asset	Whether identification is possible through geo-tagging, photographs, etc?	Whether physically verified during the reporting year?	Whether ownership papers available?	Whether expenditure under the this particular asset under different schemes in different years traceable?	Whether correct value of Asset has been recorded in the register	Write off detail	Remarks

(ii) Any other checks as decided by the auditors may also be carried out.

Conclusions for incorporation in Audit Certificate

- a. Are deviations /irregularities material?
- b. If yes, details thereof
- c. Are deviations /irregularities pervasive in nature? If yes, details thereof?

Prepared by -----

Vetted/Checked by -----

## AWP-9: Substantive checking of Inventory Register

The register may be checked as per Table 1 and Table 2

**Table 1: Status of Maintenance of Register**

Sl. No.	Checks	Y/N	Remarks
1	Whether maintained as per format prescribed in MAS		
2	Whether closed on 31 March of Previous year and 31 March of year being audited.		
3	Whether this register is being independently inspected and reviewed. (during year of audit with dates of such review)		
4	Whether serial numbers in the register identifying the asset, is done accurately		
5	Any other checks as decided by the auditors		

**Table 2: Regularity and correctness of entries in the Register**

Sl. No.	Check Points	Y/N/NA	Remarks																														
1	Whether there is any discrepancy in the opening stock as compared with the previous year inventory in respect of quantity.																																
2	Whether there is any discrepancy in the opening stock as compared with the previous year inventory in respect of value.																																
3	Whether there is any discrepancy in quantity/value of store as per Register vis-à-vis purchase order/ invoice /delivery challan? This is to be checked for some random entries.																																
	<table border="1"> <thead> <tr> <th>Sl. No. of Register</th> <th>Item</th> <th>Quantity as per Register</th> <th>Quantity as per Invoice / Delivery Challan</th> <th>Remarks</th> </tr> </thead> <tbody> <tr> <td>1</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>2</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>3</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>4</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>5</td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Sl. No. of Register	Item	Quantity as per Register	Quantity as per Invoice / Delivery Challan	Remarks	1					2					3					4					5						
Sl. No. of Register	Item	Quantity as per Register	Quantity as per Invoice / Delivery Challan	Remarks																													
1																																	
2																																	
3																																	
4																																	
5																																	
4	Whether physical verification has been done and any material discrepancy has been noticed.  If yes, what action has been taken.																																
5	Whether certificate of the closing stock exists in the prescribed format.																																
6	Any other checks as decided by the auditor.																																

Conclusions for incorporation in Audit Certificate

- a. Are deviations /irregularities material?
- b. If yes, details thereof
- c. Are deviations /irregularities pervasive in nature? If yes, details thereof?

Prepared by -----

Vetted/Checked by -----

## AWP-10- Substantive checking of Demand Collection and Balance (DCB) Register

(i) The register may be checked as per Table below

**Table: Regularity and correctness of entries in the register**

Sl. No.	Register Serial No. / Entry No.	Whether any discrepancy is noticed in newly added payee in the current year with reference to check with basic documents on raising of demand	The new fixation of demand has been approved by competent authority	Permission/write-off and suspension if any during the year has been approved by competent authority	Whether any discrepancy is noticed on checking of entries in DCB with reference to counterfoils of receipt issued on payment to the payees
		(Yes/No/NA)	(Yes/No/NA)	(Yes/No/NA)	(Yes/No/NA)
1					
2					
3					
4					

(ii) Any other checks as decided by the auditors may also be carried out.

Conclusions for incorporation in Audit Certificate

- a. Are deviations /irregularities material?
- b. If yes, details thereof
- c. Are deviations /irregularities pervasive in nature? If yes, details thereof?

Prepared by -----

Vetted/Checked by -----

## AWP-11: Compliance with Auditing Standards/ Guidelines for Financial Audit of PRIs

Sl. No.	Issue	Status (Y/N/ Partial)	Remarks
1	Whether audit plan was prepared?		
2	Whether audit plan had critical elements like authority of audit, nature and scope of audit, risk assessment, reporting requirement, sampling plan etc.?		
3	Whether analytical procedures were conducted?		
4	Whether assessment of internal control was done?		
5	Whether substantive checking of following accounts, transactions and supporting documents was done?  a. Receipt & Payment Account b. Payment Vouchers c. Receipt Vouchers d. Immovable register e. Movable register f. Inventory register g. DCB Register		
6	Whether review and supervision of field work was done?		
7	Whether independent checking /vetting of audit file or working papers was done in district/regional/ DLFA/ ELA/ Equivalent authority headquarters for adequate and sufficient audit evidence before finalizing Audit Certificate?		
8	Whether any Supervisor independently verified compliance with approved audit plan?		

## ANNEXURE-C

### Format of Audit Certificate with appended report Receipt and Payment Accounts of (Name of PRI) Certificate of the (designation of auditor)

- (i) I have audited the attached Annual Receipt and Payment Accounts, with supporting forms, of the -----(*Name of PRI*) for the year ended on March .....as per provisions of .....(*the relevant authority i.e. Act/ Rules under which the audit is being conducted may be quoted*). Preparation of these accounts is the responsibility of the PRI's management. My responsibility is to express an opinion on these accounts based on my audit.
- (ii) I have conducted my audit in accordance with auditing standards issued by C&AG of India and Guidelines for Financial Audit of PRIs issued by C&AG. These standards/guidelines require that I plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements. An audit includes examining, on a test basis, evidences supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made, as well as evaluating the overall presentation of accounts. I believe that my audit provides a reasonable basis for my opinion.
- (iii) On the basis of the information and explanations that I required and have obtained, and according to the best of my information as a result of test audit of the accounts and on consideration of explanations given, I certify that, (*the auditor can use one of the four options below depending upon the nature of opinion he wants to express*).

*subject to my observations in the appended report, the Annual Receipt and Payment Accounts give a true and fair view of the receipts and payments of the (name of PRI) ...for the year..... (Unqualified opinion)*

**Or**

*except for the matters described in the basis for qualified opinion in the appended report and subject to other observations therein, the Annual Receipt and Payment Accounts give a true and fair view of the receipts and payments of the (name of PRI) ...for the year..... (Qualified opinion)*



**Or**

*due to the material and pervasive misstatements pointed out in the appended report, the Annual Receipt and Payment Accounts do not give a true and fair view of the receipts and payments of the (name of PRI) ...for the year.....*  
**(Adverse opinion)**

**Or**

*due to the material and pervasive insufficiencies in obtaining audit evidence, attributable to the faulty maintenance of accounting records, as pointed out in the appended report, it is not possible to express an opinion whether the Annual Receipt and Payment Accounts give a true and fair view of the receipts and payments of the (name of PRI) ...for the year.....*  
**(Disclaimer opinion)**

**Place:**

**Date:**

**Signature of Certifying Authority**

## Format of appended Report

### Audit Report appended to the Audit Certificate of (PRI name) for the Year .....

#### 1. Major observations

Basis for Qualified Opinion (where applicable, for giving qualified opinion)

Or

Material and Pervasive Misstatements (where applicable, for giving adverse opinion)

Or

Material and pervasive insufficiencies in obtaining audit evidence, attributable to the faulty maintenance of accounting records (where applicable, for giving disclaimer of opinion)

Or

This part will be excluded in case the auditor is giving unqualified statement

#### 2. Other observations

The auditor will record significant observations arising from the audit of the accounts

- (i) Comments relating to Receipt and Payment Account.
- (ii) Comments relating to Receipt Vouchers.
- (iii) Comments relating to Payment Vouchers.
- (iv) Comments relating to Bank Reconciliation Statement
- (v) Comments relating to Register of Immovable Property
- (vi) Comments relating to Register of Movable Property
- (vii) Comments relating to Inventory Register
- (viii) Comments relating to Demand Collection and Balance Register







Office of the Comptroller & Auditor General of India  
9, Deen Dayal Upadhyaya Marg, New Delhi - 110 124

