

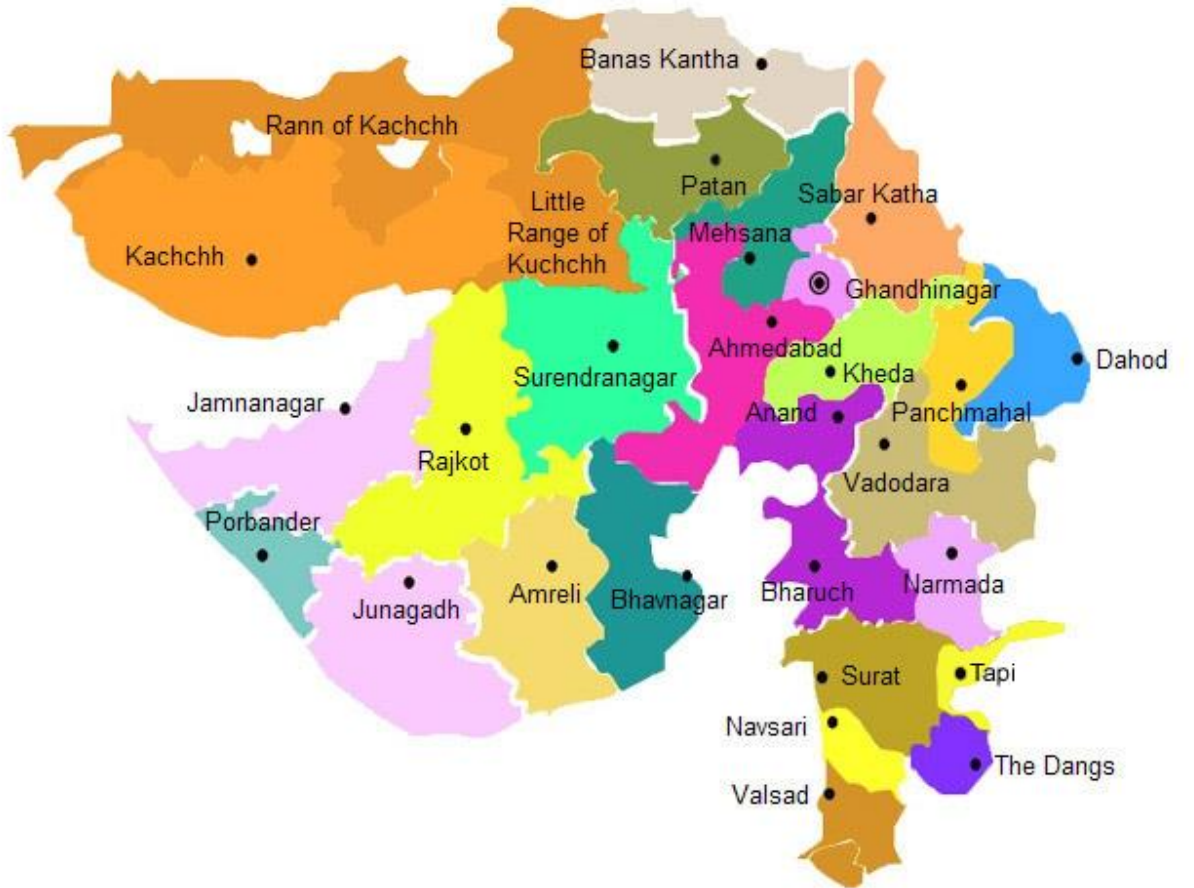


सत्यमेव जयते

# MANUAL OF INSTRUCTIONS FOR AUDIT OF LOCAL BODIES GUJARAT

2023-24

**Audit of Panchayat Raj Institutions and Urban Local Bodies**



**Issued by the authority of Pr. Accountant General (Audit-I), Gujarat, Rajkot**

## **PREFACE**

This is the first edition of the Local Manual of Instructions for Audit of Local Bodies, Gujarat, Rajkot, after their accounts came under the audit jurisdiction of the Pr. Accountant General(Audit-I), Gujarat, Rajkot, under Technical Guidance and Support (TGS) of the Comptroller and Auditor General of India (C&AG).

The audit of local bodies was entrusted to the office of Sr. DAG (Local bodies Audit and Accounts), Gujarat, Ahmedabad. This office was merged with the office of Principal Accountant General (Audit-I), Gujarat, Rajkot vide Office Order No.Admn/Aud dated 23 May 2012. The function of providing Technical Guidance and Support (TGS) and duties relating to audit and accounts of Local Bodies are discharged by this office.

This manual deals with general and detailed procedure to be followed in conducting local Audit of accounts of PRIs and ULBs. The instructions contained in this manual are guiding in nature and supplementary to those contained in MSO (Audit), manual of instructions for audit of Panchayati Raj Institutions, Auditing Standards for PRIs and ULBs, Performance Auditing Guidelines and other guidelines issued by the C&AG. Rules/Regulations/Instructions contained in this manual are updated up to **June 2023**.

This manual would be useful to the staff and officers for conducting audit of Local Bodies and also in efficient functioning and discharge of their duties. Suggestions for improvement and modification of the manual are welcome.

**Place: Rajkot**

**Shri Dinesh R Patil**

**Date:**

**Pr. Accountant General (G&SSA), Gujarat,  
Rajkot**

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# CHAPTER – I

## INTRODUCTORY

### 1.1 Concept of Panchayati Raj:

“Panchayati Raj” was earlier known as “Democratic Decentralization of Governance”. It envisages “Power to the People” and “Self Governance” at grass root level. The process of decentralization consists of transfer of some substantial government functions from the centralized government setup to intermediate and local governments by vesting the later with authority and responsibilities to discharge those functions. The scope of decentralization is three-fold i.e. - political, administrative and fiscal.

(Ref: Para 1.1 of Manual of Instructions for Audit of Panchayati Raj Institutions) [MIA for (PRI)]

### 1.2 Evolution of Panchayat Raj:

Gujarat, as a part of erstwhile Bombay, has had a golden history of the Panchayati Raj Institutions. It is one of the few states that accepted Panchayats as the institutions of self-governance since pre-independence period. The state made periodic reviews and changes to improve the Act that regulated the functioning of Panchayat.

Prior to independence, the rural local self-governance bodies were governed by the Bombay Village Panchayat Act, 1920. Provisions of this Act vested powers and authority on the village bodies, including clear-cut monetary resources and vesting of public properties in the Panchayats. The Panchayat Act of 1920 was reformulated in 1939, for governing the local self-governance institutions in the state.

Essential changes were made to the 1939 Act in 1947, at the time of independence. At the time of reorganization of the state the Bombay Panchayats Act, 1939 was revised as the Bombay Village Panchayats Act, 1958. Meanwhile at the Centre, The Balwant Rai Mehta Committee (1957) was set up to study the community development and the National extension services programmes.

History of the Gujarat Panchayati Raj	
1920	Bombay Village Panchayat Act
1939	New Panchayat Act formulated
1947	Amendment to the 1939 Act
1958	Amendment to the 1939 Act
1960	Recommendations of Rasiklal Parik Committee
1961	New Panchayat Act
1964	Jadavji Modi Committee
1972	Jinabhai Darji Committee
1978	Rikhabdas Shah Committee
1993	Gujarat Panchayat Act passed in the State Assembly
1994	Gujarat Panchayat Act, 1993 comes into force

The Balwant Rai Mehta Committee pointed out that the absence of local agencies, that represented the entire community, was the main reason for indifference of masses. Following the recommendations of this committee, a three-tier structure of Panchayati Raj was introduced all over the country. By 1960's Panchayati Raj reached almost all corners of the country.

The State of Gujarat underwent reorganization, when it came into its present shape, on



May 1, 1960. After the reorganization also, in Gujarat, the primary tier i.e. the Gram Panchayats continued to be guided by the provisions of the 1958 Act. The state government appointed a committee under the chairmanship of the then Home Minister, Rasiklal Parik to suggest reforms to the 1958 Act. The committee made suggestions on the basis of the recommendations of the Balwantraji Mehta committee report. Based on the Parik committee's recommendations, the new Gujarat Panchayat Act was enacted. Two additional tiers viz., the Taluka Panchayat at the Taluka level and District Panchayat at the district level were constituted to match it with the uniform three-tier structure followed all over the country, The Taluka Panchayat was allocated supervisory and linking role, while the District Panchayat had supervisory and executive powers which made it the moving force behind the high level performance of Panchayati Raj in Gujarat.

After the Gujarat Panchayat Act, 1958 came into force, the State Government constituted Jadavji Modi Committee (1964), the Jinabhai Darji Committee (1972) and the Rikhabh Das Shah Committee (1978) to Review Panchayati Raj in the state. The recommendations of these committees were well received and accordingly suitable amendments were made in the Gujarat Panchayat Act from time to time. A total of 44 amendments were made in Gujarat Panchayat Act till 1993, to make it a coherent Act.

Meanwhile, at the central level as well, the issue of rural local self-government was kept alive by constituting committees to review and make suggestions to improve the status of this institution. The series of committees constituted from time to time for the purpose included the Ashok Mehta Committee (1977), the G.V.K. Rao Committee (1985) and the L.M.Singhvi Committee (1986). These committees included people of high intellect and understanding. They made important suggestions from time to time.

In 1992, the 73<sup>rd</sup> Constitutional Amendment Bill pertaining to the Panchayati Raj Institution was placed before the Parliament. This Bill was passed in the Lok Sabha and the Rajya Sabha. It received the assent from the President of India and was enacted as the 73<sup>rd</sup> Constitutional Amendment Act, 1992 on 24<sup>th</sup> April 1993. Further the 74<sup>th</sup> Constitutional Amendment Act 1992, relating to Municipalities (Urban local Government) was passed by the parliament in 1992. It received the assent of the president of India on 20<sup>th</sup> April 1993. Government of India notified 1<sup>st</sup> June 1993 as the date from which the 74<sup>th</sup> Amendment Act came into force.

### **Panchayat Raj Institution (PRI)**

The Government followed the provision of the 73<sup>rd</sup> Constitutional Amendment to activate Panchayat System within a year. Through this Act, minor changes were made in Bombay Village Panchayat Act, 1948 and Gujarat Panchayat Act 1961 (Act), which came into force on 1<sup>st</sup> April 1963. This Act was amended in April 1993 to incorporate the provisions of the 73<sup>rd</sup> Constitutional Amendment Act 1992. Accordingly, State Finance Commission (SFC) was appointed in 1994 to review and overcome the financial position of Panchayat and to make recommendations.

It is pertinent to note that much before the 73rd amendment of the Constitution of India and after the inception of the PRIs 14 of the important 29 subjects listed in the 11<sup>th</sup> Schedule of the Constitution stood transferred to the PRIs the remaining 9 have been retained by the State Government as they can be managed better by the State Government. The Panchayats Rural Housing & Rural Development Department (PRH&RDD) has played a very supportive and facilitative role towards the strengthening of the PRIs apart from exercising the necessary regulatory control over them.

Recently, the department has notified The Gujarat Provisions of the Panchayats (Extension to the Scheduled Areas) Rules, 2017, a comprehensive set of rules touching a large number of government departments, to ensure that the people belonging to the scheduled tribes and living in the scheduled areas exercise their rights in self-governance, use and sale of mineral resources and minor forest produces, maintenance and use of community resources and assets etc. more assertively and effectively.

The Gujarat Panchayat Act 1993 provides for setting up of three tier system of PRIs comprising:

- (i) “Village Panchayat” which means a Village Panchayat constituted under this Act.
- (ii) “Taluka Panchayat” which means a Taluka Panchayat constituted under this Act.
- (iii) “District Panchayat” which means a District Panchayat constituted under this Act.

[Ref: Para 2(7), (27) & (30) of the Gujarat Panchayat Act, 1993]

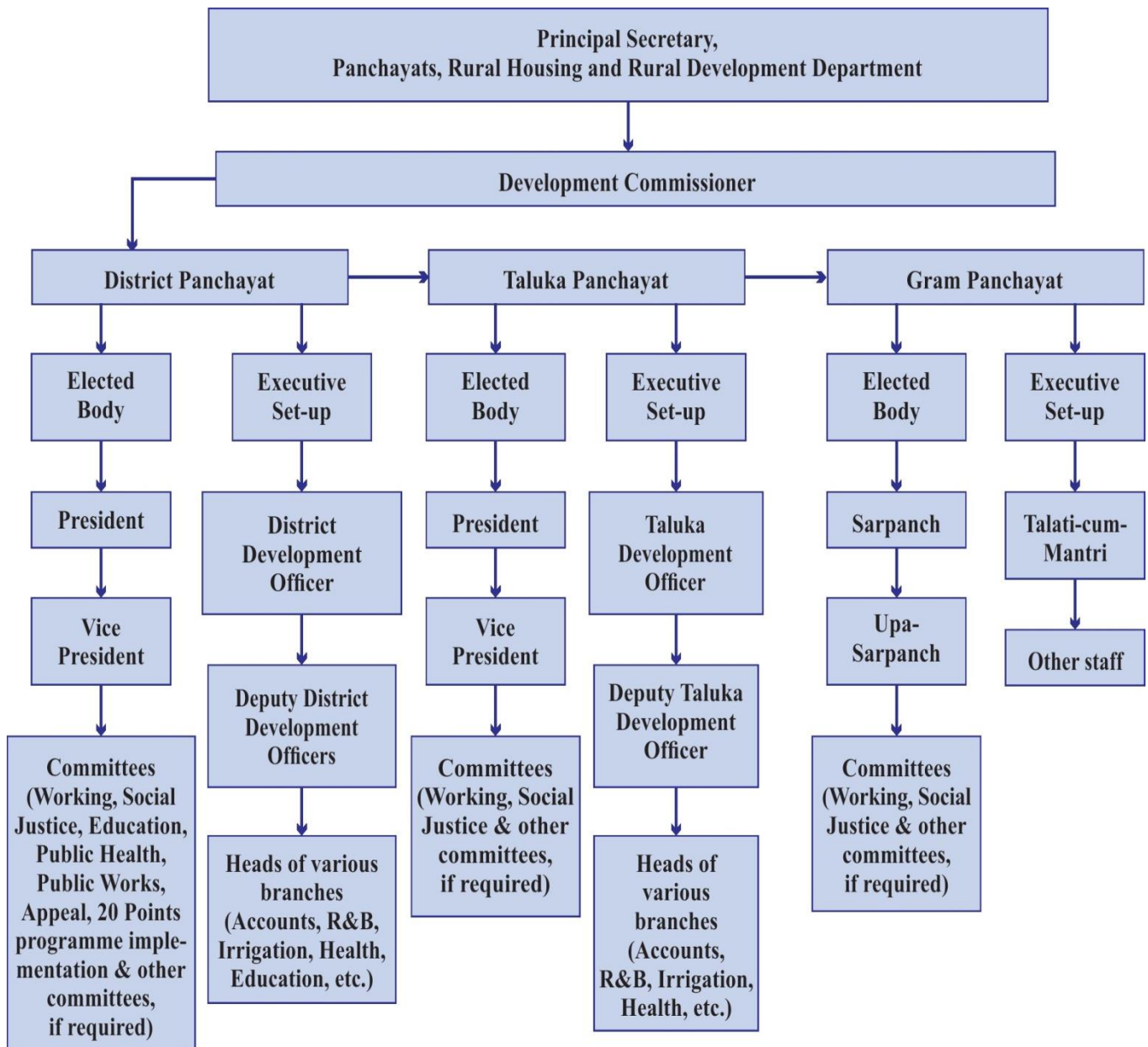
As on July 2019 there are 33 District Panchayats, 248 Taluka Panchayats, and 14,265 Gram Panchayats in Gujarat state.

### **Organizational set-up of the PRIs**

Principal Secretary, PRH&RDD exercises administrative control over the PRIs. The PRH&RDD is responsible for framing policies pertaining to formulation and implementation of developmental schemes and administration. The PRH&RDD exercises administrative control through office of the Development Commissioner, Gandhinagar. The President and Vice President of the DPs and TPs are elected from amongst the elected representatives. The Sarpanch of a GP is elected directly by the villagers and the Upa-Sarpanch is elected from amongst the elected representatives. The Act envisages the functioning of the DPs, TPs and GPs through Standing Committees having elected representatives as members and chairperson. The Presidents in respect of DPs and TPs and Sarpanches of GPs are *ex-officio* Chairpersons of the Standing Committees. District Development Officer (DDO), Taluka Development Officer (TDO) and Talati-cum-Mantri (TCM), shall be an officer belonging to the State Service and posted under the panchayat, are the *ex-officio*, Secretary of DP, TP and VP respectively and have such other servants as may be determined under the Act.

The organizational structure of Panchayati Raj Institution in Gujarat is depicted below:

### Organizational structure of PRIs



**Accountability Structure in PRIs is shown below:**

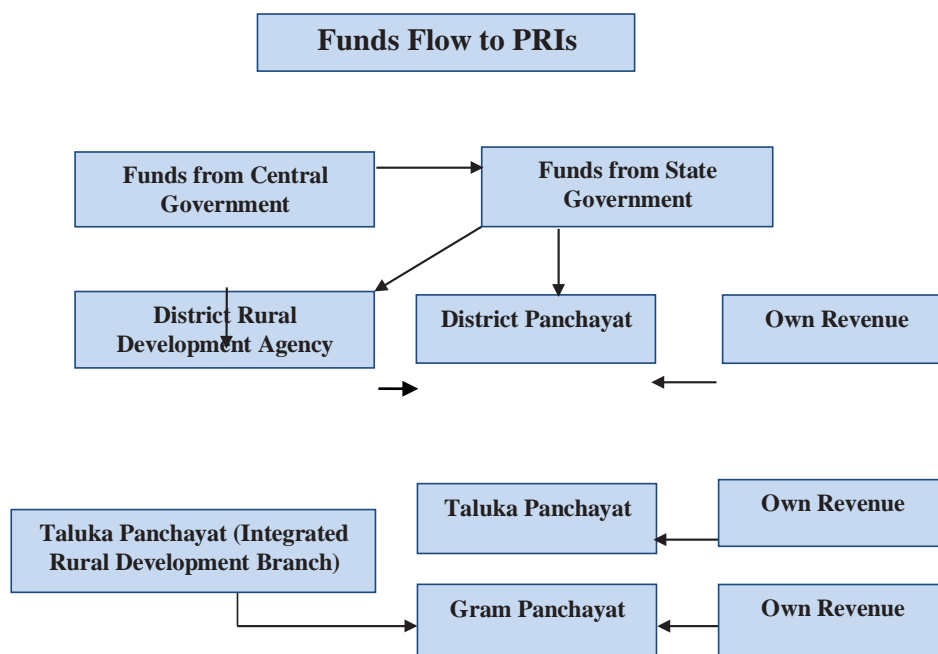
PRIs	Functions Assigned
District Development Officer (DDO) in District Panchayat	1. Perform all the functions and exercise all the powers specifically imposed or conferred upon him.  2. Call for any information, return, statement, account or report from any officer under the district Panchayat,

	<ol style="list-style-type: none"> <li>3. Supervise and control, the execution of all activities of the District Panchayat,</li> <li>4. Take necessary measures for the speedy execution of all activities of the district Panchayat,</li> <li>5. Exercise supervision and control over the acts in matter of executive administration and those relating to accounts and records of the district Panchayat and</li> <li>6. Exercise such other powers and perform such other functions as may be prescribed by the State Government.</li> </ol>
Taluka Development officer(TDO) in Taluka Panchayat	<ol style="list-style-type: none"> <li>1. Perform all the functions and exercise all the powers specifically imposed or conferred upon him.</li> <li>2. Call for any information, return, statement, account or report from any officer under the Taluka Panchayat,</li> <li>3. Supervise and control, the execution of all activities of the Taluka Panchayat,</li> <li>4. Take necessary measures for the speedy execution of all activities of the Taluka Panchayat,</li> <li>5. Exercise supervision and control over the acts in matter of executive administration and those relating to accounts and records of the Taluka Panchayat and</li> <li>6. Exercise such other powers and perform such other functions as may be prescribed by the State Government.</li> </ol>
Secretary in Village Panchayat	<ol style="list-style-type: none"> <li>1. Keep in his custody the records and registers of the Panchayat.</li> <li>2. Issue receipts under his signature for sums of money received by him on behalf of the Panchayat,</li> <li>3. Prepare all statements and reports required under the Act, and</li> <li>4. Perform such other functions and duties under the Act as may be prescribed.</li> </ol>

### Source of Funds

In addition to their own source of tax and non-tax revenue *e.g.* fair tax, building tax, fee, rent from buildings, water reservoirs, *etc.* and capital receipts from sale of land, PRIs receive funds from State Government and Government of India (GoI) in the form of grants-in-aid/loans for general administration, implementation of development schemes/works, creation of infrastructure in rural areas, *etc.* Besides, grants from State/Central Finance Commission are also received.

The funds flow-chart of PRIs is as below -



### 1.3 Urban Local Bodies: (ULBs)

The Constitution (Seventy Forth Amendment) Act, 1992 has introduced a new part namely, Part IXA in the Constitution, which deals with the issues relating to Municipalities. “Municipality” means an Institution of Local Self Government constituted under Article 243Q of the Constitution and it includes Nagarpalikas (NPs) and Municipal Corporations (MCs). Article 243 X of the Constitution states that the Legislature of a State may, by law, (a) authorize a Municipality to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits; (b) assign to a Municipality such taxes, duties, tolls and fees levied and collected by the State Government for such purposes and subject to such conditions and limits; (c) provide for making such grants-in-aid to the Municipalities from the Consolidated Fund of the State; and (d) provide for constitution of such funds for crediting all moneys received, by or on behalf of the Municipalities and also for the withdrawal of such moneys there from.

In Gujarat, there are 200 ULBs *i.e.* eight MCs, 162 NPs and 30 Notified Areas as of March 2018. The MCs in the State are governed by the “Gujarat Provincial Municipal Corporation (GPMC) Act, 1949”, the NPs and the Notified Areas are governed by the “Gujarat Municipalities (GM) Act, 1963”. The NPs are classified into four categories<sup>1</sup>

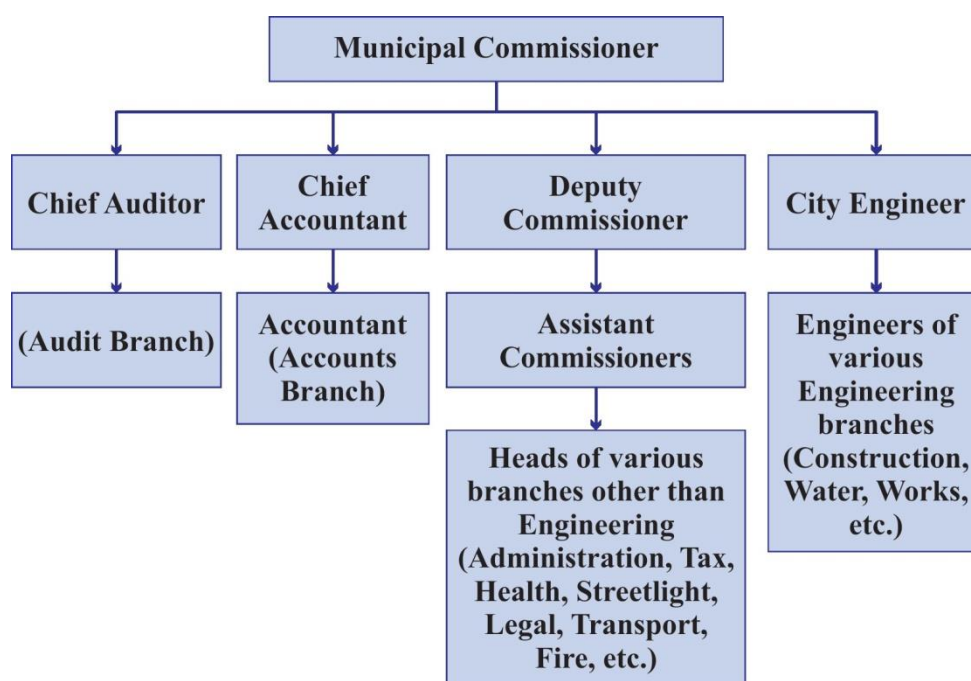
<sup>1</sup> (i) Category A, NP having population more than one lakh, (ii) Category B, NP having population between 50,000 and one lakh, (iii) Category C, having population between 25,000 and 50,000 and (iv) Category D, having population between 15,000 and 25,000.

viz. A, B, C and D based on the population and there are 22, 33, 62 and 45 NPs of Category A, B, C and D respectively in the State.

Additional Chief Secretary is the administrative head of Urban Development and Urban Housing Department (UD&UHD) and is assisted by the Municipal Commissioners and Commissioner, Municipality Administration to monitor the functioning of MCs and NPs in the State respectively. The Gujarat Municipal Finance Board (GMFB) under UD&UHD is responsible for allotment of grant to all ULBs and to monitor their expenditure.

The MCs are headed by Municipal Commissioners appointed by Government of Gujarat (GoG). For administrative purposes, the city is divided into zones and each zone is further divided into wards. Each ward is represented by a Corporator.

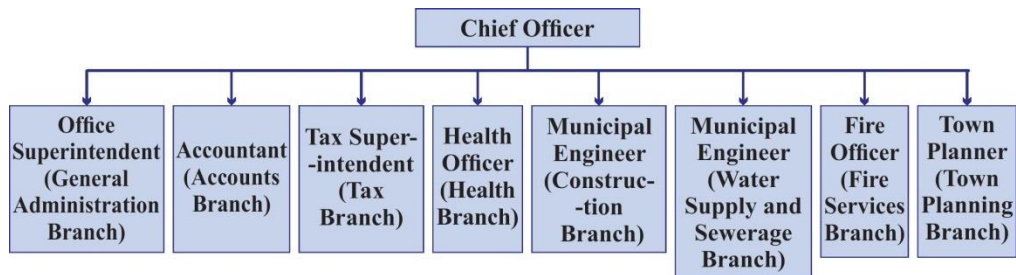
### Executive set-up of Municipal Corporations



The Commissioner, Municipality Administration is assisted by an Additional Commissioner at State level and from April 2018, GoG has constituted six<sup>2</sup> Regional offices headed by Commissioners for monitoring the functions of NPs. The NPs are headed by the Chief Officer appointed by GoG as principal executive officer for administrative control over the NPs.

<sup>2</sup> Ahmadabad (27 NPs), Bhavnagar (27 NPs), Gandhinagar (30 NPs), Rajkot (30 NPs), Surat (22 NPs) and Vadodara (26 NPs).

## Executive set-up of Nagarpalikas



The NPs in the State are divided into number of wards represented by elected members or councillors. The members so elected form the Board of Councilors. The President is elected by the majority of Board of councilors and is the political head of the NPs.

### 1.4 Audit Mandate:

As per Section 121, 143 and 166 of the Gujarat Panchayat Act 1993, the accounts of Village Panchayat, Taluka Panchayat and District Panchayat respectively will be audited under the provisions of the Gujarat Local Fund Audit (GLFA) Act 1963. Consequently, Gujarat Government appointed Examiner Local Fund Accounts (ELFA) as the primary auditor of the accounts of Local Bodies. The GLFA Act, 1963 provided that after the completion of the Audit, not later than three months thereafter, ELFA should prepare a report on the accounts audited and examined. The report need to be sent to the local authority concerned and copies thereof to such officers and bodies as the State Government may direct. The ELFA under the State Finance Department is headed by the Examiner and has district level offices headed by Assistant Examiners.

Government of Gujarat by a resolution (May 2005) entrusted the Technical Guidance and Supervision (TGS) over the audit of Local Bodies to CAG. As per the resolution, the CAG would conduct test-check of some of the PRI and ULB units audited by the ELFA in order to provide technical guidance. The report of the test-check conducted by the CAG would be sent to the ELFA for pursuance of action taken by the PRIs and ULBs. Subsequently, the State Government entrusted (April 2011) audit of ULBs to CAG under Section 20(1) of CAG's Duties, Powers and Conditions of Service (DPC) Act, 1971. It also provided that the CAG shall have the right to access the accounts and records of the PRIs and ULBs under other sections of the CAG's DPC Act, 1971 and under other due statutory process. The CAG may also provide suitable TGS to primary external auditors of PRIs and ULBs viz. ELFA for the purpose of strengthening Public Finance Management and Accountability in PRIs and ULBs. The provision of laying the Report of CAG on TGS with the Audit Report of ELFA before the State Legislature was made by amending (May 2011) the Gujarat Provincial Municipal Corporations Act, 1949 and Gujarat Municipalities Act, 1963.

Further, Governor of Gujarat has accorded the concurrence of audit of all Municipal Corporations of Gujarat State on 03 March 2018 to office of the Principal Accountant General (Audit-I) under Section 14 (2) of C&AG's (DPCs) Act, 1971.

### 1.5 Application of the Manual:

**1.5.1** The provisions incorporated in this Manual are intended to assist the officials during the audit of PRIs and ULBs. The instructions, guidelines etc. contained in different Manuals issued by the C&AG of India and also Rules/Orders, Acts etc. issued by Government of Gujarat governing functioning of PRIs and ULBs from time to time.

#### **1.6 General directions for Audit Institutions:**

**1.6.1** During audit of PRIs, the provisions in the Auditing Standards for PRIs and ULBs, the Manual of Instructions for Audit of PRIs as well as guidelines for certification of Audit of Accounts of PRIs issued by the office of the Comptroller and Auditor General of India should strictly be followed.

**1.6.2** Auditor has a right to inspect any office of accounts of the Panchayati Raj Institutions or of the Urban Local Bodies; he can access any books, papers and other documents which are relevant to the transactions to be sent to him and he can put such questions to the persons in charge of the office or make such observations and call for such information as he may require for the preparation of any prescribed account or report.

(Ref. Para 5.12 Chapter-I of AS for PRIs and ULBs)

**1.6.3** The Audit Institutions must remain independent from audited entities. The audit should, however, seek to create among audited entities an understanding of its role and functions, with a view to maintain amicable relationship with them. Good relationship can help the audit to obtain information freely and frankly and to conduct discussions in an atmosphere of mutual respect and understanding.

(Ref. Para 2.12 Chapter – II of AS for PRIs and ULBs)

**1.6.4** Auditors need to be alert to detect control weakness, inadequacies in record keeping, errors and unusual transactions or results which could be indicative of fraud, improper or unlawful expenditure, un-authorized operations, waste, inefficiency or lack of probity.

(Ref. Para 4.2.2 Chapter-II of AS for PRIs and ULBs)

**1.6.5** Information about an audited entity acquired in the course of the auditor's work shall not be used for purposes outside the scope of audit. It is essential that audit maintains confidentiality regarding audit matters and the information arising from audit task.

(Ref. Para 5.13 Chapter-I of AS for PRIs and ULBs)

**1.6.6** It would be impracticable to establish a code of rules, sufficiently elaborate, to cater to all situations and circumstances which an auditor might encounter. In the observance of auditing standards, therefore, the auditor in discharge of his responsibility must exercise his judgment in determining the auditing procedures necessary in the circumstances, to afford a reasonable basis for his opinion and the content of his report, audit of issues and areas of audit, and the nature, timing and extent of audit tests and procedures.

(Ref. Para 5.8 Chapter-I of AS for PRIs and ULBs)



## CHAPTER II

### CONSTITUTION AND FUNCTION

#### 2.1 Constitution

Local Bodies Audit wing has been constituted for conducting local audit of the accounts of the offices of the State Government falling under the AMG-II Wing. The audit conducted centrally in this office is supplemented by periodical test audit of initial accounts, documents, vouchers etc., with a view to ensure the propriety and the accuracy of the original data on which the accounts of an office are based and submitted to this office.

- (a) Local Bodies Audit section (AMG-II) (Headquarter) is the controlling section and exercises control over the administration and working of field audit parties.
- (b) The field audit work has been distributed among the following types of field audit parties:
  - (i) Review parties for carrying out Performance Audit.
  - (ii) Audit under Sections 13, 14 conducted locally by scrutiny of records of the sanctioning authorities and autonomous bodies.
- (c) In respect of Audits under Section 20, AMG-II should obtain information from CAG's office as soon as the C.A.G. accepts the audit under Section 20.

The local audit party normally consists of one Assistant Audit Officer (AAO) and two auditors. However, parties which conduct important audits consist of two AAOs and one Auditor. The field parties are supervised by Sr. Audit Officer.

#### 2.2 Functions

The Rural Development Department and Urban Development Department of GOG, entrusted the audit of PRIs and ULBs respectively to the auditors of Director Local Fund Audit and shall further be audited and guided by Principal Accountant General (Audit-I), Gujarat, Rajkot under the Technical Guidance and Supervision of the C&AG in compliance to the recommendation of the Finance Commission.

**Distribution of Work:-**The Work under the control of Senior Deputy Accountant General/Deputy Accountant General (DAG)/AMG-II stands distributed amongst 6 sections:

##### **APM Section-**

APM Section is the nodal section for Audit Planning Process and deals with the work of preparation of Annual Audit Plan of this office by consolidating and integrating the Audit Plans of all the three functional wings and its submission to the Headquarters office after getting the same approved from Principal Accountant General.

APM Section deals with preparation of Audit Plan for AMG-II wing, preparation of Tour Programmes for field audit parties of AMG-II wing, monitoring of OAD field parties, preparation and submission of various Returns/Reports to the Headquarters office from the Principal Accountant General (Audit-I), Gujarat, Rajkot, etc. Being a controlling section for AMG-II Wing, APM section is framing up the Tour Programmes of the audit parties for the units of Local Bodies.

### **ECPA Section-**

Main functions of the ECPA Section are as under:-

- Correspondence with Headquarters office in respect of All India Review (AIR) topics selected by Headquarters office,
- Correspondence with the PA/TA parties and Headquarters office regarding the draft guidelines and their approval,
- Identification of Institution/Body/Authority under section 14 of CAG's (DP&CS) Act 1971,
- Action on press clippings.

### **Data Analytics Group-**

This section deals with the analysis of the data collected from the field units for PAs/TAs by using various Audit Tools (Tableau, SQL) and audit Planning work. Further, Data Analytics Group assists to the PA/TA parties for restoration of data, getting insights for the risk areas etc, as and when required.

A return regarding utilization of trained officers/officials in Data Analytics is furnished to the Headquarter office regularly on monthly basis.

### **OAD-I Section-**

At present this section is dealing with Inspection Reports of Local Bodies pertaining to the "Panchayat, Rural Housing and Rural Development Department" (viz. Taluka Panchayats and Village Panchayats) and "Urban Development and Urban Housing Department" (viz. Municipal Corporations, Municipalities and Notified Areas) being audited under Section 14 (i) and 20(i) of the C&AG's (DP &C) Act, 1971.

Following functions are performed by the OAD-1 Section:-

- Processing of draft IRs, issuance and pursuance of Inspection Reports,
- Processing of Factual Notes proposed by the audit parties,
- Conducting Audit Committee Meetings,
- Maintenance of important registers, such as Progress Register, Objection Book and Adjustment register and other registers prescribed vide various rules and orders.

Besides, functions related to providing Technical Guidance and Supervision (TGS) over the audit of local bodies are also dealt with in this section. It involves (i) providing guidance to Examiner, Local Fund Accounts (ELFA) in conducting the audit of local bodies, (ii) to conduct test check of some of the local bodies units audited by ELFA in order to provide technical guidance and (iii) to monitor the quality of the Inspections Reports issued by the ELFA by calling for some of the reports for scrutiny.

### **OAD-II section-**

At present this section deals with Inspection Reports of Local Bodies, pertaining to the State Government's (i) "Panchayat, Rural Housing and Rural Development Department" (viz. District Panchayat u/s 14 and 16, Taluka Panchayat u/s 16, District Rural Development Agency u/s 14(i) & Development Commissioner u/s 13) and (ii) "Urban Development and Urban Housing Department" (viz. Commissioner, Municipality Administration u/s 13 & Town Planning offices u/s 13).

Following functions are performed by the OAD-II Section:-

- Processing of draft IRs, issuance and pursuance of Inspection Reports.
- Processing of Factual Notes proposed by the audit parties,
- Conducting Audit Committee Meetings,
- Maintenance of important register, such as Progress Register, Objection Book and Adjustment register and other registers prescribed vide various rules and orders.

#### **ATIR Cell-**

An ATIR Cell has been constituted in this office with immediate effect as part of Technical Guidance & Supervision (TGS) function for Local Bodies Audit.

Detailed functions of ATIR Cell shall be decided separately by DAG/AMG-II.

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

#### **Audit Planning: -**

1. Electronic data base of auditee profile,
2. Materiality and Risk Assessment,
3. Audit Objective, scope and Methodology
4. Focus on criteria,
5. Identification of key risk areas and statistical sampling techniques,
6. Scheduling of Audit,
7. Training and capacity building,
8. Staffing for audit,
9. Assignment of personnel,
10. Parameters for distribution of work,
11. Standard formats and checklist,
12. Provision for supervision and review of audit

**Audit Execution: -** The Audit execution of AMG-II includes following: -

1. Entry Conference
2. Determination of the audit approach
3. Developing and executing audit tests through evidence gathering, evaluating evidence, and developing audit opinions;

4. Developing findings and ensuring that replies/ responses from the management are received;
5. Developing recommendations; and
6. Exit conference

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

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

**(Authority: - CAG's Letter No. 172-Audit (AP)/37-2008 dated: 04-06-2009)**

### **2.3 Programme of local audit**

The programme of local audit for the next financial year should be reviewed and drawn up early in January each year. In drawing the programme, the following instructions issued on the subject should be specially borne in mind:

**(i) List of Auditees:**

A comprehensive list of all local bodies offices in the State Government to be locally audited should be drawn up and maintained in APM Section in Form-I. While drawing up the list, it is to be ensured that no important office incurring substantial expenditure is left out of the list and among others, as many offices as can conveniently and without disproportionate expenditure be audited locally are also included in the list. The list should be reviewed every year and kept up-to-date.

**(ii) Frequency of Audit**

Local inspection should not be undertaken when the amount of expenditure to be audited is small. The aim should be to inspect in rotation all accounts in which the cost of inspection as compared with the expenditure to be audited is not disproportionately high. The Principal Accountant General will decide when the cost of inspection should be considered as disproportionately high. Roughly, if audit costs one per-cent of the amount audited, the expense should be considered reasonable.

(CAG's letter No. 1500/Admn/C/281/NGE-28 dated: 22.12.1928; 544/Admn. /C/42-20 dated: 06-04-1929).

If in any case audit reveals important irregularities, the office concerned may be inspected at more frequent intervals.

The instructions issued by Comptroller and Auditor General in connection with the frequency and duration of Audit are reproduced below:-

"There has been an enormous increase in the number of offices due to the extension of Governmental activities in various directions as a result of which the expenditure on local audit is also on the increase. A large number of new offices are likely to be

established during the coming years. The matter as to how best our man-power can be deployed to meet the situation has also been under consideration for some time. There is the undoubted necessity of the office being locally inspected, but a judicious review of the periodicity of inspection of the existing offices can release some manpower, without materially imparting the efficiency of local audit for inspection of new offices. With this end in view the periodicity of local audit of some categories of offices has been considered on the basis of information available in respect of certain States. While this periodicity is considered sufficient under normal conditions the Principal Accountant General may vary this if special circumstances in the State justify such variation. It is not necessary to approach Comptroller and Auditor General for approval. The periodicity of audit of the other types of offices has also to be reviewed and revised frequency of local audit adopted wherever necessary.

The duration of audit for various types of offices has also been considered. Though it is not proposed to lay down the duration of audit for various types of offices, it is necessary that existing time allocation should be closely reviewed as there is wide variation of time in different states in respect of the similar type of institutions. Principal Accountants General is, therefore, asked to review the position in this regard so that time allowed for which inspection is adequate and not more than adequate. Such a review is to be carried out every third year."

(CAG's letter No.380-Admn.III/517-61 dated: 05-03-1962)

**(iii) Audit Plan**

(a) A biennial Audit Plan with detailed Audit Plan for the first year has to be prepared and sent for the approval of Principal Accountant General by 10<sup>th</sup> January every year. For this purpose, the units and inspection parties are to be categorized. Most of the schemes of Central as well as State Government by local bodies are generally covered by Performance Audit. In view of above and on the basis of materiality/potentially of paras to be converted into draft paras, categorization of auditee units in Rajkot office is done as shown below:

**PRIs**

Units	Expenditure	Frequency of audit	Duration of audit (working days)
District Panchayat	1. Up to 20 crore	Annual	10
	2. 20 to 40 crore	Annual	20
	3. More than 40 crore	Annual	30
Taluka Panchayat	1. 30 to 50 lakh	Triennial	07
	2. 50 to 1 crore	Biennial	07
	3. More than 1 crore	Annual	07
Gram Panchayat		Once in 5 years	02

Units	Composition	Members
District Panchayat	1 Sr.AO 2 AAOs + 1 Sr. Auditor/Auditor	4
Taluka Panchayat	1 AAO + 1 Sr. Auditor/ Auditor	2

Gram Panchayat	2 Sr. Auditors/ Auditors	2
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### ULBs

Units	Frequency of audit	Duration of audit (working days)
Municipal corporation		
1. Large Municipal Corporation	Annual	35
2. Municipal Corporation	Annual	25
Nagarpalika	Triennial	15
Notified Area	Triennial	07

Units	Composition	Members
Municipal Corporation	1 Sr.AO 2 AAOs + 1 Sr. Auditor/Auditor	4
Nagarpalika	1 AAO + 1 Sr. Auditor/Auditor	2
Notified Area	1 AAO + 1 Sr. Auditor/Auditor	2

**(Letter No. APM/S-4/Audit Plan/2013-14 dated: 12-08-2013)**

(b) The Audit Plan should be prepared taking into account the following aspects to achieve better audit objectives:

- Utilization of available man power economically and without any slackness.
- Allocation of man power to all the group activities according to their need and availability.
- Providing specific direction for audit with thrust area approach.
- Introducing cost effective audit and allocating cost for each activity (group) so that scarce resources (manpower, money and time) can be utilized most judiciously.
- Giving audit a human face by conducting social audit covering backward districts/regions/blocks in selective manner. Adequate coverage to be given for poverty alleviation and other social service programmes.
- Making audit more effective in enforcing accountability of executive to ensure proper utilization of Central Funds and State share on socio-economic development.
- Health care, education and employment generation should continue to receive more attention of Audit.
- Making Audit more management friendly by providing management support to the auditee through integrated audit of Department.
- Conducting proper risk analysis based on past experience of similar units, budget allotments, media reports, inherent vulnerability to irregularities owing to poor or non-existent internal controls etc.

- (c) The Audit Plan should show the total number of units, units proposed to be programmed during the ensuing year indicating the party days. The Audit Plan should then be sent to the Principal Accountant General for approval and final approval by Headquarters.
- (d) Based on the Audit Plan approved by the Principal Accountant General, an Annual Forecast has to be prepared indicating the name of institution, frequency, duration and month/year of last audit. This Annual Forecast should be sent to the Principal Accountant General for approval. Please also see (f) below.
- (e) The programme should be drawn up in such a way that every office may come under local audit in rotation and with due consideration of the availability of requisite and duly qualified staff for the purpose.
- (f) The programme so drawn up should then be communicated to the Finance Department of the State Government with a request to suggest if they want any other office to be included for any special reason in the list for the year. The Department concerned should be given at least a month's time to propose their suggestions. In finalizing the list due consideration may be given to the suggestions of the Governments. If the suggestions of the Governments cannot be implemented within the resources at our disposal it may be necessary to postpone the audit of some other comparatively lesser important office to a subsequent year. The forecast of inspection for the coming year, i.e. the final list of audit, taking into consideration the suggestion of the Governments should then be prepared and put up to the Principal Accountant General for approval by the end of the first week of March. Copies of finalized list should also be sent to the Governments concerned in the Administrative Department and in the Finance Department to reach them by the 15<sup>th</sup> of March.

(CAG's D.O. No. 2675-Admn.I/702-55 dated 31-12-1955)

- (g) The local audit programme may be organized in such a way as to ensure that the audit of bodies and authorities selected under sections 14 and 15, corporations and other institutions is completed according to prescribed schedule. The reviews of schemes selected are also required to be completed with the available staff. The balance of staff is to be deployed on the normal work which should be phased in a suitable manner. In this context, the concept of any "arrears" in local audits should, therefore, not arise. All institutions should be covered in local audit over the period of time without any fixity of schedule.

(CAG's Letter No. 380-Codes.I/41-74/Gr.V dated 05-08-1975).

**(iv) Risk analysis - Meaning and role of risk in audit**

Risk assessment is an essential part of performing a compliance audit. Due to the inherent limitations of an audit, a compliance audit does not provide a guarantee or absolute assurance that all instances of non-compliance will be detected. Inherent limitations in a compliance audit may include factors such as:

- (a) Judgment may be applied by the executive interpreting laws and regulations;

- (b) Human errors;
- (c) Systems may be improperly designed or function ineffectively;
- (d) Controls may be circumvented; and
- (e) Evidence may be concealed or withheld

In performing compliance audits, auditors assess risks and perform audit procedures as necessary throughout the audit process. This is done in order to reduce audit risk to an acceptably low level in the particular circumstances, so as to obtain reasonable assurance to form the basis for the auditor's conclusions. The risks and the factors that may give rise to such risks will vary depending on the particular subject matter and circumstances of audit. Results of the risk assessment would again affect the sampling considerations.

(Para 4.13 and 4.14 of Compliance Auditing Guidelines 2016)

**(v) Review of frequency, duration etc. of local audit:**

In order to facilitate review of the frequency, duration, etc. of local audits, the Supervising Officers and AAO should record in a separate report their impressions regarding the state of accounts and the time required for their audit and make suggestions for increasing or decreasing the extent of local audit of the institutions inspected by them. There may be cases of some offices where improvements in the maintenance of accounts have taken place in which case it is but proper that the frequency and quantum of local audit are reduced. Where the offices have shown no marked improvements or where there are other special circumstances which call for such action, it would be necessary to intensify the local audit of the institution. It should be noted that the object of the report and the review in the Central Office is to ensure that the limited manpower at our disposal is utilized to the maximum advantage. The report should invariably accompany the inspection reports sent to the Central Office by the Inspecting parties.

The Headquarters sections should examine the suggestions and obtain Group Officer's approval, wherever needed, for modifying the time allowed for a particular audit.

**(vi) Procedure for drawing up programmes:**

A quarterly programme of each audit party will be framed by not later than the 15<sup>th</sup> of the last month of the previous quarter on the basis of the Annual Forecast approved by the Accountant General.

The quarterly programmes will show the offices to be audited by each inspection party and the date of commencement and termination of each audit. For parties touring outside, the programmes will provide for periods of transit from one station to another. The following points should be borne in mind in preparing the programme.

1. The audit of offices or institutions which enjoy periodical vacations such as schools and colleges should not be fixed on dates falling within such vacations.
2. If in any office, store accounts or proforma accounts also are to be audited, its inspection should not be taken up before such accounts are made ready.



Wherever possible, a previous enquiry should be made as to the readiness of those accounts before fixing up the inspection of the respective offices.

3. When the store accounts or proforma accounts of an office are to be audited that fact should be indicated against the name of the office in programme.
4. A copy of the approved programme should be supplied to the respective AAOs and the officers who supervise the audits, the concerned OAD Sections and their branch officers.
5. Tour programmes should be drawn up in the most economical manner and also having regard to the convenience of the office audited. Some departments have indicated the period when they will be busy and this should be taken into account while preparing the programmes. When inspections of new offices or new accounts have been provided for in the programme, the authority for their inclusion should be quoted.
6. The programme should be drawn up in such a manner that the same districts are not visited by a number of audit parties during different periods of the year except in very unavoidable cases.
7. The tour programme should be arranged in such a manner that journey to the same side is not undertaken more than once unless required on account of special reasons. A party visiting a particular district Headquarter should be allotted as far as possible all offices within that district which are to be inspected during that quarter.

(CAG's letter No.1354-Tech.Admn VI64-65 dated:21-08-1964).

8. (a) (i) The time allowed for local audit of a unit should not be exceeded without prior approval of the Group Officer in all the cases wherever possible and where this is not possible as soon as possible after the event. In applying for extension the circumstances which render extension or deviation necessary should be fully stated. It should also be stated, whether it will be possible to complete the whole tour within the time allotted by reducing the time for any other unit.

(ii) No departure from the sanctioned programme is permissible without the approval of the Group Officer except in emergent cases when important defects of procedure, irregularities, frauds or embezzlements are revealed or suspected during the course of local audit and the cases need special investigation involving extra time. The facts should at once be reported to the Group Officer with full justification of the change for his approval. The inspection staff, however, must understand that they will be liable to bear the extra cost in T.A., if any necessitated due to change effected in the programme, if the changes made by them are disapproved without prejudice to any other action that may be found necessary to be taken against them.

(b) If in any office the Inspecting Officers finds that the time allowed is in excess of requirement he should immediately bring the fact to the notice of Headquarters for considering further action in the matter. If the time allowed is

more or less the same as for the previous local audit of the same establishment the reasons due to which the time is expected to be saved during the current audit should be analyzed and stated.

(c) Extension in time should not be applied for on trivial grounds such as casual leave of the assistants of the party unsatisfactory maintenance of accounts records etc. The requests for extension on grounds of volume of work should however, be supported by statistical data justifying the request. In the case of supervised inspection the request must bear definite recommendations of Inspecting Officer. The programme should be adhered to by making extra efforts.

1. Holidays and Sundays may be marked as transit days.

Copies of the programme should be sent to the Principal Accountant General (Audit-II), Ahmedabad Deposit and Loan Section and the RAO (PAO), wherever necessary.

(CAG's letter No.2396-Admn.I/528-62/dated:11-09-1962 addressed to this office).

2. Before the beginning of each quarter, a list of audits which will be completed in that quarter should be prepared and the items which are to be supervised by an inspecting officer should be selected by the Group Officer. Thereafter the tour programme of the Inspecting Officers should be prepared for approval by the Group Officer.

(Authority: CAG's Letter No. 101-Rec/A.III/145-72-III dated 18-4-1973).

#### **2.4 Intimation regarding taking up of audit.**

1. Sr. AO/AO of the Headquarter concerned should be as far as possible given advance intimation of a minimum period of three weeks to the officer in charge of the office to be audited. The intimation for audit should be stated the likely duration of audit and also be provided a list of the basic records that should be kept ready before the arrival of the audit team. In case where the audit involves an element of surprise check, no advance intimation need be given.

(Authority:-Regulation No. 177 of Regulation on Audit and Accounts 2007 issued by Comptroller and Auditor General of India)

2. Intimation of the date of inspection in respect of the 1st office/institution to be audited by the inspection staff should be sent by the concerned wings (AMG-II) to the head of office to be inspected in the *Annexure-I* to this chapter along with the list of records to be kept ready by the office to be inspected (*Annexure-II*). Subsequent intimation of programmes may be sent by the concerned party.

The list of records in respect of offices audited under Sections 14, 15, 19 and 20 of CAG (DPC) Act. 1971 are also given in the *Annexure-III* to this chapter.

Except in regard to special audit, Audit intimation memoranda should be sent to the head of office concerned at least three weeks before the commencement of each inspection.

(Authority: CAG's letter No.2675/Admn/I/702/55 dated 31-12-1955 and No.975/TA5/191/69 dated 02-07-1969)

## **2.5 Tour Programme of Group Supervisory Officers/ Sr. Audit Officers:**

(a) It has been decided by the Comptroller and Auditor General of India that the Group Supervising Officer in the Office of the Principal Accountant General (Audit-I) should do a minimum of 07 days' in a month to supervision of field audit parties. Supervision of field units by Group Supervisory Officer should be enforced strictly and his own contribution during tour should be mentioned in a tour note. When supervising the audits including those at their Headquarters station, the Group Officers must spend the whole day with the audit party and not merely a part of the day. A quarterly return indicating the time spent on supervision of field audit parties by Group Supervisory Officer may be sent by head of the department to their ADAIs/DAIs giving appropriate explanation for significant variations, if any.

(CAG's Cir. No. 4-Audit (AP)/236-95 dated 25-06-2007 and No. 01-PPG/2013 dated: 25-09-2013).

(b) The tour programme of the Sr. Audit Officers supervising the field parties is approved by the Group Supervisory Officer. Copies of the approved programme should be supplied to the officers concerned.

## **2.6 Calendar of Returns**

A Calendar of Returns shall be maintained by the AAO of the Headquarters section in order to observe the due dates prescribed for the various items of work. The actual date on which the work is completed should be filled in by the AAO in each case and the Calendar of Returns submitted to the Branch Officer every Monday, and to the Group Officer on the 1st Monday of each month along with the monthly arrear reports.

Some of the important returns to be submitted/ sent are indicated in **Annexure-IV**. For detailed instructions regarding the, maintenance of calendar of returns, Para 5.01 of the Manual of General Procedures may be referred to.

## **2.7 Undertaking of new Audit**

If Government or any other authority requested to the Principal Accountant General to undertake audit for which no orders were issued by the CAG, the Principal Accountant General should refer the matter to the CAG.

(Para 3.1.4 CAG's M.S.O. (Audit) Edition – 2002)

## **2.8 Special Audit**

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

## **2.9 Consent Audit**

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

## **2.10 Definitions**

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

## **2.11 General provision relating to audit**


It shall be the duty of the CAG-

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

(Extracts of Sections 13 to 20 of CAG’s (DP&CS) Act.1971 are given in *Annexure-V* to this chapter)

**ANNEXURE-I**  
**(Refer in para 2.4)**

**By Speed Post/FAX**

 <p style="text-align: center;">लोकहितार्थं सत्यनिष्ठा Dedicated to Truth in Public Interest</p>	<p><b>No.APM/AP-2019-20/3<sup>rd</sup> quarter/ Office of the Principal Accountant General (General &amp; Social Sector Audit), Annexe Building, Racecourse Road, Gujarat, Rajkot. Date: -</b></p>
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To,

\_\_\_\_\_

\_\_\_\_\_

Sir,

Financial/Compliance Audit of the accounts and/or transactions of \_\_\_\_\_ (Name of Unit) , District- \_\_\_\_\_ for the period \_\_\_\_\_ under Section \_\_\_\_\_ of C&AG's (DP&CS) Act 1971 will be taken up by the audit team of this office from \_\_\_\_\_ (Date). The audit team will be headed by \_\_\_\_\_, Sr. Audit officer/Asstt. Audit Officer, Mob: \_\_\_\_\_, Office ID No. \_\_\_\_\_.

**2. Broad objectives of audit are as under:**

**(Compliance audit)**

- (i) To confirm whether the activities of government/public sector entities are in accordance with the relevant laws, regulations and authorities that govern such entities. More specifically, it may involve examining to what extent the audited entity follows rules, laws and regulation, budgetary resolutions, economy instructions, policy, established codes, or agreed upon terms, such as the terms of a contract or the terms of a funding agreement.
- (ii) System of internal control internal audit in relation to budgetary assumption, financial statements, compliance and financial reporting;
- (iii) To audit Transparency and competitiveness in contracts and procurements;
- (iv) To examine and report upon propriety in expenditure that has a significant bearing on mandate/operations and budgetary grants of the organization/entity.
- (v) Value for money derived from individual or a set of material transactions;

- (vi) To examine the stores and stock accounts, where applicable;
- (vii) Banking and cash management issues (in case of autonomous bodies); and
- (viii) Audit the IT applications, etc.

**(Financial Audit)**

- (i) Financial statements are prepared in accordance with acceptable accounting standards/rules.
- (ii) Financial statements are presented with due consideration to the circumstances of the audited entity;
- (iii) Sufficient disclosures are presented about various elements of financial statements;
- (iv) The various elements of financial statements are properly evaluated, measured and presented; and
- (v) Evaluation of the internal control that assist in safeguarding assets and resources, assures the accuracy and completeness of accounting records and in compiling with financial laws and regulations.

3. The period covered under the audit shall be from \_\_\_\_\_ **(Period of Audit)** under Section \_\_\_\_\_ of C&AG's (DP&CS) Act 1971 and which may also include examination of documents/transactions of the previous year's, considered relevant by the audit team.

4. Consistent with contemporary, professional practice and provision in CAG's Regulations on Audit and Accounts 2007 (Regulation 183) our audit team would seek an entry conference at appropriate top/senior level, having control and authority over the subjects under the present audit. The entry conference will be an opportunity for the audit team to explain the audit objective criteria and examination of the internal control system.

It is desirable that the entry conference is held on the first working day of the audit period.

On the conclusion of the audit, the audit team would request you for an exit conference (Regulation 191) in which audit findings communicated to the auditee will be discussed.

5. The request for entry and exit conferences will be made formally by the Head of the Audit Team. We request you to kindly make it convenient to hold the meetings on the opening and closing days of audit respectively.

6. Our audit shall be conducted with reference to the Auditing Standards and Regulations on Audit and Accounts -2007 issued by the Comptroller and Auditor General of India under

7. Under Section 18 of the Comptroller and Auditor General of India's (Duties, Powers and Conditions of Service) Act 1971 it is the responsibility of 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 of India to afford all facilities for inspection by the audit team and comply with the request for information in as complete as a form as possible and with all reasonable expedition. Our audit team shall request for information and documents, indicating the expected time within which these may be provided. We expect that the documents held by the auditee should be available within the same day and the information would be made available within the time

indicated in the information seeking memo.

8. Attention is drawn to Regulations 169, which provides that the form type and extent of date, information and documents required for audit test and the nature of shall be determined by audit officer and that the data, information and documents would also include those obtained by auditable entity from the third party and relied upon by the auditee in its performance of functions.

9. We also draw your attention to Regulation 172, which enjoins that where required by audit in special circumstances the auditable entity shall conduct physical verifications of stores, stocks, assets etc, in the presence of the audit officer.

10. We request you to please provide appropriate and reasonable office accommodation and other office amenities to the audit team similar to the facilities available for the personnel of the organization.

11. We suggest that you may nominate a liaison officer sufficiently senior level for day to day coordination in the audit functions.

12. We bring to your kind notice that in the event of unreasonable delay in supply of information and documents leading to partial, selective or complete withholding of data/information leading to material scope limitation, the audit team may be compelled to suspend the audit after bringing it to the notice of the head of the office in writing and bring the matter to the notice of higher management.

13. While compilation of information requested for by audit may require sometime furnishing of documents held by the auditee organization should be made within the same day since these are readily available.

14. It may be mentioned here that failure to produce necessary record/documents or to respond to the clarifications sought by the audit team would tantamount to preventing a Government officer from performing his/her duties and could, therefore, invite action under section 175-186 of the Indian Penal Code.

15. Our audit teams have been directed to return the documents as soon as their examination is over. We expect to issue an inspection report containing the results of audit within 30 days of conclusion of audit for the response of the department.

16. We will acknowledge the acceptance of audit findings and conclusions and remedial measures assured / taken by the auditee organizations in our inspection report if remedial measures are taken during the course of audit itself.

17. We hope that your office maintains a file register/register of documents held along with the cash book will be required on the very first day of audit. These and other documents forming the basis of information furnish with reference to the questionnaire.

18. Depending upon the volume of work and supply of information/documents the period of audit may be extended.

19. We bring to your kind notice that our team would expect only working environment assistance in their day to day working and documents and information and nothing more. Should you feel it necessary to consult senior officers you are most welcome to contact the Senior Deputy Accountant General/Deputy Accountant General of audit at telephone numbers 0281-2441238 and their e-mails ----- and, if necessary, even the Principal Accountant General (Audit-I) at telephone number 0281-2446836/37.

Kindly acknowledge the receipt.

Enclosure

Yours sincerely,

SAO/AAO/ APM



**ANNEXURE- II**  
(Refer in para 2.4 )

**Details/Information to be kept ready on the first day of audit**

1. Name(s) of officers in charge of the office since last audit and the period(s) of charge.
2. Details of attached sub offices or units, if any.
3. Staff Strength – sanctioned and actual (category wise).
4. Number of Service Books – (a) maintained, (b) Produced to audit and (c) reason for non-production, if any.
5. List of persons due to retire within 5 years from the scheduled date of audit.
6. List of persons who are not admitted to GPF/SLI.
7. Details of last departmental /internal audit such as: dates of inspection and the authority who conducted the inspection;
  - (a) period of accounts covered, and
  - (b) Present stage of the report.
8. Gross expenditure during the last financial year;
  - (a) Establishment,
  - (b) Non-Establishment.
  - (c) A statement showing month wise expenditure on Pay and Allowances of Offices, Pay and Allowances of Establishment, Contingent (sub-head wise) and grant-in-aid (including subsidy loan etc.) if any for the period from \_\_\_\_\_.
9. Amount of Permanent advance sanctioned. A statement showing the month-wise expenditure met out of permanent advance sanctioned for the office during the period from \_\_\_\_\_ (The number and date of sanction order should also be indicated in the statement).
10. Total Gross Revenue collected during the last financial year and the nature of revenue. A statement showing the month-wise receipts of the office, if any (minor head wise) for the period from \_\_\_\_\_.
11. A statement showing all the accounts, documents and registers maintained in the office.
12. List of non-Government accounts maintained.
13. List of accounts maintained with Commercial Banks, Co-operative Banks/Societies, Government Treasuries.
14. Number of Subsidiary cash books, if any, maintained.
15. List of purchases exceeding Rs.1000/-
16. List of Officials against whom disciplinary action is taken.
17. List of cases of theft, loss, embezzlement, or misappropriation of Government money/property.
18. List of previous Inspection Reports/ Paras pending for settlement.

**ANNEXURE- III**  
(Refer in para 2.4 )

**List of records to be seen by the audit under Section 13 of Comptroller & Auditor General of India's (DP&Cs) Act, 1971.**

1. Cash Book (including subsidiary Cash Book, if any)
2. Pass Books, Cheque Books, Counterfoils of used cheques, stock register of cheque books and Bank reconciliation statement in respect of Bank/Treasury accounts
3. Receipt Books and Register of Receipt Books.
4. Acquittance Rolls.
5. Challan Receipts and Register of Challans.
6. Contingent Register.
7. Treasury Bill Book.
8. Register of Bills endorsed.
9. Pay Bill Register with Abstract of Pay Bills.
10. Special Advance Register
11. Loan Register and file.
12. Stamp Accounts and dispatch Register.
13. Log Book of vehicle and Register of replaced spare parts.
14. Maintenance and Repair accounts
15. Register of Incumbents.
16. Service Books and Register of Service Books.
17. Register of Furniture & other office stores
18. Register of Land & Buildings
19. Auction Register
20. Stock Register of Books & periodicals
21. Register of Tenders
22. Copies of sanction for retention & continuation of post & other records.
23. Register for watching utilization of Loans & Advances
24. Survey Report of Stores & Stock (including machinery, tools & equipments which have become unserviceable)
25. Sale Account
26. Register of Valuable documents
27. Register of Permanent Advances.
28. Register of Cheques presented at Treasuries
29. Register of undisbursed pay etc.
30. Register of Inspection Reports and outstanding IRs.
32. Register of Audit Objections
33. Payment vouchers/sub-vouchers/contingent vouchers, loans.
34. Register of retrenchment.
35. T.A. bills/medical reimbursement bills and registers.
36. Leave accounts.
37. G.P.F./C.P.F. Accounts of Class-IV employees.
38. Register of bank draft/Money Order etc.
39. Measurement books.
40. Muster rolls.
41. Works accounts.
42. Stationery register.

- 43 Register of forms.
- 44 Increment register.
- 45 Establishment audit register.
- 46 Register of agreements/Contracts.
- 47 Records of deposits and refunds/lapsed deposits.
- 48 Stores and stock accounts
  - a) Annual stock returns.
  - b) Write-off files.
  - c) Physical verification reports etc.
  - d) Stores ledgers.
  - e) Purchase files etc.
  - f) Disposal of obsolete, surplus of unserviceable store files.
- 49 Treasury/bank pass and remittance books.
- 50 Records/register relating to loans and advances.
- 51 Railway warrants records.
- 52 Attendance registers.
- 53 Casual leave/restricted holidays account.
- 54 Imprest accounts.
- 55 Appropriation register/budget estimates.
- 56 Register of machines/vehicles.
- 57 Petrol registers.
- 58 Livestock register and fodder account.
- 59 Internal audit reports.
- 60 Register of periodical charges i.e. rent, rates and water charges.
- 61 Register of liveries.
- 62 Register of scholarships, stipends etc.
- 63 Register of temporary advances.
- 64 Register of honorarium.

**A In the office of Grantee institutions/authorities**

**List of records to be seen in audit of accounts of institutions/authorities substantially financed from Union or State under section 14 of CAG's (DPCS) Act, 1971.**

- 1 Cash book
- 2 Payment voucher/Sub-vouchers/Contingent vouchers
- 3 Register of cheque books and cheques
- 4 Register of receipt books and receipts
- 5 Bill register
- 6 Contingent register
- 7 Establishment pay bills and acquittance rolls
- 8 TA/Medical/Over Time Allowance etc. bills and register
- 9 Service books and leave accounts
- 10 GPF/CPF accounts, if maintained
- 11 Register of bank drafts with numbers etc.
- 12 Stamps accounts
- 13 Log book of vehicles
- 14 Stationery register
- 15 Register of forms
- 16 Establishment audit register
- 17 Increment register

18	Tenders and contracts
19	Records of deposit and refunds
20	Telephone/Trunk call register
21	Stores and stock accounts
22	Treasury/Bank pass book and remittance books
23	Records/Register of loans and advances
24	Register of valuables
25	Register of land, buildings and rent
26	Permanent advance register
27	Attendance register, C.L. register etc.
28	Register of library books
29	Register of undisbursed amount
30	Imprest accounts
31	Dead stock register
32	Budget records
33	Register of machines/vehicles
34	Internal audit reports
35	Constitution of body
36	Subsidiary books and accounts
37	Journal entries
38	List of grants/loans received by the body and its utilization
39	Sundry debtors accounts
40	Sundry creditors accounts
41	Documents/files relating to finalization of grants
42	Bank reconciliation statement
43	Ledgers
44	Trial balances
45	Depreciation accounts
46	Details of utilization certificates furnished during the period for which accounts is under audit
47	Register of assets purchased out of amount of grants and disposal
48	Policy and programme drawn up for the period
49	Progress report on the implementation of policies and programmes sent to administrative department
50	Register of grants-in-aid
51	Sanctions of grants-in-aid received
52	Register of utilization certificates
53	Utilization certificates issued and their case files
54	Cash books, vouchers, receipts books and pertinent records.

**List of the records to be seen in audit of institutions received Grant-in-aid (Section 15 of CAG's (DP&CS) Act, 1971).**

<b>B</b>	<b>In the office of Administrative Officer and Head of Department.</b>
1	Grant-in-aid/loan rules.
2	Sanctions for grant/loans accorded during the period under audit.
3	Register of grant/loans sanction and their utilisation.
4	Utilisation certificates and pertinent record.
5	Internal Audit Report.
6	Implementation reports received from grantee/loanee.

- 7 Files of audited statement of accounts.
- 8 Files relating to inspection of grantee/loanee, institution.
- 9 Register of assets created out of Government grant.

**List of records to be checked in audit of autonomous bodies and authorities under section 19 and 20 of CAG's (DPCS) Act, 1971.**

- 1 Cash book
- 2 Receipts
- 3 Payment vouchers
- 4 Bank reconciliation
- 5 Subsidiary books of accounts
- 6 Journal entries
- 7 Payment of staff pertinent records
- 8 Expenditure on wages
- 9 Office contingencies
- 10 Stores and stock accounts
- 11 Works records
- 12 Advances to staff
- 13 Advances to suppliers
- 14 Loans raised by autonomous bodies
- 15 Loans disbursed by autonomous bodies
- 16 Grants received by autonomous bodies
- 17 Financial assistance received/rendered by auto. bodies
- 18 Sundry Debtors accounts
- 19 Sundry Creditors accounts
- 20 Fund accounts and investments thereof (other than P.F. account)
- 21 Scholarships, stipends etc.
- 22 Provident Fund and other fund accounts of employee
- 23 Budget provision
- 24 Check of final accounts pertinent record
- 25 Constitution of the autonomous bodies
- 26 Trial balance
- 27 Ledgers
- 28 Depreciation accounts
- 29 Register of assets purchased out of amount of grant
- 30 Policy and programmes drawn up for the period under audit
- 31 Progress report on the implementation of policies/programmes sent to administrative/ sanctioning department

**ANNEXURE-IV**  
**Calendar of Returns**  
**(Refer: Para 2.6)**

Sr. No.	Name of Return	To whom due	When due	Authority
<b>PART I</b>				
<b>DAILY</b>				
1.	Attendance Register	B.O.	Daily	Manual of Office procedure
<b>WEEKLY</b>				
1	Calendar of returns	B.O.	Monday	Manual of office procedure
2	General Inward Register	B.O.	Monday	O.O. No. T.M. 16 dtd. 11.07.1960 & T.M./29 dtd. Nil Sept. 1962
3	Register of letters received from Govt. of Gujarat	B.O.	Monday	O.O. No. T.M. 16 dtd. 11.07.1960
4	Register of D.O. letters	B.O.	Monday	O.O. No. T.M. 16 dtd. 11.07.1960
5	Register of Telegram / Telex/Fax/Email	B.O.	Monday	O.O. No. T.M. 16 dtd. 11.07.1960
6	Registers of letters received from Govt. of India	B.O.	Monday	O.O. No. T.M. 16 dtd. 11.07.1960
7	Register of letters received from C&AG	B.O.	Monday	O.O. No. T.M. 16 dtd. 11.07.1960
8	Register of letters received from other sections	B.O.	Monday	O.O. No. T.M. 16 dtd. 11.07.1960
9	Register of letters received from P.A.G./DAG	B.O.	Monday	O.O. No. T.M. 16 dtd. 11.07.1960
10	Progress-cum-Arrears Report Register	B.O./DAG	Monday	O.O. No. T.M. 13 dtd. 13.02.1962
11	Complaint Register	B.O.	Monday	O.O.No.PA/AG/4dtd. 2.7.1967
12	Register of watching receipts of Diaries from OAD field parties	B.O.	Monday	OAD Manual
13	Register of T.A. Bills	B.O.	Monday	A.G.'s order dtd. 12.2.
14	Hindi Register	B.O.	Monday	
15	Confidential Register	B.O.	Monday	O.O. No. TM/6 dtd. 11.7.1960
16	Register of notes received from Sr.DAG/DAG/PAG	B.O.	Monday	M.S.O.(A) TM 286 Vol.II dtd. 11.7.83
17	Register of U.O.R.	B.O.	Monday	M.S.O.(A) TM 286 Vol.II dtd. 11.7.83
18	Register of office orders issued	B.O.	Monday	M.S.O.(A) TM 286 Vol.II dtd. 11.7.83

19	Register of issuance of SAR	B.O.	Monday	M.S.O.(A) TM 286 Vol.II dtd. 11.7.83
20	Register of Data Bank of purchases/purchase contracts	B.O.	1 <sup>st</sup>	APM Circular No. 19 dtd. 8.14.99
<b>Fortnightly</b>				
1.	Outward Register (Hindi and English)	B.O.	1 <sup>st</sup> and 16 <sup>th</sup>	O.O. No. T.M. 13 dtd. 17.2.1962
2.	Transit Register for inter-sectional correspondence	B.O.	2 <sup>nd</sup> and 16 <sup>th</sup>	O.O. No. T.M.57 dtd. 15.1.1963
3.	Register of objections raised by Director of Inspection	B.O.	15 <sup>th</sup> & 30 <sup>th</sup>	I.T.A. dtd. 7.9.1980
4.	Register of Pending cases	B.O.	5 <sup>th</sup> & 20 <sup>th</sup>	O.O. No. TM 108 dtd. 1.1.1966
5.	Register of Issuance of SAR	DAG	15 <sup>th</sup> & 30 <sup>th</sup>	DAG(I/c)'s orders dtd. 30.8.2005
<b>MONTHLY</b>				
1	Calendar of Returns	D.A.G.	1 <sup>st</sup> Monday	Manual of Office Procedure
2	Sectional Duty List Register	B.O.	5 <sup>th</sup>	O.O. No.TM/29/Misc 13 dtd. 7.14.1960
3	Casual Leave Register	B.O.	5 <sup>th</sup>	OAD Manual
4	Closing of Attendance Register	B.O.	5 <sup>th</sup>	Manual of Office procedure
5	Departmental Note Book	B.O.	5 <sup>th</sup>	O.O. No.TM/29/19 dtd. 16.12.1960
6	Register of Dictionary of References	B.O.	5 <sup>th</sup>	O.O. No. T.M. 19 dtd. 16.12.1960
7	Register of statistics	B.O.	10 <sup>th</sup>	O.O. No. T.M. 87 dtd. 31/12/1964
8	Register of Pending cases	B.O.	5 <sup>th</sup>	O.O. No. T.M. 108 dtd. 1/11/1966
9	Register of files	B.O.	5 <sup>th</sup>	O.O. No. T.M. 108 dtd. 15.6.1967
10	Register of Library	B.O.	5 <sup>th</sup>	A.G. A'bad's letter No. 11.01.1966
11	Register of Complaints	B.O.	5 <sup>th</sup>	O.O.No. PA/AG/4 dtd. 2.7.1967 & DAG's orders dtd. 11.12.1997
12	Register of press clippings	DAG	5 <sup>th</sup>	ECPA Circular dtd. 9.9.2005
13	Register of General orders/circular issued	B.O.	10 <sup>th</sup>	O.O. No. TM/45 dtd. 3.5.1960
14	Register for marking sections by P. A.G. for inspection by Group Supervisory Officer	P.A.G.	5 <sup>th</sup>	O.O. No. TM 6 dtd. 27.12.1986
15	Register of NIL IRs	B.O./DAG	10 <sup>th</sup>	CAG DO 172 Insp. 336/96 dtd. 11.6.1997
16	Register of watching the Receipt and issuance of IRs	DAG	7 <sup>th</sup>	O.O.No.APM/5(5) dtd. 4.12.1995

17	Register of watching of action taken by Admn. Dept. On recommendation of PAC meeting	B.O.	15 <sup>th</sup>	O.O. No. AAIII/15061-62 dtd. 5.9.1967 & O.O. No.AR/136 dtd. 5.1.1996
18	Complaints received from Sr.A.O./DAG/Sr.DAG/ PAG	B.O.	5 <sup>th</sup>	O.O.No. ITA dtd. 18.12.1971
19	Register of common irregularities noticed during local audit	B.O.	5 <sup>th</sup>	O.O.No. ITA dtd. 18.12.1971
20	Progress Register of Inspection Reports	B.O./DAG	5 <sup>th</sup>	M.S.O.(T) Vol.V
21	Register of Defalcation & Financial Irregularities	B.O./DAG	5 <sup>th</sup>	O.O. No. AA/61-62 dtd. 28.7.1962
22	PDP Register	B.O./DAG	5 <sup>th</sup>	O.O. No. AA/61-62 dtd. 28.7.1962
23	Register in respect of special points to be taken during local audit	B.O.	5 <sup>th</sup>	O.O.No.5 dtd. 14.2.1992
24	Register of court cases	B.O.	5 <sup>th</sup>	A.M. Sn. O.O. No. 5 dtd. 30.8.1983
25	Register of Objection book	B.O./DAG	5 <sup>th</sup>	As per Manual
26	Register of Issuance of SAR	PAG	15 <sup>th</sup>	DAG's orders dtd. 30.8.2005
27	Register of watching amounts under objection waived by PAG Office	B.O	5 <sup>th</sup>	Para 808 of M.S.O.(T)
28	Register of Data Bank of purchases/purchase contracts	B.O.	1 <sup>st</sup>	APM Circular No. 19 dtd. 8.14.99
29	Register of watching cases reported to C&AG	B.O.	5 <sup>th</sup>	Minutes of A.G. dtd. 8.5.1994
30	Register of watching receipt of store and stock accounts	B.O.	5 <sup>th</sup>	DAG's orders in file No. OAD-I/28(8)
31	Register of special points to be seen during next local audit	B.O.	5 <sup>th</sup>	A.M. O.O. No. 5 dtd. 30.8.1983
32	Register of PLA Paras	B.O.	5 <sup>th</sup>	APM Circular dtd. 5.6.2002
33	Register of AC/DC Bills Para	B.O.	5 <sup>th</sup>	-do-
34	Register of Misappropriation cases paras	B.O.	5 <sup>th</sup>	-do-
35	Progress-cum Arrears	DAG	Ist Monday	Manual of Office Procedure
36	Correction to OAD Manual	B.O.	5 <sup>th</sup>	-do-
37	Register of write off	B.O.	5 <sup>th</sup>	O.O.No.TM/18 dtd. 24.5.1962
38	Register of watching cases reported to Govt.	B.O.	5 <sup>th</sup>	OAD-II/O.O.No.17 dtd. 1.4.1964
39	Audit fee Register	DAG	5 <sup>th</sup>	DAG's orders dtd. 19.8.1964



40	Register of Omnibus paras	DAG	10 <sup>th</sup>	DAG's orders dtd. 19.5.1965
41	Register of Paras likely to find a place in Audit Report	B.O.	15 <sup>th</sup>	A.A. Sn. O.O. dtd. 17.5.1965
42	Register of cases of irregular utilisation of central assistance by State Govt. Depts. Noticed during local audit	B.O.	15 <sup>th</sup>	DAG's orders dtd. 14.5.1965 in file OAD-II/28(42)
<b>QUARTERLY</b>				
1	Register of files	DAG	7 <sup>th</sup> April, July, Oct. & Jan.	T.M. O.O. No. 148 dtd. 15.6.1967
2	Auditors Note Book	B.O.	15 <sup>th</sup> April, July, Oct. & Jan.	T.M.(C)/29/19 dtd. 16.12.1960 & TM/29/6 dtd. 18/9/1961
3	Register of IRs issued during the quarter for review	P.A.G.	8 <sup>th</sup> May, Aug, Nov. & Feb	A.G. Sectt.'s letter dtd. 15.3.1991
4	Register of Press clippings	P.A.G.	5 <sup>th</sup> March, June, Sept. & Dec.	ECPA's order dtd. 9/9/2005
5	AAOs note book	B.O.	15 <sup>th</sup> April, July, Oct. & Jan	T.M./29/19 dtd. 16.12.1960 & TM/29/6 dtd. 18/9/1961
6	Audit Note book	B.O.	15 <sup>th</sup> April, July, Oct. & Jan	TM/29/19 dtd. 16.12.60 & 18.9.1960
<b>HALF YEARLY</b>				
1	Register of sectional duty list	D.A.G.	5 <sup>th</sup> June & Dec	T.M. O.O. No. 29/Misc/18 dtd. 7.14.1960
<b>PART-II</b>				
<b>MONTHLY</b>				
1	Monthly state of work arrear report	P.A.G.	20 <sup>th</sup>	As per Para 28 of MSO(T)
2	Monthly progress report in respect of action taken by Administrative Departments on the recommendation of PAC	AR	5 <sup>th</sup>	As per para 28 of M.S.O.(T)
<b>QUARTERLY</b>				
1	Progress report of objections raised by Director of Inspection	I.T.A.	10 <sup>th</sup> April, July, Oct. & Jan	O.O. No. AM/5/dtd. 14.2.1992
2	Progress Report on revision/updating of local manuals by field office	C&AG	15 <sup>th</sup> April, July, Oct. & Jan	CAG's letter No. 692/O&M/97-99/II dtd. 8.7.1988
3	Quarterly Report on improvement in quality of audit results	PAG	15 <sup>th</sup> April, July, Oct. & Jan	A.M./ Cir. 21 dtd. 22.2.1994

4	Quarterly state of work arrear report	PAG	30 <sup>th</sup> April, July, Oct. & Jan	A.P.M./ O.O. No.4 dtd. 9.7.1995
5	Quarterly Progress report in respect of use of Hindi	Hindi (Cell)	5 <sup>th</sup> April, July, Oct. & Jan	
6	Quarterly Progress Report	C&AG	15 <sup>th</sup> April July, Oct. and Jan.	CAG's letter No 254/WR/Co-ord/162-2012
7	Supervision by Group Officer of field Audit Party	C&AG	15 <sup>th</sup> April July, Oct. and Jan.	CAG's Circular No-01/PPG/2013 dated 25-09-2013
<b>HALF YEARLY</b>				
1	Statement of outstanding objection for more than six months	Director of Accounts & Treasuries, Administrative Department of Govt. of Gujarat & Ministry of Govt. of India	15 <sup>th</sup> May & Nov.	O.O. No. 32 dtd. 8.11.1968 of T.M.
2	Half Yearly statement/reports on cases of Fraud and Corruption	C&AG	15 <sup>th</sup> July & Oct..	C&AG's letter No. 126/Audit/(AP)/1-2004 dtd. 6.9.2006 & 761-Rep(S)2006-07 dtd. 25.6.2007
3.	Half yearly progress Report of Implementation Annual Audit Plan	C&AG	7 <sup>th</sup> April and 7 <sup>th</sup> October	CAG's letter no. WR/Co-ord/Audit Plan/302-2013 dated 02-05-2014
<b>YEARLY</b>				
1	Audit Plan	C&AG	15 <sup>th</sup> Feb	C&AG's Circular No. 1/Audit Planning/98 dtd. 6.2.1998
2	Submission of IRs in Hindi	C&AG	1 <sup>st</sup> May	C&A'sG letter No.RA/66-96 dtd. 7.3.1997
3	Material for Activity Report of IA & AD	C&AG	15 <sup>th</sup> May	C&AG's letter No.283/Audit(JMT& AR)/ 213-97 dtd. 3.4.1998
4	Ranking the performance of audit office	C&AG	15 <sup>th</sup> April	CAG's letter No. 207/Audit/CAP/16/2004 dtd. 22.11.2004
5.	Performance Report of SAI India	C&AG	31 <sup>th</sup> July	CAG's letter No 1074-1209/Per. Rep./SMU/2012-13/38-2013 dated 12-07-2013

## ANNEXURE-V

(Refer: Para No. 2.11)

### **Extracts of Sections 13 to 20 & 24 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971**

#### **General Provisions relating to Audit**

##### **Section 13**

It shall be the duty of the Comptroller and Auditor General-

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

and in each case to report on the expenditure transactions or accounts so audited by him.

#### **Audit of receipts and expenditure of bodies or authorities substantially financed from Union or State Revenues.**

##### **Section 14**

14(1) Where anybody or authority is substantially financed by grants or loans from the Consolidated Fund of India or of any State or of any Union Territory having a Legislative Assembly, the Comptroller and Auditor General shall, subject to the provision of any law for the time being in force applicable to the body or authority, as the case may be, audit all receipts and expenditure of that body or authority and to report on the receipts and expenditure audited by him.

Explanation – Where the grant or loan to a body or authority from the Consolidated Fund of India or of any State or of any Union Territory having a Legislative Assembly in a financial year is not less than rupees twenty five lakh and the amount of such grant or loan is not less than seventy five per cent of the total expenditure of that body or authority, such body or authority shall be deemed, for the purposes of this sub-section, to be substantially financed by such grants or loans, as the case may be.

(2) Notwithstanding anything contained in sub-section (1) the Comptroller and Auditor General may with the previous approval of the President or the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, audit all receipts and expenditure of any body or of any State or of any Union Territory having a Legislative Assembly, as the case may be, in a financial year **is** not less than rupees one crore.

(3) Where the receipts and expenditure of any body or authority are, by virtue of the fulfillment of the conditions specified in sub-section (1) or sub-section (2), audited by the Comptroller and Auditor General in a financial year, he shall continue to audit the receipts and expenditure of that body or authority for further period of two years notwithstanding that the conditions specified in sub-section (1) or sub-section (2) are not fulfilled during any of the two subsequent years.

### **Functions of the Comptroller and Auditor General in the case of Grants or Loans given to the other Authorities or Bodies.**

#### **Section 15**

**15 (1)** Where any grant or loan is given for any specific purpose from the Consolidated Fund of India or of any State or of any Union Territory having a Legislative Assembly to any authority or body, not being a foreign State or international organization, the Comptroller and auditor General shall scrutinize the procedures by which the sanctioning authority satisfies itself as to the fulfillment of the conditions subject to which such grants or loans were given and shall for this purpose have right of access, after giving reasonable previous notice, to the books and accounts of that authority or body.

Provided that the President, the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, may, where he is of opinion that it is necessary so to do in the public interest, by order, relieve the Comptroller and Auditor General, after consultation with him, from making any such scrutiny in respect of any body or authority receiving such grant or loan.

**(2)** Except where he is authorized so to do by the President, the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, the Comptroller and auditor General shall not have, while exercising the powers conferred on him by sub-section(1), right of access to the books and accounts of any Corporation to which any such grant or loan as is referred to in sub-section(1) is given if the law by or under which such Corporation has been established provides for the audit of the accounts of such Corporation by an agency other than the Comptroller and Auditor General:

Provided that no such authorization shall be made except after consultation with the Comptroller and Auditor General and except after giving the concerned Corporation a reasonable opportunity of making representation with regard to the proposal to give to the Comptroller and Auditor General right of access to its books and accounts.

### **Audit of receipts of Union or of States**

#### **Section 16**

It shall be the duty of the Comptroller and Auditor General to audit all receipts which are payable into the Consolidated Fund of India and of each State and of each Union Territory having Legislative assembly and to satisfy himself that the rules and procedures in that behalf are designed to secure an effective check on the assessment,

collection and proper allocation of revenue and are being duly observed and to make for this purpose such examination of the accounts as he thinks fit and report thereon.

#### **Audit of accounts of stores and stock**

##### **Section 17**

The Comptroller and Auditor General shall have authority to audit and report on the accounts of stores and stock kept in any office or department of the Union or of a State.

#### **Powers of the Comptroller and auditor General in connection with audit of accounts**

##### **Section 18**

**18 (1)** The Comptroller and Auditor General shall in connection with the performance of his duties under this Act, have authority-

(a) to inspect any office of accounts under the control of the Union or of a State, including treasuries and such offices responsible for keeping of the initial or subsidiary accounts, as 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;

#### **Audit of Government Companies and Corporations.**

##### **Section 19**

**19 (1)** The duties and powers of the Comptroller and Auditor General in relation to the audit of the accounts of Government Companies shall be performed and exercised by him in accordance with the provisions of the Companies Act, 1956(1 of 1956).

**(2)** The duties and powers of the Comptroller and Auditor General in relation to the audit of the accounts of Corporations (not being Companies) established by or under law made by Parliament shall be performed and exercised by him in accordance with the provisions of the respective Legislations.

**(3)** The Governor of a State or the Administrator of a Union Territory, having a Legislative Assembly may, where he is of opinion that it is necessary in the public interest so to do, request the Comptroller and Auditor General to audit the accounts of a Corporation established by law made by the Legislature of the State or of the Union Territory as the case may be, and where such request has been made, the Comptroller and Auditor General shall audit the accounts of such Corporation and shall have, for the purposes of such audit, right of access to the books and accounts of such Corporation.

Provided that no such request shall be made except after consultation with the Comptroller and Auditor General and except after giving reasonable opportunity to the Corporation to make representation with regard to the proposal for such audit.

### **Laying of reports in relation to accounts of Government Companies and Corporations**

**19A (1)** The reports of the Comptroller and Auditor General in relation to the accounts of a Government Company or a Corporation referred to in Section 19, shall be submitted to the Government or Governments concerned.

**(2)** The Central Government shall cause every report received by it under sub section (1) to be laid, as soon as may be after it is received, before each House of Parliament.

**(3)** The State Government shall cause every report received by it under sub-section (1) to be laid as soon as may be after it is received, before the Legislature of the State.

Explanation- For the purposes of this section “Government” or “State Government” in relation to Union Territory having a Legislative Assembly, means the Administrator of the Union Territory.

### **Audit of accounts of certain authorities of bodies**

#### **Section 20**

**20 (1)** Save as otherwise provided in Section 19, where the audit of the accounts of any body or authority has not been entrusted to the Comptroller and Auditor General by or under any law made by Parliament, he shall, if requested so to do by the President or the Governor of a State or the Administrator of a Union territory having a Legislative Assembly, as the case may be, undertake the audit of the accounts of such body or authority on such terms and conditions as may be agreed upon between him and the concerned Government and shall have, for the purposes of such audit, right of access to the books and accounts of that body or authority:

Provided that no such request shall be made except after consultation with the Comptroller and Auditor General.

**(2)** The Comptroller and Auditor General may propose to the President or the Governor of a State or the Administrator of Union Territory having Legislative Assembly, as the case may be, that he may be authorized to undertake the audit of the accounts of any body or authority, the audit of the accounts of which has not been entrusted to him by law, if he is of opinion that such audit is necessary because a substantial amount has been invested in, or advanced to, such body or authority by the Central or State Government or by the Government of Union Territory having a Legislative Assembly, and on such request being made, the President or the Governor or the Administrator, as the case may be, may empower the Comptroller and Auditor general to undertake the audit of the accounts of such body or authority.

**(3)** The audit referred to in sub-section (1) or sub-section (2) shall not be entrusted to the Comptroller and Auditor General except where the President or the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, is satisfied that it is expedient so to do in the public interest and except after giving

a reasonable opportunity to the concerned body or authority to make representations with regard to the proposal for such audit.

**Section 24**

The Comptroller and Auditor General of India is authorized to dispense with, when circumstances so warrant, any part of the detailed audit of any accounts or class of transactions and to apply such limited check to such accounts or transactions as he may determine under Section 24 of the Act.

(Pages 8 to 12 of the MSO (Audit). Second Edition-2002)

**CHAPTER – III**  
**DUTIES AND POWERS**

**3.1 Duties of AMG-II Wing**

AMG-II Wing is responsible for the following items of works:-

- (i) To prepare tour programmes of the Inspection parties and supervising officers;
- (ii) To issue intimation of audit to the offices concerned;
- (iii) To collect all relevant files, documents etc. and to dispatch them to the inspection parties;
- (iv) To edit the inspection reports received from the inspection parties and to check the accounts, if any, attached thereto before submission for approval;
- (v) To scrutinize the replies to the inspection reports, issue further remarks, if any, or take any further action on the same until the points raised in the reports are finally settled;
- (vi) To dispose of all general questions relating to the audittee units;
- (vii) To maintain the registers prescribed for the section in addition to the general registers required to be maintained otherwise;

**Note:** A list of such registers is given in *Annexure-VI*.

- (viii) To distribute office orders, circulars, etc. to the inspection parties.
- (ix) To examine the weekly diaries of inspection parties;
- (x) To review the outstanding paragraphs in the inspection reports monthly;
- (xi) To report delays in the disposal of inspection reports by Heads of Offices to the Finance Department;
- (xii) To furnish to the local audit parties whenever necessary information on the defects noticed in the Central Audit which will be a valuable guide to the parties in conducting local audit by collecting the necessary materials from the concerned audit section.
- (xiii) To collect the notes submitted by the audittee units regarding delay in answering objections and returning the audit query statements, by the Heads of the offices inspected and to report them to the Finance Department.
- (xiv) To prepare draft paragraph for Audit Report relating to PRH&RDD and UD&UHD for processing in Report Section.
- (xv) To maintain an institution-wise register to indicate details of yearly grants/loans sanctioned by the Central/State Governments to authorities/bodies, including details of unspent grants/loans of the previous years and expenditure incurred by such authorities/bodies for determining whether they fall under Section 14 of the Act. At the close of the financial year, the departments should be asked to send a list of grants/loans sanctioned by them, including those sanctioned by subordinate authorities. Information pertaining to other Accountants General should be sent to



them and similarly information received from other Accountants General should be posted in the register. When the grant/loan sanctioned, including closing balance of previous years, is not less than ` 25 lakhs, the accounts of the authority or body should be called for from Government and scrutinized to determine whether audit under Section 14 is required to be undertaken. The State Government should be asked to notify the authority/body that their accounts will be audited by the Principal Accountant General under Section 14 and that they should make available their books of accounts and afford necessary facilities;

(xvi) To process requests for audit under Section 19 and 20 of the Act, keeping in view the following factors:

- a) Whether the Government has satisfied themselves that it will be necessary for the Comptroller and Auditor General of India to take up the audit in public interest;
- b) Whether the office is adequately equipped to take up the work with due regard to the staff position, availability of trained personnel etc.;
- c) Whether the duties cast on the auditor according to acts, rules regulations, etc., are capable of being adequately discharged and they do not contain any item of work which is not normally undertaken by Audit, such as verification of stores, etc;
- d) Whether audit will be conducted by the Comptroller and Auditor General's organisation alone or whether there will be primary auditor and in the latter case what are the relative duties of the two auditors and whether such a situation is acceptable;
- e) Whether the results of audit are to be separately reported to the Parliament/Legislature or whether they can be reported as part of Comptroller and Auditor General's Report under Article 151 of the Constitution;

(CAG's letter No. 1076/TA-I(RGL)/26.78 dated: 7.11.1978 and No. 2092/TA-I(RGL)/76-78 dated: 30.11.1979).

(xvii) To prepare a detailed brief on outstanding paragraphs of previous inspection reports and forward such briefs to the inspecting parties/officers sufficiently in advance. Copies of the briefs should also be sent to the heads of the offices audited and

(CAG's letter No..528-O&M/7-81 V dated: 10.6.81)

(xviii) To prepare briefs for the Group Officer to discuss with the inspecting officers and staff on more important items of work, to send advance copies of the quarterly programme to the Group Officer so that he could participate in such briefing sessions and alert the parties on significant points giving the lines of special investigation and to prepare briefs for periodical meetings (at least once a year the Group Officer with each head of department regarding outstanding inspection report for securing their settlement.)

(CAG's letter No. 528-O&M/7-81 V dated: 10.7.1982).

(xix) Conduct statistical sampling from VLC data for selection of vouchers in Local

Audit.

(CAG's letter No 284-ISW/185-2003 dtd. 6.2.2004)

### **3.2 Duties and powers of the Senior Deputy Accountant General/Deputy Accountant General, AMG-II**

AMG-II Wing which is responsible for conducting audit of PRIs/ULBs is under the direct charge of the Group Officer who is responsible for general administration of the wing ensuring its smooth and efficient working. His main duties and powers are given below:-

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

### **3.3 Duties of Sr. Audit Officer (Headquarter)**

The Sr. Audit Officer at Headquarter shall be responsible for supervision and efficient working in the sections under their charge. He will assist the Group Officer (AMG-II) in performance of his duties and in the discharge of the duties enumerated in Para 3.2 above and will undertake such other items of work as may be entrusted to him by the Group Officer. The Sr. Audit Officer will have power to grant casual leave up to five days at a time to the Asstt. Audit Officer and up to eight days at a time to the staff working under AAO when the period exceeds to the power of sanction of the Asstt. Audit Officer.

### **3.4 Duties of Inspecting Officer**

The inspecting officer is required to perform the following duties: -

- (i) (a) To review all tenders and agreements, particularly those of high value,
- (b) Review of scheme items on which an expenditure of ` 5.00 lakh or above has been incurred,

(c) General scrutiny of the Cash Book and transactions during the period covered by audit,

(d) To ensure that physical verification of cash as per the records is done by the Drawing and Disbursing Officer in his present and include comments, if any, arising from such verification in the Inspection Report, and

(Authority:-Annexure of Para 6.1.7 of Manual of Standing Orders (Audit), 2002)

(e) To examine all important points raised by their staff and they should take particular care to see that the reports are drawn up so as to afford no grounds for complaint from the local authorities in regard to their tone of substance. Inspection should be conducted with fact and discretion so as to avoid all possible irritation to local officers.

No statement which might be treated as injurious to the character of any person should be made without the utmost care and attention to facts, as otherwise, it may not be regarded by a court as bonafide and make the reporter liable for civil or criminal liability.

"In cases where the inspections are conducted under the supervision of an officer throughout or where the concluding stage of the audit is supervised by him, the inspecting officer shall write out the report himself and not leave it to his subordinate to do the drafting. The report thus drafted shall be forwarded to the Central office in Manuscript".

(CAG's confidential D.O.No. 1307/Admn. /I/388-55, dated: 24.6.1955 and A.G.'s orders dated: 3.12.1955).

The inspecting officer should try to get all the facts and explanation on the spot. Wherever satisfactory explanation is not forthcoming and inspecting officer feels that the points raised by him are so important that they may ultimately find a place in the audit report to be submitted to the Legislature, he should take care to clinch all issues involved, to collect all relevant information and also to take attested copies of those documents which are likely to be useful in pursuing the matter with higher authorities.

(CAG's No.971/Tech. Admn.II/131-68 dated: 2.5.1968).

(ii) (a) Whenever the Inspecting Officer/Assistant Audit Officer comes across a case of defalcation, fraud, embezzlement or serious financial irregularity; he should at once try to analyze and understand the modus operandi thereof and also make himself sure by extending his probe to some other months at random that the case which has come to his notice is not part of a regular pattern. When the officer has made these preliminary investigations he may report the matter to the headquarters and seek further instructions. In all such cases a covering letter to the Inspection Report should be sent in advance detailing the result of his investigations.

(b) In the cases of frauds which come to notice in the course of local audit of the accounts, the local audit party should bear in mind following instructions enjoined in D.O. letter No. C/9-321/Admn/I53-Part III dated: 23.11.1954 from the office of the Comptroller and Auditor General of India.

"Though we have no direct powers of impounding documents which are in the custody of departmental offices, those offices are bound under para 18 of Audit and Accounts orders, 1963 to comply with any requisition from the Audit Department to produce any books and other documents relating to transactions to which our duties in respect of audit

extend and to make these documents available at such places as we may appoint for inspection by us. The statutory position being so, there is nothing to preclude us from keeping with us documents produced in local audit on the ground that certain audit processes are still incomplete. When the audit party moves away from the office inspected, it will then only be necessary for them to furnish to the Head of the Office inspected an acknowledged list of documents that they are taking away with them for completing the processes of audit. There is no restriction that documents that are ordinarily audited locally should be audited only with the premises of the departmental office. In fact, there may be cases where it may be necessary to submit the documents in original to superior authorities at Headquarters and to take their orders or directions.

In such cases where the documents are likely to form valuable evidence to prove a fraud, a Photostat copy may be taken in the usual manner by the Audit Office. When the audit note containing the objection relating to the fraud is sent to the departmental officers, the original documents could be sent either to the Head of the Office in case it is clear that personally he is not involved in the fraud and in other cases the documents could be sent to his superior authority, audit relating for its further purposes Photostat copies. Thereafter, it would be the responsibility of the head of the office or his superior authority to make arrangements for the proper custody of these records and to produce them to the police when required. As these are really departmental records, it is considered that it should suffice in such cases if the Photostat copies are held in safe custody by the Audit Office, though in respect of documents ordinarily in the custody of the audit office the instructions are that the original should not be parted with except under the orders of the Government of India, Ministry of Home Affairs in consultation with the Comptroller and Auditor General. In this respect, the CAG would not like to make any distinction between prescribed audits and consent audits".

### **3.5 Duties of Assistant Audit Officer**

Assistant Audit Officer is responsible for following item of works

- (i) Audit of the accounts of receipts.
- (ii) Audit of the accounts of stores.
- (iii) Examination of the Cash book.

#### **Notes:**

- (a) When the party is unsupervised, the Assistant Audit Officer should ensure that physical verification of cash as per the records is verified by the Drawing and Disbursing Officer in his presence and include comments, if any, arising from such verification in the Inspection Report.
- (b) In cases where close supervision of the Senior Auditor's work in regard to issue of audit memos and check of disposal of previous Inspection reports are required, the assistance of the Senior Auditors may be availed of for the routine checking of receipts and payments under this item of work, subject, of course, to the overall responsibility and supervision resting with the Assistant Audit Officer/Section Officer.

- (iv) Examination of the vouchers for the months selected for test check which were submitted to Central Audit and made available to the party by the Headquarters, with the original records, contract documents, etc.
- (v) Audit of all vouchers not submitted to Central Audit.
- (vi) Verification of drawals from and deposits into treasury with reference to treasury records.

**Note: The instructions in Note (b) below item (iii) are applicable to this item of work also.**

- (vii) Examination of the points marked by Central Audit for special investigation.
- (viii) Audit of works expenditure.
- (ix) Scrutiny of accounts of stores, equipment, etc. received under various foreign aid programmes.
- (x) Examination of Departmental inspection reports.

(Authority:-Annexure of Para 6.1.7 of Manual of Standing Order (Audit), 2002)

### **3.6 Duties of Sr. Auditor/Auditor**

The responsibilities of Sr. Auditor/Auditor are as follow-

#### **Senior of the two Senior Auditors**

- (i) Examination of service books, service rolls, broadsheets and ledgers in respect of Provident Fund accounts of Group D staff.
- (ii) Study of files containing important rules/orders issued by Government in respect of the institution under local audit and matters dealt with by it and of the Dictionary of References.
- (iii) Check of disposal of previous inspection reports.
- (iv) Triennial audit of taccavi accounts.
- (v) Audit of expenditure incurred by State Government in connection with large gatherings of political organizations.
- (vi) Scrutiny of establishment pay bills.
- (vii) Audit of travelling allowance bills.
- (viii) Examination of register of undisbursed pay and allowances.
- (ix) Scrutiny of register of advances.
- (x) Examination of accounts of immovable properties like land, buildings and other assets.

#### **Junior of the two Senior Auditors**

- (i) Scrutiny of Dead Stock Register.
- (ii) Examination of Register of Empties.
- (iii) Examination of Stamp Accounts.
- (iv) Scrutiny of Register of Deposits.
- (v) Examination of Log books and diaries of Government vehicles.
- (vi) Scrutiny of Register of Stationery.
- (vii) Examination of Register of Uniforms.
- (viii) Scrutiny of Register of Books and Periodicals.

(ix) Scrutiny of Provident Fund accounts of Group D employees.

(Authority:-Annexure of Para 6.1.7 of Manual of Standing Order (Audit), 2002)

## **ANNEXURE-VI**

**(Refer: Para 3.1)**

### **List of Registers maintained in Headquarters Section**

- (i) Register of local audit
- (ii) Register for noting points to be examined during local inspection:
- (iii) Register for watching the receipt and issue of the Inspection Reports:
- (iv) Register to watch progress in the Settlement of Inspection Reports.
- (v) Objection Books.
- (vi) Register of Financial Irregularities.
- (vii) Check Register of Weekly Diaries.
- (viii) Register for watching recovery of cost of audit.
- (ix) Check Register for T.A. Bills.
- (x) Register of deviation in the local audit programme and tour programme of Inspecting Officer.
- (xi) Register for watching the receipt and issue of lists of objections and other documents sent to the Local Audit Parties for verification:
- (xii) Register of Potential Draft Paras.

In addition to the above, following registers are also required to be maintained by OAD (Headquarter)

1. Register of serious irregularities
2. Register of draft paras for inclusion in the Audit Report
3. Auditor's Note Book
4. Departmental Note Book
5. Attendance Register
6. Casual Leave Register
7. Dictionary of Reference
8. Register showing strength of outside audit department
9. Register showing the charges held by auditors in the Central Office
10. Register of files (by each Auditor)
11. Register of pending cases
12. Register of NCC camp expenditure
13. Typist progress register
14. Transit Register

15. Inward Diary Register of:-
  - i) Letters from Government
  - ii) Letters-General
  - iii) Telegrams and Telex Communications
  - iv) Confidential Register
  - v) Unofficial References
  - vi) Letters from C & A G
  - vii) Demi-Official Letters
  - viii) Letters from other Sections
  - ix) Inspection Reports
  - x) Verification Notes of previous inspection
16. Outward Diary Register of letters
17. Reminder Register
18. Complaint Register
19. Register to watch action taken by Government on the recommendations of P.A.C.
20. Register of draft paras received from the field parties
21. Register of misappropriations
22. Register of stock paras
23. Register of Stores and Stock Accounts
24. Register of watching non-receipt of vouchers from field parties
25. Register for watching cases reported to Government
26. Register for corrections to OAD Manual
27. Register of objections raised by Director of Inspection, New Delhi
28. Register of Omnibus paras
29. Register of irregular utilisation of Central Assistance noticed during local audit
30. Assistant Audit Officer Note Book
31. Register of Audit fees
32. Register of sanctions received from Government of India

**Note:** - Registers at Sr. No.5, 6, 13, 14, 15, 16, and 18 are maintained by Clerk.



## **CHAPTER IV**

### **RULES AND PROCEDURES FOR THE LOCAL INSPECTION STAFF**

#### **4.1 Scope of Inspection and local audit**

- (i) The primary function of local audit is to verify the accuracy and completeness of accounts. All possible attention should, therefore be devoted to the examination of initial records and accounts. The AAO and Auditors should not make any relaxation on their own accord. It is, however, very important that the prescribed checks are observed in their spirit and not in their letter as opposed to the spirit.
- (ii) As the object of the accounts is to present a true financial picture, intelligent and proper audit requires visualizing of all financial transactions in their proper perspective as a whole and not merely the examination of the details of the transactions which work to the final result. The inspecting staff should also, prior to taking up the audit of the accounts of any particular institution, make themselves conversant with the nature of transactions, the system of accounts, the account books prescribed, the budget, departmental manual and the administration report or any other Government publication in order to obtain a correct perspective of the financial side of the institution. In such and similar ways they should make their audit both intelligent and useful instead of allowing it to become merely a process of checking registers in a mechanical way.

#### **4.2 General Duties of the Inspection Staff**

The broad outline of duties and responsibilities allocated to various categories of personnel in local audit parties of AMG-II wing is mentioned in Chapter III of this Manual. Apart from those, the inspection staff is responsible for carrying out the actual audits/inspections, drafting of the IRs and dispatching of such reports to APM Section along with all relevant documents. Work regarding vetting to dispatching of IRs to the audited unit is carried out by the concern OAD Section of AMG-II wing. The inspection staff should, however, draw attention of the AMG-II Wing by separate notes to the defects in this Manual and should scrutinize at each inspection the relevant portion of the Manual to see whether it requires amendment in any respect.

#### **4.3 Code of Ethics**

A Code of Ethics is a comprehensive statement of the values and principles which should guide the daily work of auditors in the SAI. The independence, powers and responsibilities of the public sector auditor place high ethical demands on the SAI and the staff he employs or engages for auditing and accounting work.

The Code of Ethics is directed at the individual auditor, the head of the SAI, executive officers and all individuals working for or on behalf of the SAI who are involved in auditing and accounting work. The SAI has the responsibility to ensure that all his

personnel acquaint themselves with the values and principles contained in the Code of Ethics and that they act accordingly.

It is of fundamental importance that the SAI is looked upon with trust, confidence and credibility. The auditor promotes this by adopting and applying the ethical requirements of the concepts embodied in the key principles - Integrity, Independence and Objectivity, Confidentiality and Competence. The adoption and application of a Code of Ethics for auditors in the public sector promotes trust and confidence in the auditors and their work.

- **Integrity:**-Integrity is the core value of a Code of Ethics. The integrity of auditors establishes trust and thus provides the basis for reliance on their judgment. Auditors have a duty to adhere to high standards of behavior in the course of their work and in their relationships with the staff of audited entities. In order to sustain public confidence, the conduct of auditors should be above suspicion and reproach.
- **Independence and Objectivity:**-The general standards for the auditor and the SAI include independence from the legislature and independence from the executive. Independence from the audited entity and other outside interest groups is indispensable for auditors. There is a need for objectivity and impartiality in all work conducted by auditors, particularly in their reports, which should be accurate and objective. Conclusions in opinions and reports should, therefore, be based exclusively on evidence obtained and replies received from the audited entity and assembled in accordance with the SAI's Auditing Standards.

It is the duty of the SAI to ensure that policies and procedures have been put in place to safeguard independence, objectivity and impartiality. To this end, prior to commencement of an auditing assignment, all members of the audit party, including the supervising Group Officer, should give individual undertakings in the format enclosed in *Annexure VII*. Auditors should protect their independence and avoid any possible conflict of interest by refusing gifts or gratuities which could influence or be perceived as influencing their independence and integrity. Similarly, all individuals working for or on behalf of the SAI who are engaged in assisting him in the discharge of his duties and responsibilities as enshrined in the Constitution of India should give an undertaking in the format enclosed in *Annexure VIII*.

- **Confidentiality:**-Auditors should not use or disclose information obtained in the performance of their duties as a means of securing personal benefit for themselves or for others. Confidentiality of information to which they have access, should be maintained. Neither should they divulge information which would provide unfair or unreasonable advantage to other individuals or organizations, nor should they use such information as a means for harming others. Information about an audited entity acquired in the course of the auditor's work must not be used for purposes outside the scope of an audit and

the formation of an opinion or in reporting in accordance with the auditor's responsibilities. It is essential that the SAI maintain confidentiality regarding audit matters and information arising from its audit task. The documents classified as 'confidential' or 'secret' or 'top secret' made available to SAI shall be dealt with by SAI in accordance with the standing instructions of the Government for handling and custody of such documents.

- **Competence:-**Since the duties and responsibilities borne by the SAI are crucial to the concept of public accountability, the SAI must apply to his audits, methodologies and practices of the highest quality. It is incumbent upon the SAI to formulate appropriate procedures for the effective discharge of its responsibilities for auditing and ensuring full adherence by its personnel or external experts to its standards, planning procedures, methodologies and supervision.

(Authority:-Code of Ethics issued by Comptroller and Auditor General of India)

#### **4.4 Strength/Composition of Local Audit Parties**

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

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

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

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

**Note-2:** Local holidays and any other holidays declared by the State Government should be observed. A copy of the orders in support thereof should be submitted to AMG-II along with the relevant weekly diary.

**Note-3:** The time allotted for local audits also includes time for the disposal of old objections.

**Note-4:** The officials on tour within 60 Kms from headquarters shall return to headquarters daily

**Note-5:** The officials on tour within 150 Kms from headquarters shall return to headquarters on Sundays (in case of working day on 1<sup>st</sup> and 3<sup>rd</sup> Saturday in State Government) or on one day closed holiday.

**Note-6:** The officials having their headquarters station at Rajkot on tour within 250 Kms from headquarters, shall return to headquarters on any occasion having two days continuous closed holidays, whether falling on weekend or otherwise. This would include duty point/camp at Ahmadabad and Gandhinagar. For those official/parties having their headquarters station at Ahmadabad, this distance shall be 275 Kms for the purpose of returning to headquarters station on any occasion having two days continuous holidays.

**Note-7:** The officials on tour shall return to headquarters irrespective of the distance on any occasion having three days or more continuous closed holidays, whether falling on weekend or otherwise.

**Note-8:** The “to and fro” fare and road mileage for such journey will be admissible for reimbursement in TA claims.

(Authority:-Bills (G&SSA), Rjt/Gen/TA/2018-19/O.O. No. 64 dated 05/02/2019)

#### **4.5 Quantum of Gazetted Supervision**

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

- (i) Efficiency cum performance audit (now, Performance Audit and Thematic Audit), Long Para;
- (ii) Audit under Section 14/20 of the CAG’s (DPC) Act, 1971;
- (iii) System audit wherever special audit of specific system are taken up;
- (iv) Audit of district and higher level offices which deal with development activities under Plan Programme; and
- (v) Special audits (frauds, embezzlements etc.).

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

#### **PRI**

<b>Units</b>	<b>Supervision</b>
District Panchayat	100 % or 50 %

Taluka Panchayat	25%
Gram Panchayat	NIL

#### ULBs

Units	Supervision
Metro Municipal Corporation	100 %
Municipal Corporation	100 % or 50 %
Nagarpalika	25%
Notified Area	NIL

**(CAG's Letter No. 18-LB/PRI/42-2007 Dated: 15-01-2008)**

#### 4.6 Extension of period of local audit

- (a) If extension of time was found necessary for any reason by the local audit party, a report to this effect should be sent by the party to APM Section on the first or second day for such extension. No extension should be availed without prior permission. If adequate time was not available for getting prior permission, APM Section should be contacted over phone and approval obtained. Further, if extension of time was taken for completion of audit of any institution, the period extended should be adjusted in the audit of subsequent institutions.
- (b) Approved tour programme should not be deviated without prior approval of APM Section
- (c) After arriving at a particular office, in some instances, Inspecting Officers are forced to wait for the arrival of the party for some days, may be due to extension taken by the party at previous institutions without intimating APM Section. In order to avoid such a situation, all the Inspecting Officers are directed to report to APM Section the absence of any audit party, on the first day of supervision itself so that alternate arrangements can be made by APM Section.

#### 4.7 Variation in Programme

No variation is allowed from the prescribed programme without the previous permission of the Group Officer/AMG-II.

#### 4.8 Submission of weekly diaries

The diary indicating the details of work done each day by each member of the local audit parties should be maintained. The AAO should see that all the columns of the diary are filled in properly and written up daily in such a manner that the responsibility for each item of work done can be definitely fixed on the person concerned.

The diary of all members of the party should be submitted to the Sr. Audit Officer when present to enable him to see that the necessary checks have been exercised and that the out-turn is satisfactory and should be attested by the Sr. Audit Officer. Wherever there is no supervision, the diary of the Auditor/Sr. Auditor should be attested by the AAO.

Unattested entries will not be accepted and the person concerned will be treated as absent on these days.

Extracts of the diary should be sent by the Inspection Parties to APM section through the Supervising Officer when the duration of local audit exceeds seven working days i.e. every Monday. These extracts should be got approved by the Supervising Officers before they leave the camp. (Where no Sr.AO supervises the work of the party; these extracts may be sent direct).

The extracts should be scrutinized by the Sr. Audit Officer, APM and submitted to the Group Officer.

NOTE: Weekly tour diaries should be forwarded to headquarters on the last day of week to which it relates so as to reach headquarters on first week day of following week.

(CAG's Letter No. 173-O&M/12-75/1/ dated 24-9-1975 and OAD O.O. No. 212 dated 23-06-2006)

#### **4.9 Period covered by Local Audit**

The period of accounts to be audited by the Inspection Staff should cover the transactions falling between the dates of last inspection up to the month preceding the month in which the inspection takes place. Cash book should be checked up-to-date. In respect of first audit the local audit party should conduct a general scrutiny of the accounts of the entire period from the inception of the office, supplemented by a detailed audit of two selected months.

The local audit and inspection should be complete and thorough in respect of transactions covered by them. Any failure to bring to light serious irregularities and defalcations which are later discovered by other agencies brings the whole Audit Department into disrepute.

In addition to the general scrutiny of the accounts and registers for the entire period, the transactions, related to selected months, are to be subjected to such checks as prescribed in CAG's D.O. Letter No. 770-TA1/117-74 dated 7-9-1974.

(CAG's Letter No. 126-TA/I-206-81 dated: 28-1-1982)

#### **4.10 Selection of month for test audit:**

The selection of months for detailed check during local audit is as follows:

In respect of annual audits, one month, and for biennial, triennial, quadrennial and quinquennial audits and also for annual audits arranged after 1½ years, two months are selected for detailed check. The month(s) for detailed check selected by statistical sampling from VLC Database will be intimated to parties at the beginning of the quarter. For the check of Arithmetical Accuracy (AA Check), another one month in respect of annual audits and two months, in respect of biennial, triennial, quadrennial and quinquennial audits and also for audits arranged after 1½ years in respect of annual audits should be selected by the local audit party with the approval of the Supervising Sr. Audit Officer; where available.

**Note:** The cash book should also be checked on the lines indicated above.

#### **4.11 Verification of remittances relating to selected months**

The verification of remittances during selected month has to be done irrespective of the fact whether the treasury is situated within 8 Kms. or outside 8 Kms. As per the Annexure of Para 6.1.7 of Manual of Standing Order (Audit), 2002, verification of drawls and deposits into treasury with reference to treasury records is to be done by the AAO where there are two AAOs or by the AAO where there is only one A.A.O. This work may not be entrusted to the Auditors.

During local audit of the initial records such as Cash Book etc., the entries should be invariably checked with the counterfoils of receipts and the treasury challans. It had come to notice of the Comptroller and Auditor General of India that during a local audit, challans in respect of the credit of sale proceeds remitted into the Treasury could not be produced in several cases in support of the entry made in the cash book as remittances to Treasury. This aroused the suspicion of the local audit staff who thereupon made special arrangements to compare the credits directly with the credits brought to account in the books of the Treasury. This verification disclosed that the amount of several challans which had been accounted for in the Cash Book as having been remitted to Treasury was not actually so remitted but was embezzled by the Cashier by forging the signatures of Treasury Officer on the receipted challans.

#### **4.12 Intimation of dates of audit and Inspection (Para 4.22 of Compliance Auditing Guidelines)**

- (i) After the overall strategy and audit plan, intimation should be provided to the identified auditable entity.
- (ii) Immediately after the approval of quarterly programme of local audit, a copy thereof should be sent to the concerned audit units so that they may take necessary steps to keep their records ready for being made available to the local audit parties.
- (iii) Copies of the approved programmes of local audit parties along with in charge IOs as well as subsequent amendments made therein should also be supplied to the respective IOs/ AAO for their guidance.
- (iv) Intimation regarding change of dates of audit of any office consequent upon grant of extension/ postponement or otherwise should be sent to the Head of Office concerned immediately.

#### **4.13 Working hours and Pattern of Holidays**

The inspecting staff must attend the office which they inspect during its regular office hours. They may observe while inspecting the State Government offices, the holidays specified in their tour programme, provided the state of their work permits them to do so.

In the event of declaration of holiday by the State/Central Government all the audit parties and supervising officers should adjust the day lost due to the declaration of a holiday at the institution where the party is stationed or at the next institution positively. If the holiday declared falls during the audit of an institution for which only one day is allowed, the audit of that institution may be cancelled and if it falls on a transit day the

holiday declared may be availed as transit. The mode of adjustment should simultaneously be intimated to APM Sections on the day succeeding the holiday.

No member of the inspection staff should leave the place of halt without the prior permission of the Group Officer/AMG-II. If they do so they will be treated as absent from duty without leave. When, however, a member of the inspecting staff is forced to leave his place of halt for very strong and urgent reasons, he should report the fact immediately to the Group Officer/AMG-II explaining the circumstances which required his absence from the place of his inspection or halt in anticipation of formal orders.

The officers and staff on field duty should make it a point to carry out the work allotted to them to the best of their abilities, observing punctuality and regularity in attendance.

#### **4.14 Attendance Register**

The Asst. Audit Officer of each inspection party is supplied with an attendance register wherein he and members of the party should mark their daily attendance. This register should be submitted to the Supervising Officer when he visits the party.

The attendance register of each field party should be duly closed and forwarded to APM Section on or before 31<sup>st</sup> January of the succeeding year for review/checking the Weekly Diaries/Leave account and for checking by ITA Section.

#### **4.15 Grant of casual leave and restricted holidays**

(1) Casual leave or restricted holidays should normally be availed of by members of inspection parties only after obtaining sanction. The casual leave/restricted holiday to members of local audit parties will be sanctioned by the Branch Officer/APM Section on the basis of recommendation of the supervising officer. If any change of programme or alternative arrangement is necessary by granting such leave to inspecting AAOs, the orders of Group Officer/AMG-II should be obtained. The casual leave register is to be maintained in APM Section. The parties should also maintain a casual leave register for their reference. Casual leave/restricted holiday to Sr .Audit Officers supervising the parties will be sanctioned by the Group Officer/AMG-II.

The following instructions should also be noted for strict compliance: -

i) Members who desire to proceed on earned leave, casual leave or restricted holiday should send their application to the sanctioning authority sufficiently in advance, duly recommended by the appropriate authority. Under no circumstances should they absent themselves before getting their leave sanctioned by headquarters.

ii) In emergent cases, where absence without prior sanction becomes inevitable, permission of supervisory officer/AAO as the case may be should be taken in advance and sufficient proof or justification warranting such an action furnished along with their applications. For instance, leave applied for on medical grounds should be supported by a medical certificate obtained from an Authorized Medical Officer.

NOTE: Except in unforeseen and emergent cases, leave should be got sanctioned in advance and in cases of emergencies there should be an intimation to the headquarters



followed by a proper application. The details of leave should be marked in the attendance register by senior most member of the party immediately on receipt of application or intimation regarding absence.

(iii) While recommending leave to an Auditor / Sr. Auditor or applying for leave by an AAO, the senior AAO of the party should ensure that no extension of time is sought for completing audit of an institution. If at all any extension is required under exceptional circumstances, the period extended should be adjusted in subsequent institutions. Similarly, leave should be availed in such a manner that no scheduled programme of audit is cancelled and in no case, all the members of the audit party should avail leave simultaneously, resulting in cancellation of audit of an institution.

NOTE: In order to avoid delay in transmission of applications for leave submitted by the local audit staff the applications should be sent in a separate cover addressed to the Sr. Audit Officer, APM.

(iv) Comptroller and Auditor General of India has ordered that subject to minor adjustment to suit administrative convenience, every endeavour should be made to ensure that the total number of holidays/closing days enjoyed by the field staff during the calendar year does not exceed that admissible under the orders of Government of India and that there is no shortfall in the total number of working hours. As there is variation in pattern of holidays observed by the State Government and Central Government offices, it has been decided that members of the field parties should observe holidays as observed by State Government Offices (including 2<sup>nd</sup> and 4<sup>th</sup> Saturdays) and work half an hour extra on all other working days to make good the loss on account of extra holidays.

(CAG's letters Nos. 2492-NGE-I/285-65-II dt:24.8.66 and 208-NGE-I/295-II dt:2.2.67 and Accountant General's orders dated:8.1.67).

**Note:** The State Government has directed that all heads of departments and offices should give full cooperation to the inspection staff by allowing them to sit half an hour longer.

(G.O.G. GAD letter No.IFT/1167-2911-GH dated: 18.7.67).

(v) No member of the inspecting staff should leave the place of halt without the previous permission of the Sr. Audit Officer/APM when, however, a member of the inspecting staff is forced to leave his place of halt for urgent reasons, he should report the fact immediately to the Sr. Audit Officer/APM explaining the circumstances which required his absence from the place of inspection or halt in anticipation of orders.

#### **4.16 Maintenance of casual leave account**

The casual leave account should be maintained by APM Section. The tour diaries/TA bills should be checked by the APM Section.

#### **4.17 Calling of lists of payments for local audit**

A copy of list of payments and also schedule of drawls for the selected months must be provided to the field parties for verification during the course of audit by an auditee

organization. The audit party should prepare the list of drawls in duplicate from the treasury records for verification of transactions with the records of DDO i.e. cash book and prepare the list of remittances from the cash book of DDO for verification of transactions with the treasury records.

(O.O. No. OAD/Audit Programme Book dated: 19th August, 1960).

#### **4.18 Audit Note Book**

An Audit Note book should be maintained for each office or institution audited. The programme book should consist of three parts:

(i) Part-I will record full reference, with brief narrations of all the standing orders of Government applicable to the concern, whether as regards its general set up or bearing on day to day conduct of its administration prescribing the accounting procedure for the business handled by it. Any special orders received from the Central Office about any specific investigation to be conducted, or particular points to be borne in mind regarding the affairs of that undertaking should also be recorded on it

(ii) Part-II will record, as precisely as possible the details of scrutiny to be conducted an investigation to be made, due cognizance being taken of the weakness in accounting system followed and the internal checks which may be in force. As audit progresses from day to day, the auditor will put his dated initials against each items checked by him.

(iii) In part-III notes taken during the course of audit regarding irregularities to be included in the inspection report, wanting vouchers, points to be verified during the next audit, etc., should be noted. If in the course of audit, it is felt that on account of changes in the structure of the organization or increase in expenditure, etc., any new check is necessary to be exercised, the same should be included in the Programme Book. It should be sent by the Assistant Audit Officer to the APM Section along with the draft inspection report

#### **4.19 Title Sheet**

Sr. Audit Officer of the field audit party should certify that the audit process was conducted as planned in accordance with the Auditing Standards and Code of Ethics and that documentation requirement have been adhered to. The certification may be part of the Title Sheet that the field audit party submits along with the Inspection Report. The revised format of Title Sheet is provided as *Annexure IX* of this Manual should be prepared for every audit. Any changes or additions made in the title sheet by the APM Section should be promptly incorporated in the form. All items in the title sheet should be carefully filled in.

(Authority:-O.O. No. OAD-II/Civil/Control/3 dated: Nov. 1964 and CAG's letter No. 226-09-PPG/2017 dated: 23-08-2017).

#### **4.20 Distribution of work among the members of party**

(i) The Supervising Officer should distribute the work between the Asst. Audit Officer and the Auditors and also indicate the item of work that he has done personally. The

distribution of work should be recorded in the inspection file. An additional sheet in the title sheet viz. Individual Work Profile (copy given as *Annexure X* to this chapter) should be filled up by all and countersigned by the supervising officer in the case of party members.

(CAG's Letter No. 3010/Admn.I/463-60 dated 2-11-1962)

(ii) The broad outline of duties and responsibilities allocated to various categories of personnel in inspection parties is given in Chapter-III of this Manual. However, when on practical consideration arising from the relevant factors, some changes in the distribution of duties and responsibilities among the members of the party are considered necessary, the Sr. Audit Officer or in his absence, the AAO in charge of the Inspection party may make such changes in writing. The revised distribution along with brief reasons therefore should be clearly indicated in a separate sheet attached to the Title Sheet.

According to para 2.9 of the Manual of Instructions for Restructuring of cadres in IA&AD, normally auditors should be able to issue inspection memos and put up notes and separate reports have to be submitted by each auditor, Assistant Audit Officer in an inspection party in the form of material for inclusion in the inspection report based on the actual work done and inspection memos issued by them, taking into account the replies thereto from the departments. These instructions should be scrupulously followed and the separate reports should be handed over in time to the Sr. Audit Officer /AAO in charge of the party for writing the inspection report. If there is no material for inclusion in the inspection report, a 'Nil' report indicating the special reasons if any for not giving any material for inclusion in the inspection report should be handed over to the Sr. Audit Officer/ AAO in charge of the party.

(iii) To ensure the factual correctness of the points raised in the Inspection memos and also the inclusion of observations in the memos without omissions, the auditor should submit the inspection memos with all files/documents to the Assistant Audit Officer for verification before their issue to the departmental offices. The Auditors and Asst. Audit Officer should ensure that this is done in all cases without fail. Where the Sr. Audit Officer supervising the party is available the AAO/ Auditor should get the inspection memos prepared by them, approved by the Sr. Audit Officer before issue in important cases.

In cases where the inspection memos have been issued without approval by the Sr. Audit Officer (i.e. before commencement of supervision by Sr. Audit Officer) the Sr. Audit Officer should call for the office copies of such memos and issue further remarks where he considers it necessary to modify the audit enquiry already issued or to obtain supplementary or other information, clarification etc.

(iv) According to Annexure to 2.9.1 of Manual of Instructions for Restructuring of cadres in IA & AD (App.VII) the work of verification and disposal of previous inspection reports is assigned to the senior of the two auditors in the case of civil inspection. This does not however relieve the head of the party of his overall

responsibility and the extent to which the auditor may be allowed to act on his own has to be decided in each case by the head of the party.

(v) Where close supervision of the items mentioned in (iii) and (iv) above are needed, in the case of work relating to routine checking of receipts and payments, the assistance of the auditors may be availed of subject to the overall responsibility and supervision resting with the AAO.

(vi) The Inspecting Officer should personally review all tenders and agreements to see whether the contracts entered into were in accordance with the general principles and whether the contracts have been executed faithfully. He should also see personally the state of accounts in the office inspected especially the Cash Account.

(vii) The Inspecting Officer's work of supervision consists of seeing that all the Accounts Registers, etc. have been audited by the Inspecting staff and that the necessary process of audit has been carried out by them. He should bear in mind the general instructions laid down in para 6.1.2 to 6.1.5 of MSO (Audit) Second Edition-2002 and see that no point of importance has escaped attention during the audit. He will also discuss the important points noticed during audit with the head of the office and endeavor to settle on the spot as many objections raised during audit as possible as well as the outstanding points from the previous inspection reports.

Where it becomes necessary to discuss with the Head of the Office inspected, any matter arising from audit scrutiny or any difficulty in getting the records, replies and facilities for conducting audit, such discussion may be held by the supervising Sr. Audit Officer if he is available or in his absence, by the senior Asst. Audit Officer of the party.

(viii) It should be recognized as one of the primary duties of the inspecting officer to report to the Principal Accountant General separately and immediately anything really serious or important which comes to light in the course of his inspection without waiting to include them in the inspection report. Such interim reports may be shown in the first instance to the head of the office inspected for his comments.

As soon as the audit of each institution is over, the Sr. Audit Officer (if he is present on the last day of audit of the institutions or else the senior Asst. Audit Officer) should send a special report to the Principal Accountant General by name, in case any important points have been noticed in audit which can be developed into draft paragraphs. The receipt of the report will be watched by Secretary to the Principal Accountant General. A copy of the report should also be simultaneously sent to the concerned Group Officer.

By the 10<sup>th</sup> of each month, every Sr. Audit Officer who has been on field duty for any part of the previous month should send a brief report to the Principal Accountant General by name mentioning the audits supervised by him during the previous month, the important points noticed in audit, the members of the party who have contributed them, the problems faced by him in field duty and the steps he considers necessary for dealing with such problems and improving the quality of local audit/ inspection work, etc. The reports will be kept in the Principal Accountant General's Secretariat and will inter-alia be utilized for making assessment of the quality of the local audit/ inspection work done.

Subject to the exigencies of local audit/inspection programme each Sr. Audit Officer should, as far as possible, meet the Principal Accountant General once in a quarter and give him a personal appraisal of the local audit/ inspecting work supervised by him (Sr. Audit Officer).

(ix) Certain instances of defalcation of money in the accounts of an institution relating to collection of fines and licence were brought to light. On investigation of the matter it was noticed that the defalcations were rendered possible not due to any defect in the rules but for want of supervision and check of the accounts. The amounts realized should have found a place in the connected registers, but it was noticed that the registers were not page numbered and certified to that effect as required by rules and the sheets were torn. Had the register been page numbered and certified it would not have rendered the defalcation possible. The inspecting officer should therefore, see that the rules regarding maintenance of registers etc. are strictly observed by the institutions which they inspect.

(x) It is essential for audit to comment on the state of records maintained in the office inspected. Defective records may conceal embezzlement, serious misappropriation of funds and prevent the department from taking timely action to recover the amounts due to Government.

#### **4.21 Conduct of Local Audit**

(i) In conducting the audit of accounts, the auditors should deal only with matters which have a financial bearing. Points which come under the principles of audit and cases of infringement of the standards of financial propriety should be investigated. But the auditors must be careful neither to interfere in executive matters nor to take up questions of administration, which have nothing to do with audit and accounts, or which are otherwise outside the province of legitimate enquiry of audit.

(ii) When an auditor proposes to raise a question on higher audit on a subject which is predominantly administrative or technical in character, he should make sure that he has been able to ascertain and properly grasp the facts and the principles behind them and that the raising of the question or its pursuit is a legitimate duty of audit and likely also to serve some practical purpose. It is desirable to consult the Supervising Officer on the spot or the Group Officer/AMG-II before taking up or pursuing questions which are likely to take an awkward turn.

(iii) The value of audit depends largely on the intelligence and thoroughness which is brought to bear upon it. Sometimes routine and formal objections, if pursued properly may lead to the detection of serious irregularities or a defect of system liable to lead to fraud. Auditors should always be alive to this and exercise the prescribed routine checks of initial records such as cash book, counterfoils of receipts, etc. with adequate attention. When an inspecting Asst. Audit Officer feels that he has touched on a matter which requires investigation, he should go into it with an exhaustiveness which will leave no details undiscovered, and he must take nothing for granted during such investigation.

(iv) It is undesirable to neglect the check of important initial records in local inspections in favour of materials which may provide cases for higher audit. In a case of

embezzlement of money by a clerk of an office, it was found on investigation that a comparison of entries in the cash book with the counterfoils of receipt granted and the treasury remittance book would have enabled audit to detect the fraud. The audit inspection party, however, devoted most of their time to the examination of executive financial order, service books, etc. and the important initial record namely the cash book was not examined at all. In the zeal for finding material for higher audit by examining such cases, the examination of the initial accounts which is the primary object of local audit did not receive sufficient attention. The Auditor General has emphasised the fact that the primary duty of the Indian Audit Department is to secure the correctness of accounts and not criticism of the executive work of a department.

(Auditor General's Letter No. 31-Admn.I/205-36 dated 15-1-1937)

(v) In auditing payment vouchers the auditors should not apply merely mechanical checks, e.g. seeing that there is proper acquittance in support of payments that amounts charged are arithmetically correct and the rates are in accordance with the schedule of rates. In the interests of thorough audit it is necessary to see that the charges in the bills are not extravagant and if doubt arises, the prevailing market rates may be ascertained through the District Officer. Cases of different rates paid for the same article observed in auditing the accounts of two or more offices in the same locality should be investigated and the auditors should find out carefully the causes of such differences.

**NOTE:**

1. The use of any form of questionnaire is prohibited.
2. The material for the inspection report should be gathered by the inspection staff themselves from the records they have inspected.

(vi) In auditing accounts, all entries checked should be ticked or cross-ticked by the auditors and all vouchers or challans examined should be initialed by them. When the document checked by the auditor is reviewed by the AAO he should record against the auditor's entry the word 'Reviewed' under his dated initial.

(vii) Auditors should not make notes, corrections or remarks in any of the registers or any document of the office which they are auditing. They should not take any register or account book to their residence.

(viii) The auditors in the course of their audits should not express on their own authority opinions connected with the interpretation of any Act or Rule or give rulings on doubtful points of procedure, etc.

(ix) Investigation which is not strictly within the scope of the best audit should not be undertaken at the instance of administrative authorities even if no extra time is required for the purpose. The office inspected should readily make available to Audit all files/records required including "Secret" or "Top Secret" files. Audit party must call in writing for all registers and accounts of the office inspected required for audit purpose if the same are not readily put up on verbal requests. If an auditor states that he asked for papers but they could not be produced, he must be able to prove it from his requisition. Important documents, like service books, should invariably be formally requisitioned and acknowledgement obtained on returning the same

(x) The audit party must examine all records pertaining to the months selected for audit and if any record cannot be produced, they must make sure of the reasons for its non-production and bring such failure to the notice of the head of the office.

(xi) If the test audit of the accounts of a department reveals short recovery of Government dues to a considerable extent the departmental authorities concerned should be instructed to arrange for a complete check of the account so as to ensure a complete and accurate assessment of the dues. The inspection report should in such cases, contain a para in the following forms.

"In view of what has been disclosed by audit as a result of a test check only, a thorough investigation with a cent per cent check of the transactions etc., in question is desirable and necessary. This may be arranged for and the results communicated to audit in due course.

#### **4.22 (a) Entry Meeting**

On the first day of audit itself the Audit Party members should have an 'entry meeting' with the Head of Office to inform of the audit plan and also of the records and documents required and to request the head of office and other officers and staff to be available in the office throughout the period of audit. Minutes of the 'entry meeting' should be documented and should form part of the inspection report papers.

#### **(b) Report of commencement of Audit**

An intimation to the headquarters controlling section should be made on the first day of audit, that the audit of the unit had been taken up as per approved programme, inter-alia intimating the name of the Head of the auditee unit, their telephone number, telephone number at which the audit party can be contacted in case of urgency for any official or domestic need and that all the members of the party had reported. All inspecting officer/field parties are therefore directed to fax/E-mail a report regarding commencement of audit indicating the above details to the concerned section in Headquarters on the first day of audit. The Headquarter Section should also strictly watch the receipt of the report through Performance Register of field parties.

The report of commencement of audit may be sent to headquarters section by post if no fax/E-mail facility is available at the office of duty.

#### **4.23 Supervision and Review**

The field standards include the work of the audit staff at each level and audit phase should be properly supervised during the audit, and a senior member of the audit staff should review documented work.

The following paragraphs explain supervision and review as an auditing standard:

- (i) Supervision is essential to ensure the fulfillment of audit objectives and the maintenance of the quality of the audit work. Proper supervision and control is therefore, necessary in all cases, regardless of the competence of individual Auditors.
- (ii) Supervision should be directed both to the substance and to the method of auditing. It involves ensuring that:

- a) The members of the audit team have a clear and consistent understanding of the audit plan;
  - b) The audit is conducted in conformity with the auditing standards and practices and in accordance with the professional judgment of the Auditor;
  - c) The audit plan and action steps specified in that plan are followed unless a variation is authorized;
  - d) Working papers contain evidence adequately supporting all conclusions, recommendations and opinions;
  - e) The Auditor achieves the stated audit objectives; and
  - f) The audit report includes the audit conclusions, recommendations and opinions, as appropriate.
- (iii) All audit work should be reviewed by a senior member of the audit staff before the audit opinions or reports are finalized. It should be carried out as each part of the audit progresses. Review brings more than one level of experience and judgment to the audit task and should ensure that:
- a) All evaluations and conclusions are soundly based and are supported by competent, relevant and reasonable audit evidence as the foundation for the final audit opinion or report;
  - b) All errors, deficiencies and unusual matters have been properly identified, documented and either satisfactorily resolved or brought to the attention of a more senior officer(s) of the Audit Institution;
  - c) 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.
- (iv) This standard emphasizes the importance of involvement of each higher level of supervision and does not in any way absolve the lower levels of audit staff carrying out field investigations from any negligence in carrying out assigned duties.

(Authority: Para 5 of Auditing Standards for Audit of PRIs and ULBs)

#### **4.24 Postponement and suspension of Local audit**

Requests for postponement of audit are considered only in exceptional circumstances. All cases of postponement should have approval of the Group Officer/AMG-II. In cases whose requests for postponement of audit were not received through the Head of the Office/Department and the departmental office fails to produce the records on the scheduled date of audit, the AAO of the field audit parties should ascertain the reasons for non-production of records in writing from the Head of the office. The position should be brought to the notice of the Headquarters before taking up next audit in the programme. Where due to non-production/non availability of prescribed account records of vital importance, an audit party is unable to proceed with the audit of an office, a detailed note indicating reasons for non-production/non-availability of records along with the remarks of the Head of the office inspected may be sent by the AAO/Inspecting Officer of the audit party to APM Section seeking suspension of audit.



Such note, if any received from any party shall be accorded priority and orders thereon shall be obtained from the Group Officer/AMG-II. No audit should, however, be suspended without his prior permission. Where any audit is ordered to be suspended the reasons for suspension of audit shall immediately be intimated to the next higher authority of the office inspected with a request to trace/re-construct the concerned records for facility of audit.

#### **4.25 Attitude of Auditors**

Auditors while not deviating in any manner from their duty, should be careful to avoid any misunderstanding or friction with the local officers with whom they come into contact. Their attitude should be that of one who has come to assist and not merely to criticise. They will invariably receive full co-operation from local officers if they avoid frivolous objections and convince the officers by the manner in which they go about their work that they are not there to complicate the procedure but to simplify it. They should bear in mind that unnecessarily meticulous and badly expressed objections not only bring discredit to Audit and cause annoyance to the local officials but also increase the work at both ends. The inspecting staff should therefore, maintain a strictly detached, dispassionate and technical attitude in the day to day conduct of their work. Nothing should be done to hamper the evolution of the complimentary roles of Audit and administration, either by the use of extravagant language or by the attitude that Audit alone is the keeper of nation's financial conscience.

(CAG's D.O. Letter No. P.5-588/56 dated 23/10/1956.)

Papers and files of the offices inspected by the party should be returned in the same condition in which they are received. On no account should these be rearranged combined or broken by them with smaller files in any case. If such a rearrangement is absolutely necessary, it should be carried out only by the office which is being inspected.

Members of the inspection parties should scrupulously avoid accepting hospitality of officials of the departments they are inspecting as such acceptance is against official decorum and brings discredit to the audit department as a whole.

Inspecting Officers should not, however, make suggestions asking the officers to maintain registers and records other than those prescribed or to dispense with any prescribed registers. They should not also hold out any assurance of their own to the offices inspected. They should be more circumspect when discussing with departmental officers and should advise only in minor cases where no detailed examination of the issues is necessary. Substance of the advice so tendered should be included as a brief note in the inspection report for the information of the headquarters office.

#### **4.26 General Audit Instructions**

For an intelligent and efficient audit or inspection of accounts, it is necessary that the Audit Party should have an acquaintance with the various Acts, Codes and Manuals relating thereto, and they should also be conversant with the subsidiary rules and orders issued from time to time. Copies of all Acts, Codes and Manuals would be supplied, if required. They should also keep a note book in which they should record briefly

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

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

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

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

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

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

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

#### **4.27 Check of Cash**

- (i) The arrangements for the withdrawal of cash from treasury and/ or its realisation from other sources, its custody, payment and accounting should be examined to see that they are in conformity with the prescribed rules.
- (ii) The cash books should be examined to see that:
  - (a) All entries relating to the months(s) selected for detailed check regarding receipt of cash as shown in the counterfoils of receipt books as well as cash received from the treasury on bills, cheques, cash orders, or Reserve Bank drafts are traceable under proper dates and with correct particulars;
  - (b) Cash which should be remitted into the treasury are remitted without delay and the remittances supported by the challan are acknowledged by the treasury officer, or the bank or by the treasury pass book. It should be seen that all entries in the treasury pass book have been initialed by the Treasury Officer;
  - (c) All payments are supported by proper vouchers, acquaintance rolls etc. which are complete in all respects;
  - (d) The totals are correct and the balance correctly worked out;
  - (e) Private cash is not mixed with the cash balance of Government;
  - (f) The cash book is closed and balanced on the prescribed dates;
  - (g) There are no erasures or interpolations and errors are rectified properly;
  - (h) There is no tendency to keep an unduly large cash balance in hand and the cash in hand with the Cashier and others does not exceed the amount of security taken from them;
  - (i) There is evidence in the cash book of the verification of all entries made therein regarding receipts, payments and balances, and the balance of cash in chest has been counted at least once a month and duly certified by the head of the office concerned;
  - (j) The expenditure shown in the permanent advance column, justifies the full amount of the permanent advance;
  - (k) Expenditure has not been incurred in excess of the permanent advance by spending from the departmental receipts, except when specifically authorized;

(l) the cash balance is subjected to surprise checks at irregular intervals.

**Note:** Accounts of imp rest and temporary advances if any, should be examined to see that they are closed punctually every month and that they are properly examined by the recouping officers before recoupment.

(iii) It is one of the important duties of audit to see that all departmental revenue have been remitted in time to the treasury to the credit of Government. With a view to ensuring that all the remittances to the treasury have gone to the credit of Government the audit staff should verify the credit entries in treasury records. In this connection, the instructions contained in Para 23 of the Secret Memorandum of Instructions may also be borne in mind

(iv) Where important initial records such as cash books, pass books security registers, etc. are not maintained properly, it will not be sufficient to state in the inspection report that such records are not maintained properly. Improper maintenance or non-maintenance of important initial records having a direct bearing on cash transactions will prima facie indicate irregularities in cash transactions. In such cases the Sr. Audit Officer, besides mentioning the technical defects and shortcomings noticed in keeping accounts, registers etc. should also make an intelligent probe to see if the defective maintenance or non-maintenance of accounts, registers and other initial records is a cover for any fraud or misappropriation.

(v) The cash book should be checked up-to-date. While doing this, the Inspecting Officer should try to get all the facts and explanations on the spot. If satisfactory explanation for any irregularity detected is not forthcoming, he should collect all the relevant facts and make a special report for pursuing the point with higher authorities.

(vi) Objection, if any, taken on checking of Cash Account should be explained in sufficient details to enable the Central Office to find out whether the defects mentioned disclose any technical defect or serious irregularity. Audit parties should examine specially the adequacy of the procedure followed by various authorities for the receipt, custody and disposal of cash and other valuables, and defects, if any in this regard, should be commented upon in the report.

(vii) All irregularities relating to the accounting of cash whether technical or material should be mentioned invariably in Part II of the Inspection Report.

(viii) In cases where the cash book is maintained properly and the rules observed correctly, the Supervising Officer/AAO of the OAD Party should mention the fact specifically in the letter forwarding the inspection report.

#### **4.28 Raising and pursuance of objections**

(i) Before an objection is raised the connected papers relating to the transactions, which form the subject of the objections, available in the office inspected should be perused. A study of these papers will help in the drafting of the objections with proper emphasis on different aspects of the transactions. As far as possible, enquiry slips should be avoided for getting information which can be obtained from the office personally. Full particulars should be gathered before the issue of preliminary audit memo so that there may not be much difference between the preliminary audit memo (which should be self-

contained) and the final paragraphs which will vary from the preliminary slips to the extent they are affected by the replies of the department. The work of inspecting AAOs will be judged by number of final paragraphs and not by the number of objections slips issued.

(ii) The initial enquiries and objections should not contain instructions to be followed in future. Instructions, wherever necessary, should be embodied in the Inspection Report or audit note after examining the explanation given for omissions, errors and lapses.

(iii) If a really flagrant case of irregularity is detected it should be investigated with utmost care and set out in such details as to ensure that the gravity of the breach of rule is clearly brought to the notice of the superior authority so that the audit office may be in a position to press the matter for proper action.

(iv) While AAO and Auditors should not make any relaxations of their own motion, it is very important that the prescribed checks should be observed in the spirit and not in the letter as opposed to the spirit.

(v) Objections should be written out on half margin forms which should be serially numbered and issued to the head of the office to furnish replies thereto.

(vi) Replies to objections, which may mature into draft paras for the Audit Reports and regarding suspected defalcation etc., or other serious financial irregularities may be obtained promptly so that further observation if any, can be raised on the spot and further information if required, may be called for. Replies to all the audit observation memos so issued should be obtained before the audit is completed and Inspection Report is drafted.

(vii) Objections which are simple, directions and instructions for future guidance should be included in Part-III of the Report. All the minor errors which are of no consequence to the finances of the State and can be set right on the spot should be so settled and the notes carefully filed. The value of an inspection is enhanced more by the number of points thus settled on the spot than by what is loaded in Audit Note.

(viii) Isolated routine objections, need not, as a rule, be mentioned in the Audit Note but if a number of similar points are noticed, the type of error or irregularity with a few illustrative cases may be mentioned.

(ix) Any office that is particularly careless and pays no attention to the directions or repeats the mistakes or habitually disregards the rules should be taken up by the OAD H.Q., in a special letter to the Head of the Department, care being taken to substantiate the charge of such disregard to rule, etc by sufficient evidence.

(x) Whenever, any irregularity or delay which was noticed by the office inspected is taken up again by the Local Audit Staff the fact should be mentioned in the body of the objection and the reason why it is taken up again in audit distinctly brought out.

(xi) Money values of objections should be specified wherever possible not only for those coming under paragraphs 830 of MSO (T) but also for cases of enquiries and remarks made on doubtful points which may have a potential money value (e.g. the amounts of contracts for which tenders are not called or where the lowest tender has

not been accepted or values of extra concession granted to contractors but not provided for in the agreement.)

(xii) Objections which can be waived under para 808 of M.S.O. Tech. Vol. I should not be embodied in the Report but should be put up to the DAG (SS-1) for orders as per the note below paragraph 140 of MSO (Tech.) Vol. I.

(xiii) All statements and allegations made and all figures furnished should be based on clear documentary evidence so that the Sr. Audit Officer may be in a position to press for proper action.

(xiv) The names of the officers responsible for the irregularities should be kept on record in the rough notes in all cases of serious irregularities.

(xv) When a letter or a Government order is quoted which in the opinion of the Section Officer may not be available in the Central Office, a copy of it should be sent along with inspection report for the information of the Central Office.

(xvi) The Local Audit Staff should go through all the Inspection Notes of Departmental Office during the period of audit as valuable hints are likely to be obtained from these sources. This point requires special attention during audit.

#### **4.29 Settlement of old objections**

(i) Opportunity should be availed of at the subsequent inspection of the same office in order to verify the replies of the department and /or to re-examine the points more thoroughly taking into account the later developments as well. All points in the previous inspection reports which have been marked for the next audit should be examined. If the points have been settled since the last inspection, this should be recorded by inspecting AAO in the covering note forwarding the inspection report over his initials

(ii) It should be seen that defects reported in previous inspection reports and objection statements have been remedied as promised in the replies either by production of the required documents etc. or by the recovery of over payments, or by the adoption of the procedure suggested. Further correspondence, if any, on the replies to the notes should also be gone through with a view to seeing how the various matters referred to were actually settled. In all cases where the promised action has not been taken, attention should at once be drawn to the matter and in cases of recoveries or missing documents the office should be given every opportunity for effecting recoveries or supplying the omissions before the completion of audit. If however, the promised recoveries have not been effected and the documents required etc. have not been produced by the time the audit is completed, the fact should be clearly mentioned in the report with a brief description of the nature of the receipt or charge. Should, however, the action needed relate only to procedure, it would ordinarily suffice (unless the matter is of great importance) if attention is drawn to the notes with such additional remarks as are called for. In the case of inspection reports which revealed serious irregularities in the last audit, the action taken by the responsible authorities should particularly be watched. If no action has been taken or the results are unsatisfactory, the matter should be reported separately to the Group Officer/AMG-II.

(iii) Concerned OAD (HQrs) section will send all the outstanding inspection reports pertaining to the institutions to be inspected to the inspecting party for being settled locally, to the extent possible. The section dealing with the inspection report should examine in detail all important points before sending the files for reference at the time of subsequent inspection of the offices concerned and direct the audit parties under the orders of Group Officer/AMG-II on the lines on which the points should be further examined on the spot. The idea is, once a serious irregularity is brought out it should be possible to prepare draft paras straight away. In case some information is still wanted and it is not possible to collect the information quickly by correspondence, then it should be collected on the spot so that the paras can be finalised at least soon after the next visit of the audit party to the offices.

(iv) The Inspecting Officer will return the reports to OAD (HQrs) section with a verification memo in Form I indicating the action taken on the outstanding paras in the report along with the current inspection report and a statement in Form B shown below:

**Form B**

1) Name of office inspected:

2) Name of section in Central Office which attends to the inspection reports of the institution: .....

Details of Inspection Reports reviewed by the party		No of Paras pending in the Report	No of Inspection Report/Paras cleared at the time of local audit	Balance of Inspection Reports and Paras	Remarks
Sl.No.	Year and Period		IR Para	IR Para	

In respect of each outstanding paras the parties/ Inspecting Officers should indicate:

- (i) The development of the case since last audit.
- (ii) Whether in the light of the developments, the para/objection can be dropped, and if not, a comprehensive para has been proposed for the current report so that headquarters section can consider whether the para can be dropped.
- (iii) Whether in the light of subsequent development, the irregularity is fit for comment in Audit Report. If so, copies of all related correspondence/documents should be furnished to headquarters section along with the draft of the para to enable headquarters to process further and finalise it.

The OAD (HQrs) Section will check the inspection reports with the statement, consolidate the reports received from the inspecting parties and submit a report to the Group Officer on the prescribed date of each month along with the statement in Form

B and a review indicating the number of reports closed and the number of paragraphs settled during local audit.

#### **4.30 Matter dealt with by Auditors to be kept confidential**

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

#### **4.31 Quarterly conference of field parties**

As per directions contained in the Headquarters Office letter No. 106-O&M/1-93 dated 26-2-1993, a conference of supervising officers and members of field parties is conducted in every quarter to improve efficiency and functioning of the parties and also to obtain first-hand information on the state of work. The meetings are to be duly minuted to form an authenticated record for reference during future meetings.



## ANNEXURE VII

(Reference: Para 4.3)

### **Declaration regarding adherence to the Code of Ethics of the Comptroller and Auditor General of India**

*(This declaration is required to be signed separately by each member of the audit team prior to the commencement of the audit. A copy of the declaration should be given to the head of the audited entity as soon as the audit commences. Each declaration should be enclosed in original with the Inspection Report).*

I, Shri/Smt/Kum \_\_\_\_\_ (name), \_\_\_\_\_ (designation) hereby declare that:

- I have read and understood the SAI India's Code of Ethics.
- I will uphold and abide by the SAI India's Code of Ethics and the CCS (Conduct) Rules.
- I do not have any personal or professional interest in the audited entity.

As a representative of the SAI India, I undertake to adhere to the following:

- I will conduct the audit assigned to me in a fair, honest, timely and competent manner.
- I will maintain strict confidentiality of all information gathered in the course of audit.
- I will not behave or conduct myself in an inappropriate manner with any official of the audited entity.
- I will not accept any kind of inducement prohibited under the Central Civil Services (Conduct) Rules, 1964, directly or indirectly from the audited entity.

**Signed:** \_\_\_\_\_

**Date:** \_\_\_\_\_

## ANNEXURE VIII

(Reference: Para 4.3)

### **Declaration regarding adherence to the Code of Ethics of the Comptroller and Auditor General of India**

*(This declaration is required to be signed separately by each individual who has been engaged as an expert, consultant, statutory auditor, etc by the SAI India to assist him in his auditing and accounting functions. A copy of the declaration should be given to the head of the audited entity as soon as the audit commences. Each declaration should be enclosed in original with the Report required to be submitted to SAI India).*

I, Shri/Smt/Kum \_\_\_\_\_ (name), \_\_\_\_\_ (designation) hereby declare that:

- I have read and understood the SAI India's Code of Ethics.
- I will uphold and abide by the SAI India's Code of Ethics.
- I do not have any personal or professional interest in the audited entity.

As a representative of the SAI India, I undertake to adhere to the following:

- I will conduct the audit assigned to me in a fair, honest, timely and competent manner.
- I will maintain strict confidentiality of all information gathered in the course of audit.
- I will not behave or conduct myself in an inappropriate manner with any official of the audited entity.
- I will not accept any kind of inducements, including gifts and hospitality, directly or indirectly from the audited entity.

**Signed:** \_\_\_\_\_

**Date:** \_\_\_\_\_

**ANNEXURE-IX**  
**(Reference: Para No. 4.19)**

<b>TITLE SHEET</b> <b>(TO BE SUBMITTED ALONG WITH DRAFT INSPECTION REPORT)</b>		
	<b>PART A</b> Summary of audit results	
1	Name of the organization audited	
2	Name of party personnel	
	(i) Sr. Audit Officer	
	(ii) Asst. Audit Officer/Supervisor	
	(iii) Senior Auditor/Auditor	
3	Period of audit	
4	Dates of commencement and completion of audit (Extension of time, If any, granted may be separately indicated)	
5	Whether Entry Conference was held with the Audited Entity? If yes, enclose Minutes/Record of discussions. If no, provide reasons	
6	Number of potential paras (drawing reference to para nos) included in Part —IIA of the Inspection Report	
7	Number of paras (drawing reference to para nos) relating to fraud or misappropriation, presumptive fraud and leakage of revenue etc	
8	Paras relating to persistent irregularities etc that need to be brought to the notice of HOD through Management Letter.	
9	Briefly mention the challenges faced during audit (non-production of records, manpower or resource constraints, scope limitation etc) and how they were addressed during the course of audit	
10	Suggestions for overcoming such challenges in future audits	
11	Whether Exit Conference was held and Draft Inspection Report discussed with the Head/Nodal Officer of the Audited Entity. If no reasons may be indicated.	Minutes as per <b>Annexure A</b> to be enclosed.
12	Date of submission or Draft Inspection Report and all working papers to Hqrs. (may be submitted within a period of 7 working days from the date of conclusion of audit)	
13	Reasons for delay in submission of draft IR etc. to Hqrs with reference to the allotted time period, if any.	
14	General remarks, if any	

<b>Part B (Details of Audit Process followed)</b>						
1	Whether the allocation of duties amongst each member of the Audit Team (SAO/AO/AA O/Sr. Auditor/Auditor) was prepared in line with the planned broad assignment plan and acknowledged by the respective party members? If no reasons and justification may be provided.				Allocation of duties as per <b>Annexure B</b> to be enclosed	
2	Sampling methodology adopted (Use as many rows as Needed)				List of files/vouchers/other documents reviewed may be enclosed	
	Sl No	Section/Wing being audited	Nature of document	No selected for review	Percentage of selection	Sample method adopted
		Purchase/Works/Establishment etc	Files/Vouchers etc	(Indicate actual number selected)	(Indicate percentage for each category)	Random/Stratified/Judgmental
3	Whether focus areas identified and procedures applied were as planned (with reference to the plan as approved by Group Officer before commencing the audit)? If no, reasons and justification may be provided.					
4	Whether all issues marked for examination by Group Officer on supervision/Hqrs section have been addressed?				Compliance to Group Officer comments on supervision to be enclosed as per <b>Annexure C</b> .	
5	Whether all work assigned as per allocation of duties were completed? if no, provide, whether the reasons and justification are provided.				Certificate as per <b>Annexure D</b> to be enclosed	
6	Briefly indicate the potential focus areas for next audit					
7	Whether daily diaries indicating the documents/records checked by team members of the Audit Team have been prepared, signed and enclosed?				Daily Dairy as per <b>Annexure E</b> to be enclosed for each member	
8	Whether a certificate of obtaining sufficient and appropriate evidence (key documents) for the audit observations included in the Draft Inspection Report has been provided?				Certificate as per <b>Annexure F</b> to be enclosed	
9	Whether the key documents have been referenced in the para and the source of evidence has been provided as footnotes?					
10	Please indicate the position of outstanding paras of previous Inspection Reports as under.					
	Period of Inspection Reports	No of paras outstanding (opening)	No. of paras outstanding (closing)	Reasons for the paras remaining outstanding		
	1	2	3	4		

11	Whether a certificate that the audit was conducted in accordance with the CAG's Auditing Standards 2017 has been provided?	Certificate as per <b>Annexure F</b> to be enclosed
12	Whether a certificate that the audit party has complied with the Audit Quality Framework and Code of Ethics has been provided?	Certificate as per <b>Annexure F</b> to be enclosed
Dated :		Sr. Audit Officer

**Annexure A**

**Sample Format of Minutes/Record of Discussions at the conclusion of Audit**

Minutes of the Minutes held on \_\_\_\_\_ to discuss audit observations to be included in the draft inspection Report for the period \_\_\_\_\_ relating to the Ministry of \_\_\_\_\_/Audited Entity \_\_\_\_\_

Present:

<b>From Auditee side</b>	<b>From Audit side</b>

(Note:- The minor and procedural irregularities which were noticed during the course of audit have either been settled on spot after taking assurance from the auditee or have been issued to the Ministry in the shape of Test Audit Note).

The audit observations were discussed in detail and necessary clarifications, wherever sought, were given from the Audit side.

It was pointed out by Audit that initial replies from the Ministry in respect of audit observations were still awaited and the same may be furnished on priority. In response, the Ministry assured to send the replies at the earliest possible.

The meeting ended with vote of thanks.

Signature  
(Name & Designation)  
From Auditee Side

Signature  
(Name & Designation)  
From Audit Side

**Annexure B**

**Proforma for Duty list of each member of the Audit Team**

Duties assigned	Noted and signed (Acknowledgement)
1. SAO/AO : Name	
2. AAO/Supervisor : Name	
3.Sr. Auditor/Auditor : Name	

**Annexure C**

**Follow up of supervision by the Group Officer**

<b>Name of the Audited Entity</b>	<b>Date of Supervision</b>	<b>Comments /Queries of the Group Officer</b>	<b>Action taken by the Audit Team on Comments/Queries</b>

**Annexure D**

**Certificate at the conclusion of Audit**

We have examined all the issues as per the duty list (except the following) and necessary audit observations based on audit scrutiny, have been issued

<b>Sl. No.</b>	<b>Brief particulars of the issues which could not be seen in audit</b>	<b>Reasons therefore (non-availability of records, time constraints, shortage of manpower, other constraints/reasons) etc.</b>
1		
2		

Sr. Audit Officer

**Annexure E**  
**Daily Diary of each member of the Audit Team**

<b>Date</b>	<b>Brief details such as file number, item of work done, records seen and examined etc</b>

**(Signature)**  
**(Name of the Officer & Designation)**

**Annexure F**

It is certified that certificate

- (a) Sufficient and appropriate evidence (key documents) for the audit observations included in the Draft Inspection Report have been obtained and have been submitted along with the Draft Inspection Report
- (b) That the audit was conducted in accordance with the CAG's Auditing Standards 2017
- (c) The audit party has complied with the Audit Quality Framework and Code of Ethics

**Sr. Audit Officer**



**ANNEXURE-X**  
**(Reference: Para No. 4.20)**  
**INDIVIDUAL WORK PROFILE**

Name of the Institution :  
Period of Audit :  
Dates of Audit :  
Dates of Absence due to leave/training :  
No. of audit Enquiries issued : ( AE Nos )  
Documents Checked (Give details such as the name of Register, File Number and Subject,  
Name and month of Return / Report, Voucher Number, Number of Service Books checked  
etc. (If the documents belong to a lower formation give name of office also)

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.

Signature

Date

Countersigned

Sr. Audit Officer

**FORM I**  
**Memo of local verification and settlement of outstanding paras in previous Inspection Reports.**  
(Vide Para 4.29)

No. of paras outstanding:

No. of paras cleared:

Balance:

Name of institution .....Period of Report .....File No.:

.....

Para No. in Inspection Report	Objection in brief	Action taken by Department or reply furnished by Department	Supervising Officer's, AAOs recommendation for clearing the para	Order of Group Officer	Final Disposal in OAD (Headquarters)
1	2	3	4	5	6

## **CHAPTER-V**

### **INSPECTION REPORTS**

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

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

**5.1 Collection of information, copies of documents in support of objections, etc.**

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

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

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

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

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

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

(f) The amount of overpayments or other irregular payments which have to be kept under objection should be worked out to the extent feasible during the inspection itself and not

left to be calculated by the office inspected and intimated to Audit later on.

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

## **5.2 Form and method of drawing up the Inspection Report**

According to Compliance Audit Guidelines 2016, the compliance audit is conducted at various levels of the organizational hierarchy and needs to be reported to the responsible party, those charged with governance, and the legislature, the form of reports to present compliance audit findings and conclusion would have to address these perspectives. Therefore, Auditors shall present the results of compliance audit in the following reports.

- I. Inspection Report
- II. Departmental Appreciation Note
- III. Compliance Audit Report

### **I. Inspection Report**

#### **PART I –Introduction**

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

#### **PART II-Audit Findings**

This part shall contain all positive and negative findings pertaining to the audit unit and may be arranged in two distinct parts. The first part i.e. Part II A comprising significant audit findings relating to evaluation of the regularity related subject matters/ specific subject matters and propriety related subject matters and second part i.e. Part II B comprising other incidental findings related to both regularity and propriety aspects. The audit findings should be organized in decreasing order of materiality and significance, if possible.

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

#### **PART III- Follow up on findings outstanding from previous reports**

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

#### **PART IV-Best Practices**

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

#### **PART V-Acknowledgement**

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

The responsibility of drafting the Inspection Reports shall vest with the respective audit team and that of review and approval with the respective Group Officer.

(Authority:-Para 6.4 to 6.6 of Compliance Auditing Guidelines.)

### **II. Departmental Appreciation Note(DAN)**

A Departmental Appreciation Note (DAN) may be issued to the Apex Auditable Entity (Department/ Sector) where a specific subject matter has been selected to assess the extent of compliance from a departmental perspective or the Principal Accountant General intends to draw attention of the executive towards system weaknesses etc. A consolidation of audit findings presented through the DAN would enable appreciation of both the audit findings that form the basis for Auditor's conclusion on compliance by departments as well as the audit findings that would feature as standalone findings. The DAN shall be issued to the Head of the Department typically the Principal Secretary, for initiating remedial measures with a copy provided for information to the Secretary Finance, Chief Secretary - the next higher level charged with governance and to Headquarters Office. The Departmental Appreciation Note may comprise the following features:

- a) **Title:-**Departmental Appreciation Note on compliance audit of (name of the Apex Auditable entity)
- b) **Introduction:-**This part may commence with a broad overview of the Department, the organizational goals, governance structure, jurisdiction, and challenges of the Department, financial and operational performance, which may be followed by a broad description of the high risk areas and the related internal controls to enable the responsible party/intended users to appreciate the factors that were considered by auditors while selecting the area for compliance audit during the year.
- c) **Objectives and scope-**A brief explanation of the objectives and scope of audit should be provided.
- d) **Audit findings:-**This part shall contain all significant audit findings and is to be arranged in two distinct sections – the first section comprising audit findings relating to evaluation of the selected subject matter(s), and the second section comprising audit findings on other subject matters and other incidental findings. These findings may be organized in decreasing order of materiality and significance. The audit findings included in the DAN, which could potentially

feature in the next level of reporting through the Compliance Audit Report should be clearly indicated.

- e) **Conclusion**:-Depending upon the extent and pervasiveness of compliance of the subject matter observed during audit, the conclusion of compliance should be provided. Further based on the veracity and pervasiveness of findings relating to adherence of sound financial management principles and ethical conduct and other findings, it should conclude, as appropriate, on the efficiency and effectiveness of internal controls in the areas audited.
- f) **Acknowledgement**: This part may contain acknowledgement of the extent of Department's cooperation in all matters including production of records.

The responsibility of drafting the Departmental Appreciation Note (DAN) shall vest with the Audit team and that of approval with the Principal Accountant General in field offices. In cases where multiple teams were deployed for audit of an Apex Auditable Entity and a lead team has been identified for conduct of compliance audit, lead team is to draft and finalize the DAN, for approval by the Principal Accountant General.

### **III. Compliance Audit Report**

The Compliance Audit Report shall feature significant audit findings which require the attention of the legislature and other intended users including the public at large. Presently, the significant audit findings that could potentially feature in the Compliance Audit Report are communicated to the Apex Auditable Entity (AAE) by issuing Draft Paragraphs and/or Statement of Facts. The significant audit findings would therefore emerge from the Inspection Reports, Draft paragraphs, Statement of Facts and from the Departmental Appreciation Notes containing conclusion if any on a specific subject matter, which shall be carried forward for reporting in the form of a Compliance Audit Report of the CAG of India. To ensure objectivity of the audit findings and conclusions of the Compliance Audit Report, confirmation of facts and figures by the AAE and incorporation of responses is very crucial. Auditors shall therefore ensure that facts and figures are accepted by the AAE and shall pursue responses from the AAE.

The responsibility of preparing and ensuring the quality of the Compliance Audit Report before it is submitted to CAG for approval would be with the Principal Accountant General. The Compliance Audit Report could be brought out as a separate Audit Report or alternatively could be included as distinct Chapter(s) in a consolidated Report with findings of other types of audit. The decision with regard to the manner of featuring the compliance audit report shall vest with the respective DAI/ADAI.

The details of Compliance Audit Plan, Planning Compliance Audit, Conducting Compliance Audit and Reporting Compliance Audit are mentioned in Chapter VI of this Manual.

#### **5.3 Instructions for drafting of Inspection Report (IR).**

Inspection notes should be made as short as possible consistent with clarity and the importance of the matter dealt with. Long notes generally indicate vagueness of ideas and

inability to discriminate between the important and the unimportant. They create problems of avoidable work all around, as tedious reading very often leads to the essentials being lost sight of, and thus detract from the value of inspection. The following directions are to be followed in drafting the Inspection Reports:

(a) All points which could be settled on the spot should be settled then and there, and only very important irregularities, which should be brought to the notice of higher authorities or which are deemed necessary to be recorded in the notes or which could not be replied off hand by the departmental officer should be carried over to the notes. All minor irregularities in the maintenance of accounts, directions of a routine nature etc, should be incorporated in memos and should be got rectified or noted by the Head of the Office or in his absence by his Deputy.

(b) When matters which could normally be settled on the spot are not being settled due to the neglect or non-cooperation of the departmental officer, a note regarding such points should be submitted to the Central Office by the Local Audit Party for being taken up with higher authorities.

(c) Narrative form should be confined to the most important general features. The tabular or statement form and appendices should be resorted to wherever possible in other cases. The report should concentrate on bringing out the salient points under objection and avoid all irrelevant and redundant matters.

(d) Irregularities in challans are often the subject of long comments in Test Audit Notes. The proper and effective procedure is to proceed to the Treasury in cases of doubt and to verify the correctness of the remittances. Otherwise, these items fizzle out in the course of time due to vague and unsatisfactory replies and are therefore of not much value. It has also to be remembered that it may be difficult for a departmental officer to obtain a certificate of remittance in cases of remittance by private parties.

(e) Suggestion to open register, maintain accounts, submit returns etc. is another common feature with audit notes. Such suggestions should be made only when absolutely necessary and when made, should be with reference to similar transactions in other departments and the accounting procedure prescribed from time to time in codes and manuals.

(f) IR should entirely be in the printed form and its soft copy should be submitted with the IR to the concern OAD Headquarter Section for its approval by Group Officer.

The following points may also be borne in mind in drafting the inspection reports.

1. Irregularities and defects in procedure noticed during the inspection should be detailed in case a defective procedure persists; a reference to paragraphs in previous inspection reports should be made.

2. In order to facilitate subsequent references and the checking of the results of inspection, the arrangement of the report should be systematic corresponding closely to the conduct of the inspection.

3. When anything is noted as not quite satisfactory, the reasons should be stated in the body of the report in details.

4. Remarks of a general nature should be supported by concrete instances.

5. All exaggeration of language should be avoided. In drafting the inspection reports, the language used must be moderate and impersonal as the effectiveness of an audit objection is more likely to be reduced, rather than enhanced by the use of strong language. As a matter of fact, the more serious the nature of an objection the greater is the need for using language which is both polite and unexceptionable. The use of such words as 'should', 'must' etc. is to be strictly avoided and the words 'please' and 'kindly' used as freely as possible. No improper or questionable motives should be attributed in the inspection reports, even by implication, to any officer. All comments should as far as possible, be concluded in the third person and in impersonal and objective phraseology.

(CAG's D.O. No. PS. 5XXX/56 dated 23-10-1956)

6. An Inspecting Officer should avoid the temptation of padding his report with points which in his opinion should have come to notice in the Central Audit. He should make out a list of these points separately and send it to the DAG/AMG-II.

7. When an inspecting officer finds that his report is likely to be of abnormal length, he should include only the more important items in the report and add the rest as an appendix so that an unwieldy report may be avoided and attention may better be concentrated on the really important points finding mention in the report. There is no necessity to explain in the inspection report the intention or significance of the rules. It would be sufficient to mention the rule or rules and state how they have been infringed. It is not necessary to draw inferences from the infringement of the rules and make comments thereon.

**Note:** Whenever statements or appendices are attached to inspection reports or Test Audit Notes, AAOs of Local Audit should take special care to see that at least five copies of the statements are prepared and attached to the reports.

8. The use of adjectives and adverbs such as 'serious' (irregularities), 'highly irregular' (special notice) etc. should be avoided in the drafting of inspection reports.

9. The report should be clear, lucid and to the point. In cases where the Departmental Officers have acted in pursuance of any instructions issued by the head of the Department or Government, the matter should not generally be subject of comment in the Inspection Report but should be dealt with separately for necessary action in the Central Office.



10. Inspecting Officers should take particular care to see that the reports are so drawn up as to afford no ground for complaints from the local authorities in regard to their tone or substance. The inspection should be conducted with tact and discretion so as to avoid possible or unnecessary irritation to the departmental authorities.

11. Wherever any irregularity or delay which was previously noticed is taken up again by the audit staff, the fact should be mentioned in the report with reasons for its inclusion.

12. Money value of objections should be specified wherever possible not only for those coming under Para 7.1.6 of MSO (Audit) Second Edition-2002, but also for cases of enquiries and remarks made on doubtful points which may have a potential money value e.g. The amount of contracts for which open tenders are not called for, cases where the lowest tender is not accepted without adequate reasons, value of the extra concessions granted to contractors not provided for in the agreement etc.

13. Delay if more than a year on the part of departmental offices in effecting recoveries of Government dues, other revenues and loans and advances should be suitably commented in the Inspection Reports, while commenting on delays of more than a year, the position of arrears as on 1st of April of the year preceding the year in which local audit is conducted, should also be mentioned in the Reports.

14. Objection which can be waived under Para 7.1.16 to 7.1.18 of MSO (Audit) Second Edition-2002 should not be embodied in the report but should be put up to the Central Office for orders.

Objections which are simple directions and instructions for future should be included in an Appendix to the Inspection Report.

15. All statements and allegations made and all figures furnished in the report should be based on clear documentary evidence so that the audit office may be in a position to press for proper action. There should be supporting data or evidence for all the adverse comments made.

16. The names of officers responsible for the irregularities should be kept on record in rough notes in all cases of serious irregularities.

17. Copies of correspondence or other orders cited in the draft reports or notes should be furnished with the reports. In cases where the correspondence is too voluminous for copies to be furnished readily, a brief note on the subject may be prepared in consultation with the Head of Office, get attested in token of its factual correctness by the Departmental Officer and furnished. Wherever paras that should be developed into draft paras are included in the Inspection Reports, documents in support of the remarks contained should be enclosed.

18. All objections, defects in the system and all irregularities noticed in the course of inspection and all items of objections, etc. of previous reports not finally settled or remedied till the date of the completion of the current inspection should be classified and each class of defects should be dealt with in separate paragraphs.

19. Every paragraph should comprise of three distinct parts, first a statement of facts, next the money value of the objection or its approximate value as calculated from the available data, and then the rules and orders infringed, together with their brief substance and the nature of the irregularity and the action required for removing it. This arrangement may not necessarily be adhered to strictly e.g. the rules infringed may indicate first and facts stated next, but all points must be distinctly stated. Special attention should be drawn to important matters like willful and persistent neglect of duty, falsification of accounts, chaotic state of accounts etc. in a separate paragraph if necessary. But reasons for arriving at the conclusion in concrete instances with full particulars should invariably be given in detail in the report.

20. Suggestive headlines should be given above the different paragraphs in indication of the substance so as to encourage the busy officer to read through the paragraph. Mere general headings such as 'cash book' or 'revenue on account of credit sales' or 'outstanding revenue' do not indicate anything, but 'omission to enter receipts and payments in the cash book' or 'out standings due from Government Officers' give a definite idea and makes one inquisitive about the contents of the paragraph.

21. When statistics are given in the inspection reports, Inspecting Staff should give the current year's figures in addition to the figures for the year of account which is audited. The difficulty of furnishing proper audit certificate in the absence of any information (which should be detailed) should be noted in the inspection report.

22. When the points relating to Stores and Contracts are investigated in audit, the full details should be mentioned in the inspection report so that they may eventually be incorporated in the Appropriation Accounts/ Report of the C&AG.

23. Use of abbreviations in writing technical terms should be scrupulously avoided when preparing inspection reports as well as the appendices as this practice would cause much inconvenience to all who deal with the reports, particularly the copying group who cannot correctly expand the abbreviations in the fair copy of the report. In the usage of words, CAG's guidelines issued in "Style Guide" may be followed.

24. The write-off orders received from the Central Office should be scrutinized during local audit and the compliance report should be sent to the office direct. The above fact should be indicated in the title sheet accompanying the Inspection Report.

(Circular No.OAD/PPS/Com/960 ft. Dt.17-9-71 Approved by DCC 2.1)

25. As the outstanding objections are not mentioned in details the pursuance of the outstanding objections has to be carried out on the basis of the original reports and their

progress watched through the prescribed register. Any tendency to overlook the original paragraph and to pursue the outstanding items on the basis of extracts appearing in Part I (B) of a subsequent report has to be discouraged.

Occasions may, however, arise when an outstanding paragraph in the previous report may have to be examined at the time of current inspection and the original incorporated as a separate paragraph in Part II of the current report as a result of spot inspection and discussion. In such cases, pointed attention of the departmental authorities concerned may be drawn indicating the inadequacy of the action taken in the past. It may be permissible in such cases to treat the outstanding objections appearing in the original report as settled. But such a procedure should be adopted only in exceptional cases where outstanding paragraphs in the report are very few, say, one or two only.

(CAG's Letter No. 2543-TA-I/264-71 dated 16-11-1971, File OA.I/GI/2- 36/71-72 )

#### **5.4 Preparation of Inspection Reports**

(i) As soon as any of the audit query statements issued (in form SY 327) is received back with replies from the head of the office inspected, suitable draft paragraphs should be prepared for the inspection report on the important items contained in audit query statement, each paragraph dealing with one objection only or a group of similar objections. In this manner as all the audit query statements will be received back, the draft inspection report will be prepared in the course of the local inspection. It will be signed by the Supervising Officer or by the senior of the inspecting AAO where there is no supervision.

(ii) The time allotted in the audit programme for each office includes the time required for drafting the inspection report / test audit notes. The work of local audit should therefore be so spread out as to allow for the above duty as well. The preliminary audit query statements should also be carefully drawn up so that the task of drafting the report might be easy. The checking and scrutiny of the records should not be postponed till the last hour. The supervising officer and AAO should make it a point that the last day of the audit is utilized for drafting the report and discussion with the head of the office.

(iii) Each Supervising Officer/ AAO should write out the report himself and not leave it to his subordinates.

During inspection of the field offices the audit objections should be drafted carefully and properly. The objections included in the inspection reports are often based on incomplete information and are also not clearly worded. As a rule, trifling matters which can be set right on the spot or are of no consequence to the finance of Government need not be mentioned in the Inspection Reports. However, if a number of similar points are noticed, it may be desirable to mention the type of error or irregularity with one or more instances so that proper instructions may be issued for future guidance of the Government servants concerned. It is desirable that statements and figures in relation to any defects or irregularities discovered should be based on clear documentary evidence. It is not sufficient to quote the rule or the order violated, the actual or possible effect of such

deviation on the financial interests of Government should also be explained clearly. There are codal instructions that all observations and objections must be conveyed in courteous and impersonal terms and must be clear and intelligible. It is of utmost importance that any statement of criticism or irregularity should be accurate, fair, moderately worded and dispassionate. Innuendo is forbidden; if a charge cannot be substantiated, there should not be even any hint of it.

(CAG's Office No. 20/715/TAI/106-81 dated 20-6-1981 )

(iv) In drafting the inspection report the Supervising Officer / AAO should give due emphasis to the reply given to him by the Administrative Officer and bring out his point of view in the final draft with comments so that the view taken by the department may be examined at the very outset rather than at the final stage.

(v) The inspection party should invariably discuss the draft inspection report with the head of office or in his absence with the person in charge and the fact of the discussion should be recorded in the draft inspection report over the dated signature of the person with whom discussed. It should be recorded in the inspection report by the inspecting officer that "all observations pointing out lapses in the implementation of system and procedure and all weaknesses in responsibility centers have been discussed with the head of office and assurance obtained in writing in regard to corrective measures for arresting potential risks". If they are unable to give such an assurance, the minutes of the meeting should be drawn up and attached with the inspection report.

(Authority: Circular No.5 of APM/Gen/S-1/Peer Review dated 14.7.2005)

(vi) The Inspection report should be completed before leaving the office inspected and should not be signed until the officer in charge of the office has been given the opportunity of reading and discussing it and suggesting any omissions or modifications.

(vii) The signature of the head of office inspected should be obtained on the draft report in token of his perusal of the report and correctness of the facts contained in it.

(viii) The Test Audit Notes should be issued to the Head of the Office inspected over the signature of the Sr. Audit Officer supervising the audit. In cases where the local audit is not supervised by a Sr. Audit Officer, the Test Audit Notes should be issued over the signature of the AAO in charge of the party.

The covering letter enclosing the TAN should include a disclaimer statement as given below:

"The Test Audit Notes have been prepared on the basis of information furnished and made available by the Auditee. The Office of the Principal Accountant General (Audit-I), Rajkot disclaims any responsibility for any misinformation and/or non-information on the part of auditee. "

(HQrs. Letter NO. 14-LC/III/2005 dated 20-1-2006).

Particular care should be taken to see that only such points are included in the Test Audit Notes as can be set right by the Head of the Office inspected without reference to higher authorities.

(CAG's No. 2374. Tech. Admn. I/ 367-65 dated 7-8-1965).

(ix) The Supervising Officer / AAO should see that the draft inspection reports are dispatched so that they are received in Headquarters Section within five working days from the date of completion of audit. If any delay is anticipated, the matter should be specially brought to the notice of the Group Officer in a note, clearly indicating the reasons therefore and also the period of extension sought for.

### **5.5 Language and tone of the IRs.**

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

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

### **5.6 Discussion of Inspection Reports (IRs)**

(a) The Draft IR should be discussed with the Head of the Office inspected on the last day of the audit. The discussion should not be postponed and the IO should have prior arrangements with the Head of Office or in his absence with his Deputy. The Report should be finalized on the last day of audit after discussion. In cases where no supervision at the level of Sr. AO has been provided, the Draft IR should be discussed and finalized by the AAO himself. Where there is difference of opinion, the views of the Head of the Office should be fully recorded against the relevant paras.

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

### **5.7 Submission of Inspection Reports**

(a) In submitting the draft inspection report to the Headquarters the Inspecting AAO should attach a Title Sheet (as mentioned in Chapter 4 of this Manual). The entries in respect of Parts A to B should be filled in by the Inspecting AAO.

The following points should be borne in mind by Local Audit Parties while preparing and forwarding Inspection Reports/Test Audit Notes to HQrs.

- (i) Reference to Audit Enquiry numbers/ Page numbers and replies thereto are to be noted against the relevant para of Inspection Report/Test Audit Notes. The name of person who initiated the para should also be indicated against the para.
- (ii) Certificate of nominal and number audit should be furnished in the title sheet.

- (iii) Index of irregularities and questionnaire on stores and stock properly filled up, are to be enclosed with the draft inspection reports.
  - (iv) When part II of the Inspection Report is Nil, a Nil report is to be furnished;
  - (v) Statements in Forms 'A' and 'B' are to be furnished on separate sheets.
  - (vi) Items of original work done by supervising officer should be indicated against "remarks of Supervising Officer" in the title sheet.
  - (vii) Details of the number of service books maintained and checked and the percentage checked and a separate list of service books of persons due to retire within 5 years, checked by the party should be attached to each Inspection Reports.
  - (viii) List of remittances checked with the Treasury records is to be attached to the draft Inspection Report and a Nil list should be furnished if remittances are nil.
  - (ix) Statement of the details of payments collected from the Treasury and verified with initial records.
  - (x) The months selected for detailed audit and check of arithmetical accuracy exercised are to be indicated in the title sheet.
  - (xi) Where extensions of time is recommended or sought for in local audit the specific nature of increase in work justifying the extension such as increase in contingent expenditure, starting of new schemes etc. should be mentioned in the recommendations/ request made if it is to be considered.
- (b) The Inspecting AAOs and the Supervising Officers should take particular care before the inspection report is submitted to headquarters, to see that the accounts audited and their supporting statements and documents such as Store accounts, Proforma account, Income and Expenditure account, are complete in all respects and they should invariably initial and sign these documents wherever required and send them duly completed along with the inspection report for necessary action.
- (c) The report should also be accompanied by
- (i) A certificate under the dated initials of the AAO that the receipt books used have been checked since the date of last inspection in regard to the continuity in all serial numbers of receipts entries in the cash book and their completeness in all respects; and
  - (ii) That the unused receipt books are under proper custody and have been verified and found correct and
  - (iii) A certificate as precisely as possible about the general state of accounts examined by him.

## **5.8 Documents to be appended with the Inspection Reports**

1. The following document should invariably accompany a Draft IR submitted by local audit parties to AMG-II and before submission of the inspection report to the Sr. AO (HQrs)/DAG-AMG-II for approval, the concern OAD section ensure the following documents have been accompanied with the Draft Inspection Report.
  - (i) Title Sheet with individual work profile

- (ii) Index of irregularities
  - (iii) Questionnaire
  - (iv) Minutes of Entry Meeting and Exit Meeting.
  - (v) List of remittances into Treasury for the selected month verified at the Treasury.
  - (vi) Statement of details of payments collected from Treasury and verified with initial records.
  - (vii) List of service books checked
  - (viii) Certificate of nominal and number audit.
  - (ix) Note to Sr. AO (HQrs) section regarding details of institution.
  - (x) Audit Enquiry Docket - (List of Audit Enquiries and replies)
  - (xi) Audit Enquiries and replies to audit enquiries.
  - (xii) List of deposit repayment vouchers audited in respect of courts.
  - (xiii) A and B statements
  - (xiv) Check list
  - (xv) Duty list
  - (xvi) Verification reports of the previous inspection reports
  - (xvii) Form of electronic database-auditee profile
  - (xviii) Audit Note-Book
  - (xix) Statements received from the auditee office
2. The report has been page numbered. The name of the official who initiated the para and the reference to Audit Enquiry number and page number has been indicated in the margin against each para in the Inspection Report.
  3. The Audit Enquiries and replies should be examined to ensure that all genuine objections not settled on the spot on the basis of reply are included either in the inspection report or test audit notes.

The report should be subjected to preliminary check by the units concerned in regard to the formalities to be observed such as proper filling of title sheets, furnishing the required certificates, enclosures etc. After exercising the checks prescribed above the reports written or vetted and approved by Supervising Sr. Audit Officer should be submitted to the Group Officer/Principal Accountant General direct after verifying the facts stated in the draft inspection report. No edition or vetting is to be done by the section, but suggestion for modification/addition / deletion etc. may be indicated with reasons thereof in the margin for approval of DAG/AMG-II. The draft inspection report in respect of audit not supervised by Sr. Audit Officer will be submitted to the Sr. Audit Officer/OAD (HQ) after exercising the preliminary checks detailed in the previous para and after verification of facts. No edition or vetting is to be done by the section, but suggestion for modification/addition/deletion etc. may be indicated with reasons therefore in the margin for approval of DAG/AMG-II.

While scrutinizing draft inspection reports the DAG/AMG-II will delete matters which are put into reports merely to increase their bulk. He will mark for the Register of financial

irregularities any paragraph which are in his opinion worthy of further pursuit or important enough to go into Report of the C& AG but have not been already so marked by the Supervising Officer or the inspection AAO. He will then finally approve all such inspection reports. Paragraphs, if marked for inclusion in the Register of Financial Irregularities, should be noted in that register. Inspection reports on special audits or where frauds etc. are disclosed and inspection reports, which in the DAG's opinion, contain irregularities and points of importance which should be brought to the notice of the Principal Accountant General (Audit-I), should usually be submitted to him.

All cases which are likely to develop into draft paras should be examined carefully and intelligently by the Headquarters Section in consultation with the Audit Report Section concerned wherever necessary and orders of Dy. Accountant General/AMG-II obtained. The paras edited and finalized after such examination should be sent to the Heads of Departments etc. separately as a note with suitable covering letter in the Inspection Report file itself. The report should simultaneously be made available to Government also. The inspection reports will be considered as finally issued only after this action is completed.

### **5.9 Performance of Audit Parties**

The performance of field parties and the quality of inspection report are monitored through a performance register maintained in OAD Sections. Headquarters office have set certain parameters that contain ten broad based categories (from A to J) under which all the objections appearing in the Inspection Reports are to be grouped. The list of headings is given in the **Annexure XI** to this Manual.

### **5.10 Procedure for dealing with Draft IRs in the Head Office**

**IRs watching progress register:** - A Register for watching the receipt and issue of IRs is maintained in the AMG-II section of head office. On receipt of the IR, columns 1 to 6 of this register should be filled in. Column no. 9 should be filled in after its approval by the Group Officer and Column no. 7 and 8 should be filled in after issue of IR to the concerned audited unit. The register shall be reviewed from time to time to ensure that all the IRs are forwarded within Seven days from the last day of audit. Where the IRs are not so received, reasons thereof should be ascertained by reference to the AAO concerned and steps taken to secure early submission of the Reports to Headquarters. The register shall be submitted to the Sr. AO weekly with a report indicating the number of IRs outstanding at the beginning of the week, the number of Inspections conducted of which Reports up to end of last week awaited, the number of reports issued during the week. The register should be submitted to the Group Officer for his review monthly as mentioned in calendar of return.

### **5.11 Preliminary Check**

After the IRs is diarized it shall be subjected to preliminary examination to see that:-

- (i) Local audit has been carried out to the extent prescribed;
- (ii) All columns of the Title Sheet have properly been filled in and the AAO has signed at all places provided for in the title sheet;



- (iii) All statements, certificates and proformas, etc. required as per title sheet, questionnaire and paras of the IR have been received;
- (iv) IR has been discussed with the Head of Office;
- (v) There are no blanks and omissions of any data, etc.
- (vi) The endorsements are correctly made on the AM and IR.

### **5.12 Vetting of IRs**

The Supervising Officers shall scrutinize the audit memos and draft the Inspection Reports carefully and edit them. When the Supervising Officer is not present on the closing date of the audit the AAO may draft the report exercising the same amount of care and forward the draft Inspection Report with rough notes to APM Section for noting and transmission to concerned OAD Section for approval by Sr. AO (HQrs).

The Inspecting Officers will be responsible for the correctness of all facts and figures given in the reports. Uniformity in drafting the reports also has to be ensured. The instructions contained in Para 6.1.21 of the MSO (Audit) Second Edition-2002 should be carefully followed in drafting and vetting the Inspection Reports and they should be sent to the Central Office as a finished product, ripe for issue without any touching up in the Central Office.

### **5.13 Issue of IRs**

- (a) The important paras which are in the opinion of the DAG/Sr. AO of AMG-II wing should be transferred to the concerned OAD-I /II section that will process them into draft paras as is responsible for dealing with Draft Paras cases.
- (b) On receipt of the Draft IR, duly approved by the Group Officer/Sr. AO, his queries/orders, if any, should be complied with and enter the date of return of the report from the Group Officer/Sr.AO in the Register for watching the receipt and issue of IR. It is the responsibility of the auditor to see that all errors and mistakes are corrected. In order to ensure that there is no undue delay in the comparison and issue of the IRs, the Auditors should indicate the date of receipt and the date of comparison on the office copy of the IR itself at the time of submission of fair copy for signature. Cases of delay on the part of Auditors, in this regard, should be brought to the notice of the Branch Officer.
- (c) After necessary action has been taken as indicated above, the IR should be issued to the audited unit concerned duly entering the date of issue in the control register.

### **5.14 Time Schedule for issue of IRs**

Inspection Reports are to be issued within one month from the date of completion of the inspection.

The period of one month has to be computed as under:

7 working days	For receipt of the draft report from audit party (The draft report is expected to be discussed with the officer-in-charge before the closing day of inspection).
5 working days	For the Section to submit the report
4 working days	For the Gazetted Officer to pass the report and
10 working days	For typing and issue of report.

Total 26 days

(Authority: Headquarters letter No. 125-Audit(AP) 109-95 dated 2-8-2004 enclosing Circular No. 19-TA I (83) / 83-84 dated 16-7-1983 and No. 226-09-PPG/2017 dated: 23-08-2017)

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

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

(CAG Letter No. 2205-Admn II/608-Admn. I/58, dated 11-09-1959)

### **5.15 Record of objections in the objection Book**

The instructions mentioned below should be followed in recording objections which arise out of local inspection of departmental offices conducted by the Outside Audit Department:

(i) A separate objection book should be maintained as required in para 7.2.2 of the M.S.O.(Audit)Second Edition-2002 in OAD (HQr) for recording objections raised in local audit and inspections for which money values should also be assigned as far as practicable. Before the Inspection Report is put up for approval, all items of objections should be entered in the Objections Book and a certificate to that effect recorded.

(ii) All objections arising out of local audit which are susceptible of being expressed in money value should be registered in objection books.

The following types of objections need not, however be registered in the Objection Books.

(a) Trading and proforma losses of Government concerns / schemes as these are only proforma in nature and are meant to apprise the departmental authorities of the manner in which the concerns/ schemes are functioning.

(b) Outstanding dues of Government on account of credit sales and other outstanding dues to Government in respect of which accounts are kept by the Department for the purpose of watching recovery.

Note: Items in respect of which there is delay in recovery beyond one year should however be segregated and commented upon in the Inspection Report for being recorded in the objection book kept in OAD (HQ) for further pursuance. Recoverable amounts omitted to be included in departmental records for watching recovery and under-assessments of amounts should be commented upon in the Inspection Reports. This procedure should also be followed mutatis mutandis in the case of outstanding dues pending recovery in respect of advances not debited to a Debt, Deposit or Advance Head of Account.

(c) Outstanding loans and advances made by department agencies if the loans and advances are debited to debt deposit or advances head of account as the recovery of this is watched through other records.

(d) Cases of differences, discrepancies etc. in stock other than specific cases of shortages in departmental balances of stocks for which responsibility has not been fixed and action for recovery has not been taken.

(iii) In all cases where objections are recorded in the Objection Books the section will take all action necessary for the early settlement of the objection.

(CAG's Letters No. 2665.Admn/I/365-60 dated 29-8-1960)

### **5.16 Progress Register of Settlement of Inspection Reports**

A register to watch the progress in the settlement of IRs should be maintained (Form-II). Separate pages may be allotted to each unit. At the time of issue of the IR, it should be entered in the particular page giving number of paras contained in it. The old paras existing in the old reports already entered in the register should be scored indicating the month of settlement. This register will be concise one depicting the position of IRs/paras outstanding at any given time or for more than six months old. A register should be submitted to Branch Officer and Group Officer on the dates mentioned in the calendar of returns.

### **5.17 Advance Audit Comments**

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

### **5.18 Annotated Copies**

After the issue of the IR, all the subsequent correspondence regarding the IR is to be noted in the relevant columns of the register maintained in Form-II. In the remarks column of the register should be indicated individual number of para / paras outstanding after six months of issue of the report. Paras which are subsequently settled should be circled and cross reference, to the letter No. etc. with which settled, be given. Paras, in respect of whom the

explanation etc. given by the department has been accepted, subject to verification at the time of next local audit, should be treated as settled for the purpose of the report of the register to be prepared monthly. A report of the register should be prepared and submitted to the Sr. AO of AMG-II (HQ) on the date as mentioned in calendar of returns. The report should indicate detail cases in which annotated copies were due by the end of the preceding month have not been received. Cases of outstanding IRs for over six months should be indicated separately. The total number of paras outstanding after six months of the issue of the IR should also be indicated in the report.

### **5.19 Audit Committee**

At the instance of Audit,

1. Government of Gujarat has issued instructions (April, 1991) to form Audit Committees for speedy settlement of objections and inspections reports.

An Audit Committee will be formed for each department at secretariat level consisting of the Secretary to Government, heads of department, one senior officer of the Principal Accountant General's Office and one officer of the Finance Department. The Committee will meet every month to review the progress of clearance of audit objection and Inspection Report paras.

Another Audit Committee at departmental level consisting of Head of the Department, Dy. Accountant General and Finance Officer of the Department will be constituted to review every month the pendency and clearance of audit objections and inspection reports paras. Government have further directed to conduct quarterly audit committee meeting to review the progress achieved in the case of major departments where there is substantial pendency of audit reports etc. Regional / zonal meetings of Audit Committee have to be convened regularly.

(CAG's Circular No. 3 - Audit II/83 dated 17-1-1986 and GR. FD No. ADR 1084-1078-G dated: 19-2-85)

2. The APM Section should initiate action to address the Head of Departments concerned to form Audit Committees and hold frequent meetings for clearance of outstanding objections and inspection report paras. In the Secretariat Level meetings, Dy. Accountant General will represent the Principal Accountant General, whereas in the department level meetings the Sr. Audit Officer dealing with the Department will participate.
3. Based on the deliberations in the Audit Committee meeting, objection for which replies have been received from the department can be considered for clearance. The following instructions may be followed by the Sr. Audit Officer attending the Audit Committee Meetings at departmental level:

Only Inspection Reports for which first replies have been furnished should be taken up for discussion;

Important policy questions / accounting procedures a commitment about which in the Audit Committee meetings may affect the future policy of the department in respect of objection should not be dropped at the Audit Committee meetings. The departments may be informed that these will be examined and a suitable reply would be furnished for them.

- (a) A schedule of Inspection Reports/ paras to be discussed in the meeting should be forwarded to the department official and these should be discussed before the meeting.
- (b) Minutes of the meeting should be prepared and submitted to the Group Officer after the meeting.

The Principal Accountant General should bring to the notice of the Heads of Department demi-officially every quarter and to the notice of the Secretary of the Administrative department demi-officially every six months all important audit objections/paras of local audit of inspection reports which have not been included in the printed Audit Reports placed before the government for discussion by the Sr. Dy. Accountant General/Dy. Accountant General, concerned with the secretary of the department, in Audit Committee with a view to seek early settlement of the audit objections

In order to watch the progress of clearance of inspection reports and paras through Audit Committee meetings and to monitor the working of the system, the Sr. Audit Officer of OAD Section concerned should give a report in the following format, to APM Section as soon as the Audit Committee is over. A copy of the minute of the Audit Committee meetings when received from the department should also be forwarded to APM Section.

Audit Committee Meetings of ..... Department

Report to APM Section

OAD .....

Dated:.....

Name of Department	Whether the meeting is Secretariat Level or Departmental level	Name of officer attended representing PAG (Audit-I)	Venue of meeting	Date and Time	No. of IRs and paras proposed for clearance	No. of IRs and paras actually cleared.
1	2	3	4	5	6	7

Sr. Audit Officer/OAD-\_\_\_\_\_

APM section shall maintain a Register for noting the details of Audit Committees held and clearance of IR paras. The secretariat level and departmental level meetings should be shown separately in the register.

## **5.20 Material for the Audit Report**

With a view to ensuring that important objections are finalized and brought to the notice of the Legislature through the Audit Report on Appropriation Accounts at the earliest opportunity, the following instructions have been issued for the guidance of local and central staff;

Specially, serious irregularities, which are prima facie for inclusion in the Audit Report should be given special treatment and should never be mixed with items of lesser importance or dealt within a routine manner. The Inspecting Officer/AAO, before writing up his report, should pick out such cases.

If such irregularities have been factually established to his satisfaction, after reference to all the initial records of the office, they should be worked up into draft paras straightway for inclusion in the conventional Audit Report. The draft paragraphs thus prepared on the spot should be discussed with the head of the Office/Department and invariably their views obtained and recorded. The preliminary exchange of view with departmental Officers would not only facilitate acceptance of the facts mentioned in the draft paragraph but also give an opportunity to ascertain their view point and form a fair appreciation of the cases commented upon.

In order to decide whether cases mentioned in the Audit Report, the circumstances of consideration on which the department took a certain course of action which is proposed to be commented on, should be brought out clearly in brief accompanying the para.

The draft para, duly accompanied by copies of all orders referred to, replies to preliminary objection memos issued, extract of the para included in the Inspection Report, another relevant orders on the basis of which the irregularity is sought to be commented upon, should be sent to the Principal Accountant General by name and copy sent simultaneously to the Senior Deputy Accountant General/Dy. Accountant General.

Laying on the table of the Legislature Audit Reports on the account of any particular office other than those submitted under Article 151 of the constitution of India.

## **5.21 Report of important financial irregularities**

(i) Cases of important irregularity or any other matter of importance of the type enumerated in Annexure- II of M.S.O. (Audit) Second Edition-2002 which are noticed during a local inspection, should be reported to the State as the case may be for their comments before they are included in the Report of the C&AG of the respective Governments.

(Annexure II -referred to in para 7.3.26 of MSO (Audit) Second Edition-2002)

(ii) The requirements of the Report of the C&AG should always be kept in view when the Dy. General/AMG-II or the Sr. Audit Officer approves the inspection reports. Orders should be passed at this stage whether the paragraphs noted by Inspecting AAO or the Supervising Officer on the title sheet of the Inspection Report for inclusion in the Register of Financial Irregularities are suitable for the purpose. Points which are fit for inclusion in

the Report of the C&AG should be dealt with by special letters, straight from the beginning at an appropriate level. An inspection report should not be issued unless and until the paragraphs containing important irregularities have been noted in the register and action taken as above so that the points may further be pursued with Government for eventual inclusion in the Report of the CAG. In order that all the information required for the Report may be available in the Register, the name and designation of the officer responsible for the irregularity should invariably be entered in Column 7 of the register and a brief note of the disciplinary action taken made in column 9 under the heading "Orders of Government".

The facts connected with the irregularities should be got verified by the departmental officer, so that they may not be challenged when a draft para based on them is proposed. For this, a Statement of Fact (SOF) should be issued to the Secretary to Government in Administration Department by a D.O. letter calling for reply within six weeks. If reply is received within this period, the draft para may be modified incorporating the replies. It is of great importance that materials included in the Report are accurate. After getting the facts thus verified, a para may be drawn up and after approval by the Dy. Accountant General (AMG-II), submitted to the Principal Accountant General through the Report Section. The final paragraph as approved by the Principal Accountant General will be communicated by Report Section to the Administrative and Finance Department for acceptance of facts contained in the draft paragraph.

#### **5.22 Cases fit for inclusion in the Reports**

(i) An illustrative list showing the subjects fit for inclusion in the Report is given in Annexure II referred to in Para 7.3.26 of M.S.O.(Audit) Second Edition-2002. Individual cases of irregularity should be mentioned in the Report only when they are really important, as involving serious transgression of rules or orders leading or likely to lead to loss of public money or serious breach of audit procedure or safeguards. Petty cases involving losses not exceeding the amounts as may be fixed from time to time should not ordinarily be reported unless they reveal any serious defect in rule or system or affect the bonafides of the office connected with the transaction. If there are a number of cases of financial irregularities of the same nature occurring in the same department not exceeding the above money limit which may produce on appreciable cumulative effect, they should be mentioned in a single paragraph of the report.

When any case of financial irregularity relating to Central subjects is noticed the orders of the Group Officer concerned should be taken whether the case is of sufficient importance for inclusion in the Report (Central) and he should be kept informed about the progress of the case from its inception till a draft paragraph on it is prepared for the Report. A copy of the draft paragraph should be supplied to the authorities for consideration and comment. After the comments from the Administrative authorities or the Finance Department have been received, the final draft of the paragraph for the Report should be prepared and copies supplied to the same authorities.

### **5.23 Inadequacy of financial or accounting rules**

(i) Cases of inadequacy of rules or absence of administrative regulations sufficient to secure a proper and effective check upon monetary transactions are subject matters for comment in the Report. If the inclusion of such cases is approved by the Principal Accountant General, they should be entered in the Register of Financial Irregularities and dealt with in the manner described in the preceding paragraphs.

When there is much delay on the part of the local Government in issuing any financial or accounts rules suggested in audit, the fact should be suitably mentioned in the Report unless the Principal Accountant General considers that the rules to be framed are not so important as to cause any serious loss of efficiency, etc. or is satisfied that there will be no further delay. The causes of delay should be clearly stated, specially in those cases in which it would be unfair to comment without indicating the causes.

### **5.24 (a) Guidelines for drafting of paragraphs**

CAG's Office has issued a "Style Guide" for introducing uniformity in the drafting/reporting style of the Audit Reports. The instructions contained in the Guide may be followed while drafting the Audit Reports

(CAG's Letter No.113-Audit (AP)/6-2003/348 dated 27-8-2003)

The following instructions should also be borne in mind while preparing draft paragraphs for inclusion in the Audit Report:

- (i) The draft paragraphs should not be very lengthy and should not include unnecessary material.
- (ii) They should give all relevant information with dates wherever necessary and lay correct emphasis on the exact points to be brought out.
- (iii) All words and phrases likely to cause resentment or unpleasantness should be avoided.
- (iv) The paragraphs should be worded in a detached and dispassionate language so that, the facts speak more than the comment.
- (v) The words "Audit Comments" or the qualifying words such as "Audit thinks that" or "Audit comments on" are unnecessary and should not be used in the draft paragraph.
- (vi) The names of the Departments, Organizations and parties connected with the irregularities should be mentioned in the paras except where the para bring out some fraud or misappropriation on the part of an official and departmental and criminal proceedings are taken against him so as not to give a clue to his identity. Names of individuals should not however be mentioned; only the designation should be given.

(CAG's Letter No. 3724/Rep/385-69 dated 4-12-1960 case AA/54-1/56-60 Vol.VI)



- (vii) The responsibility of the departments concerned for the irregularity should be brought out in the para by including information on the following points:
  - (a) Did the matter come to the notice of the Finance Department at any stage? If not, was it due to lack of vigilance? If so, the position should be clearly brought out.
  - (b) What was the action suggested by the Finance Department?
  - (c) Did the administration follow this advice?
  - (d) If so, did the irregularity or loss take place in spite of following the advice?
  - (e) Did the Finance Department take or suggest any action after the irregularity had taken place?

(CAG's Letter No. 547/Rep/58-61 dated 24-2-1961 Case AA 51-1/60-61)

- (viii) The emphasis should be on quality rather than quantity and on analysis rather than mere narration.
- (ix) The thrust of the paragraphs and reviews should come out clearly, Reviews and paragraphs should be concise, unnecessary descriptive material should be cut out and the facts stated should be brought out in sharp focus with adequate thrust. Only matters of public importance should be incorporated.

(Authority:-D.O. No. 792-Rep/294-78 dated 23-8-1978 and No. 621/Rep/125-79 dated 4-5-1979 of Addl. Dy. C&AG Case Rep.I/54-1/Vol.XXI& XXIV)

- (x) The paragraphs should not be cluttered with information not relevant to the points sought to be made.  
(HQrs. D.O. Letter No. 1009-Rep/83-72 dated 5-6-1972 ).

#### **5.24 (b) Processing of draft paragraphs for the Report of the Comptroller & Auditor General (Local Bodies Audit)**

- (i) Functional wings (AMG-II) should ensure that draft paragraphs and ECPA Section should ensure that Scheme reviews processed by it after approval by the Group Officer are sent in a phased manner to Report Section before the prescribed due date.

(As per minutes of meeting held on 28.02.2014, it was decided to now onwards the concerned Group Officer would have to propose the Draft Paragraphs complete in all respect to the Principal Accountant General)

- (ii) Section of Functional wings (AMG-II) should submit the draft paragraphs first to the Group Officer and after approval by him send them to Report Section after observing the procedure mentioned in 8.16 (iii) together with the original files containing the notes leading to the draft paragraph. The section should also invariably furnish to Report Section one attested copy of all the references cited as keys to the para, in every case.

Where the remarks of Report Section on specific points or particular aspects are considered essential before finalization of paras, the relevant files may, after obtaining the orders of the group officer, be referred to Report Section.

(iii) The Comptroller and Auditor General of India has reiterated that the view point of the departmental heads/ Government should be ascertained in all cases before audit comments are proposed, as otherwise a dispassionate and objective analysis of the relevant factors may not be possible. However, in regard to cases where the departments concerned / Government fail to intimate their views within a reasonable time, paragraphs can be attempted without waiting for their views. If any irregularity brought to light by Audit had been noticed earlier at the departmental / Governmental level and necessary corrective action initiated, that aspect should receive due consideration in Audit, while processing such cases for draft paragraphs.

(iv) Cases relating to old period, need be processed for the Report for the year only if the factors involved are likely to be of interest to the Public Accounts Committee.

(v) Functional wings (AMG-II) should take special efforts to ensure that draft paragraphs arising out of Inspection Reports issued till the end of March of the year are processed by 1<sup>st</sup> August of that year at the latest.

(vi) The following points should be kept in view while processing draft paragraphs/ scheme reviews:

- (a) The paragraphs should be clear and concise and should give a correct and factual account of the points in plain impersonal language so that a person not well-versed in the details of accounting and audit is able to comprehend the points sought to be made. Long narration unnecessary for the main theme of the para should be avoided, the emphasis being on clarity, precision and quality. This applies to reviews also where the introduction must be brief and to the point containing mainly the material necessary to understand the scheme or project and for comprehending the points sought to be made subsequently in the review. Long and complex paragraphs / review should end with a summing up bringing in sharp focus the major points.

Each statement / figure in the draft para should be supported by key documents. The draft para should be properly referenced indicating the page number of the relevant document in the key file to which the observation / comment could be linked.

- (b) Comments on a scheme or project which failed to produce the expected results should be based on an in depth analysis of the relevant factors like adequacy or otherwise of initial planning, defects in execution due to lack of co-ordination., deficiencies in organization/ procedures etc. In short, audit appraisal should highlight defects in systems, inadequate survey etc.

- (c) Shortfall in achievements or results derived from schemes/ projects may be indicative of unrealistic projection of cost benefit figures based on incomplete and inadequate studies and data. To what extent the data based on which the scheme/ project was prepared had been defective/ incomplete should be analyzed and indicated in the draft paragraph briefly. The consequences of defective estimation, delay in execution, etc. should also be pin-pointed wherever necessary. In cases where schemes/ projects are taken up on the basis of inadequate studies, that aspect should be specially brought up.
- (d) Apart from statistical presentation of facts and figures, scheme reviews should contain a critical analysis of reasons for variations from prescribed norms, targets, estimates etc. The analysis should bring out the various factors leading to the shortfall like lack of proper co-ordination, non-availability or inadequate flow of funds, abnormal climate, non-availability of suitable land, equipment, personnel, etc.
- (e) In reviews, attempt should be made to assess the achievements of social benefits from the scheme.
- (f) All important dates should be indicated in the narrative for proper appreciation of the various decisions taken by the concerned authorities in the correct chronological sequences. Similarly copy of all connected documents should be collected and referenced properly.
- (g) Points which may be of interest to the Public Accounts Committee should be highlighted. In fact, the approach should be to process cases from the angle in which the committee is likely to view them. The data given in each para should be self-contained so that it may be possible for the Committee to come to definite conclusions and make meaningful recommendations.
- (h) Along with each para a write up indicating the organizational frame work in which the scheme was to be executed, the rules/ orders which were to be complied with, the agencies through which the scheme work was to be implemented, how the scheme/work was to be phased during execution etc. should also be furnished to have a better appreciation of the case.
- (i) Each draft paragraph should clearly indicate where, when, how and why things went wrong; and also incorporate wherever possible, the department's view in the matter.
- (j) Special Cell should ensure that draft paras incorporating results of audit under Section 14/15 of the Comptroller and Auditor General's (DP&CS) Act, 1971 are prepared keeping in view the extant instructions on the subject.

- (k) While commenting on the implementation of Centrally sponsored / Centrally aided schemes in the State Audit Report it should be specifically stated whether the figures of expenditure incurred on the schemes mentioned in the para are 'account figures' or 'departmental figures'. In cases where departmental figures are quoted, it should be stated:
1. Why the account figures cannot be given;
  2. Whether the figures of expenditure on the schemes have been certified by Audit for adjustment against the specific grants / loans released by Government of India for the schemes; and
  3. Whether the unspent balance has been refunded.
- (l) The sections proposing the draft paragraphs should ensure that the figures of extra expenditure/ losses etc. or of other amounts included in the draft paragraph have been worked out correctly and should also enclose a statement duly authenticated showing the calculations by which the amounts have been arrived at.
- (m) To eliminate petty items from the Audit Reports, Headquarters have instructed that draft paragraphs involving ` 75 lakh or more only need be finalized for inclusion in the State Civil Audit Report. As an exception, draft paragraphs for amounts less than ` 75 lakhs may be proposed if they present special features, e.g. instances of system failure, etc.
- (vide Headquarters' letter No. 353-Rep(S)/175-2000 dated 19-4-2001)
- (n) Instructions issued by headquarters and endorsed by Report Section from time to time should be scrupulously adhered to while processing material for the Civil Audit Report.
- (o) Extra expenditure due to failure of the departments to avail themselves of DGS & D rate contracts should be highlighted wherever possible.

Report Section will issue separate circulars/ notes to Sections concerned fixing due dates for submission of material for routine/ statistical paragraphs to be included in the Report for each year. Group/Branch Officers should ensure that the due dates fixed in such cases are scrupulously adhered to by the Sections.

(Circular No. Rep. I/ 53-3/87-88 dated 20-3-1987)

**ANNEXURE XI**  
**[Please see Para 5.9]**  
**CATEGORISATION OF PARAS IN INSPECTION REPORTS**

(vide CAG's Letter No. 207-Audit(A)/16-2004 dated 22<sup>nd</sup> November, 2004)

Sl. No.	Broad heading / Category of paragraph		Nature of Audit observation	
1.	Fraud / misappropriation / embezzlement / losses detected in audit	(i)	Cases of embezzlement of cash drawn from treasury	A1
		(ii)	Non-accounting / misappropriation of departmental receipts i.e. non-remittance into treasury	A2
		(iii)	Excess amounts fraudulently drawn by tampering with or manipulating figures in salary bills.	A3
		(iv)	Fraudulent drawing of G.P. Fund of various employees who had not applied.	A4
		(v)	Utilization of departmental receipts towards expenditure	A5
		(vi)	Losses to exchequer due to theft, pilferage and shortages of stores	A6
2.	Recoveries at the instance of audit and overpayments detected in audit	(i)	Recoveries of service payment like pay and allowances, T.A.	B1
		(ii)	Excess payment to contractors due to application of higher rates for work done, etc.	B2
		(iii)	Quantities of stores/works received/executed less than those paid for, resulting in overpayments.	B3
		(iv)	Overpayments on account of errors of computation	B4
		(v)	Overpayments due to application of or allowing incorrect rates.	B5
		(vi)	Allowing payment of charges such as carriage etc., in violation of terms of agreements.	B6
		(vii)	Overpayments on account of excess pay and allowances or payment of inadmissible allowance	B7
		(viii)	Excess payments of pension, etc. by Treasuries / Banks	B8
		(ix)	Non-recovery of installments towards various LOAD ns.	B9
		(x)	Non-recovery / Non-deduction of Income Tax or Service Tax as source	B10
		(xi)	Payment of subsidies / assistance in excess of norms fixed.	B11

3.	Violation of contractual obligations. Undue favours to contractors	(i)	Backing out by contractors resulting in extra expenditure.	C1
		(ii)	Non-imposition of penalty and recovery of extra cost from contractors involved in above cases.	C2
		(iii)	Payment of interest free advances in violation of agreement.	C3
		(iv)	Release of key material on credit basis instead of cash basis	C4
		(v)	Penalties not levied for delay in execution / completion of works within stipulated time.	C5
		(vi)	Non-recovery of supervision charges.	C6
		(vii)	Non-recovery of salvaged material	C7
4.	Avoidable/excess expenditure	(i)	Delay in execution of works resulting in time and cost overrun and consequent extra expenditure	D1
		(ii)	Delay in obtaining Customs clearance etc. for imported equipment resulting in increase in cost or payment of avoidable demurrage charges.	D2
		(iii)	Cost escalation due to improper and inadequate planning.	D3
5.	Wasteful / infructuous expenditure	(i)	Abandonment of works due to defective or disputed sites and structural / design defects. etc.	E1
		(ii)	Non-utilization of assets created for specific purposes.	E2
		(iii)	Non-achievement of specific objective for which expenditure was incurred	E3
		(iv)	Supply of defective stores / stock articles like time barred / sub-standard medicines, seeds, etc.	E4.
6.	Regulatory issues	(i)	Expenditure incurred without sanction from competent authority	F1
		(ii)	Expenditure split to avoid sanction of competent authority or calling for tenders, etc.	F2
		(iii)	Expenditure incurred in excess of budget provision resulting in creation of liabilities.	F3
		(iv)	Execution of works or procurement of supplies without adequate budgetary provision resulting in creation of liabilities to be met from next budget.	F4
		(v)	Diversions of funds from one scheme to another or from one object head to another.	F5

		(vi)	Drawing of funds at the fag end of financial year with a view to avoid lapsing of funds.	F6
		(vii)	Rush of expenditure towards the fag end of financial year resulting in non-exercising of financial control/ checks.	F7
		(viii)	Drawing of funds at the fag end of year without immediate disbursement and their parking in either bank accounts, PL Account or retention in cash/bank drafts.	F8
		(ix)	Incurring of expenditure on banned items or items of special nature without approval of competent authority.	F9
		(x)	Non-observance of austerity measures announced by Government from time to time.	F10
		(xi)	Payment of rent of hired buildings without approval or fixation of rent by Rent Assessment Committees.	F11
		(xii)	Engagement of daily wagers in violation of Government orders and payment made to them without orders of competent authority.	F12
		(xiii)	Execution of works without obtaining administrative approval/technical sanction from competent authority.	F13
		(xiv)	Purchase of stores/stock in excess of actual requirement with a view to avoid lapsing of funds.	F14
		(xv)	Payments made on hand receipts in contravention of Rule 200 of Public Works Account Code.	F15
		(xvi)	Execution of works in excess of estimate, unrealistic preparation of estimates.	F16
		(xvii)	Procurement of material/execution of works without observing codal provision of invitation of tenders, etc.	F17
7.	Idle investment / idle establishment / blockade of funds	(i)	Expenditure incurred on purchase of stores not required for immediate use and not put to use for long periods.	G1
		(ii)	Expenditure incurred on execution of works/construction of buildings, etc., which could not be put to use owing to reasons which could be foreseen.	G2

		(iii)	Expenditure on activities/schemes which could not be completed/ implemented for various reasons.	G3
		(iv)	Expenditure incurred on purchase of equipments including imported ones, not put to use for want of trained manpower, missing spares, defective supplies and assessment of the feasibility of procurement.	G4
		(v)	Funds advanced to various agencies for supplies or construction works retained unauthorized by such agencies.	G5
		(vi)	Payment of idle wages to staff whose service could not be utilized for the purpose for which appointed due to excess staff or lack of work for such staff.	G6
		(vii)	Release of funds for activities without ensuring availability of adequate infrastructure.	G7
8.	Delay in commissioning of equipment	(i)	Due to non-availability of necessary infrastructure.	H1
		(ii)	Due to unavailability of trained manpower.	H2
		(iii)	Due to non-availability of spare parts or accessories.	H3
9.	Non-achievement of objectives	(i)	Comments on shortfall in achievement of targets.	I1
		(ii)	Tardy implementation of schemes.	I2
		(iii)	Non-fulfillment/achievement of objectives for which a programme was launched or an organization created.	I3
		(iv)	Non-accrual of intended benefits to targeted population.	I4
		(v)	Comments on mismatch between financial and physical achievements.	I5
		(vi)	Comments on less production/yield compared to expected production/ yield.	I6
14.	Miscellaneous observations	(i)	Departmental specific irregularities / observations not covered in any of the above	J1
		(ii)	Departmental specific irregularities/ observations not covered in any of the above.	J2
		(iii)	Retention of heavy cash balances.	J3
		(iv)	Belated remittances of receipts into treasury.	J4
		(v)	Comments/observations on maintenance of records.	J5
		(vi)	Comments on improper/ non-maintenance of records.	J6



		(vii)	Comments on submission/ non-submission of utilization certificates.	J7
		(viii)	Non-recovery/non-adjustment of Miscellaneous Public Works Advances from officers, other Government departments and private parties.	J8
		(ix)	Non-crediting of deposits lying unclaimed for more than 3 years to Government.	J9
		(x)	Reconciliation not being done with agencies supplying stores etc. where centralized system of purchase of stores exists.	J10
		(xi)	Non-recovery of hire charges of machinery etc., let out or material supplied where centralized system exists.	J11

**FORM II ( S.Y. 328)**  
**Register to watch progress in the settlement of Inspection Report**  
(Reference: Para.5.16)

Sl. No.	Name of the unit inspected	Items No. of the Register for watching the Receipt and Issue of Inspection Report	Date of completion of audit	No. & date under which report was issued	Due date of receipt of reply	No. & date of reminders etc.	Date of receipt of 1 <sup>st</sup> reply.	Date of issue of further audit remarks	Further correspondence	Date of receipt of further replies	Date of issue of further remarks / reminders	Paras outstanding after six months of issue of the report	Number of paras in Inspection Report	Date of settlement with reference to file No.	Date of closure of the report with reference to file No.
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16

## CHAPTER VI COMPLIANCE AUDIT

### An Overview of the Compliance Audit Guidelines

#### 6.1 Introduction: -

The chapter inter alia discusses applicability –

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

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

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

#### 6.2 General Principles of Compliance Audit

The chapter inter alia lays down that –

- a. The Auditors shall plan and conduct audit with professional skepticism (questioning mind) and exercise professional judgment (application of knowledge, skills and experience) and is expected to observe the prescribed code of ethics, take responsibility for overall audit and consider audit risk throughout the process and also the materiality of audit objections.
- b. Auditor should also prepare sufficient audit documentation.
- c. Should maintain effective communication and determine the audit scope.
- d. To understand the audited entity and control environment while all the time considering the audit risk especially in regard to fraud.

#### 6.3 Compliance Audit Plan

It is inter alia stated that –

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

#### **6.4 Planning Compliance Audit**

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

- a. Understanding the auditable entity;
- b. Understanding the relevant principles of sound public sector financial management;
- c. Identification of intended users;
- d. Consideration of materiality and risk assessment;
- e. Determining the scope of audit;
- f. Development of audit objectives;
- g. Sampling considerations and
- h. Considerations related to direction, supervision and review of the audit teams.
- i. An audit plan should be prepared especially with reference to the apex auditable entity.

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

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

#### **6.5 Conducting Compliance Audit**

The Compliance Audit inter alia includes

- a. Gathering of evidence, evaluating evidence, forming conclusions, documenting the audit process and communicating with the auditable entities.
- b. Audit evidence is the information collected by the auditor for arriving at the audit conclusions.
- c. In the planning phase, the auditors shall review the internal controls and institutional arrangements established by the auditable entity to prevent, detect, and rectify instances of noncompliance.
- d. Also, the audit has to combine and compare the evidence from different sources in order to meet the requirements for sufficiency and appropriateness of audit evidence.
- e. Sufficiency is the measure of the quantity of evidence.
- f. The quantity of evidence needed is affected by the risks of the subject matter information being non-compliant or prone to compliance deviation (i.e. the higher the risks, the more evidence is likely to be required) and also by the quality of such evidence (i.e. the higher the quality, the less may be required).
- g. Appropriateness is the measure of the quality of evidence; i.e. its relevance, its validity and its reliability in providing support for the auditor's conclusion.
- h. The sufficiency and appropriateness of evidence is dependent on the professional judgment of the auditor and is also influenced by several factors.
- i. The evidence gathering and evaluation is a simultaneous, systematic and an iterative process and involves audit procedures such as document scrutiny, physical inspection etc., evaluating for sufficiency and appropriateness and reassessing risk for further evidence.
- j. Next is the drawing up the audit findings matrix, documentation of audit evidence supporting the audit conclusions and confirming that the audit was carried out in accordance with relevant standards and comprises of audit file with working papers and
- k. Lastly, about the good communication with the auditable units through entry meetings.

## **6.6 Reporting Compliance Audit**

- a. Auditors should consider materiality for reporting purposes and adhere to the principles of completeness, objectivity, timeliness and contradictory process while reporting.
- b. The top down, risk based approach to conducting compliance audit, as described in earlier chapters, is envisaged to provide a department centric view of the extent of compliance. Present the results to the end users in a prescribed form.
- c. A Departmental Appreciation Note may be issued to the Apex Auditable Entity

(Department/ Sector) where a specific subject matter has been selected to assess the extent of compliance from a departmental perspective or the Principal Accountant General intends to draw attention of the executive towards system weaknesses etc. It includes overview of the department, objectives and scope, audit findings, conclusion and acknowledgement.

d. A follow up process facilitates the effective implementation of corrective actions and provides useful feedback to the Apex Auditable Entity/ audit units and at the same time facilitates the auditors to plan future audits.

Further, our office had issued circular No. 07 dated 06.02.2019 with regards to compliance audit.

## **6.7 Improving the quality of Inspection Reports**

### **I. Introduction**

The broad objective of compliance auditing is to enable assessment of whether the activities of auditable entities are in accordance with the authorities<sup>3</sup> governing those entities towards expressing a conclusion designed to enhance the degree of confidence of the intended users.

The Compliance Auditing Guidelines adopted by the Department institutionalizes the processes for planning, conducting, reporting and follow up of compliance audits. The guidelines envisages a top down, risk based and department centric approach and aims to instill the process rigor in audit implementation towards achieving the objectives of compliance auditing. The process rigor needs to ultimately enhance the quality of Inspection Reports. This guidance note, therefore, is in furtherance of the Compliance Auditing Guidelines and is intended towards establishing the specific procedures that should be followed while planning, conducting and reporting the results of compliance auditing through Inspection Reports.

The Guidance notes emphasizes the need for effective planning, including use of data analytics, prior to commencement of audit. Further, this Guidance prescribes a process based Title Sheet to accompany all Draft Inspection Reports at the time of submission to field Headquarters, which includes certification of the audit process. The Guidance Note also envisages benchmarking and grading the Inspection Reports to evaluate their quality. The parameters and the scoring methodology address the existing and contemporary risks across the compliance auditing process.

Sustained implementation would result in achieving better audit process outcomes as well as contribute to enhancing the quality of assurance.

The procedures envisaged in this Guidance Note are generally applicable to all streams of audit. However, in order to address specific circumstances that may exist in some field offices/ audit streams, the functional wings may, if necessary, suitably modify the application of these procedures, the grading matrix or the Title Sheet.

### **II. Essential procedures**

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<sup>3</sup>Authorities include the Constitution, Acts, Laws, rules and regulations, budgetary resolutions, policy, contracts, agreements, PPP contracts, established codes, sanctions, supply orders, agreed terms or the general principles governing sound public sector financial management and the conduct of public officials.

The specific procedures that determine the efficiency and effectiveness of compliance audits, which should be followed in all compliance audit assignments are described in the following four sections:

- A) Planning compliance audits
- B) Conducting audits
- C) Reporting results
- D) Grading of Inspection Reports

**A) Planning compliance audits:**

Evidence based approach and the opportunities presented by data analytics need to be harnessed to integrate data from various sources and formats to gain deeper insights, identify and analyze risk exposures of entities as envisaged in the Compliance Auditing Guidelines. Use of IT resources for data analytics is encouraged since this could obviate the need to visit auditable entities.' The macro and micro level risk assessments would lead to a better prioritization of the Auditable Entities and quality Annual Audit Plans and enable identification of focus audit efforts on the perceived high risk areas/ activities. The procedures that should be followed while planning compliance audits are:

**1) Data Analytics:** Data Analytics should be carried out by the Data Analytics Group or Reports section, which involve the following steps:

- (i) Map (Identify) the relevant audited entity databases and third party databases (Refer the Big Data Management Policy)
- (ii) Collect the databases
- (iii) Analyse it as per data analytic guidelines (which is under preparation by the headquarters)
- (iv) The analytic results will be used as inputs for audit plan.

Activities at Sr. Nos. (i) and (ii) are primarily one-time exercises which will require periodic updating.

**2) Maintenance of Guard file:** A guard file should be maintained for each auditable entity containing the legislations/ rules/ policies/ orders that apply to the entity, Financial and Outcome budgets, important long term contracts/MoUs and internal control processes/ procedures instituted by the entity (internal documents). It should also contain relevant sections of external overarching documents such as the Economic Survey, Finance Commission Reports, Indian Public Finance Statistics published by Government of India etc. that define the external environment and policy thrust in the relevant sector. This guard file should be updated in every audit.

**3) Desk review:** The audit party (or alternatively the SAO/AAO in charge of the audit party) identified for audit of an individual entity (or a lead audit party identified for coordinating

the audit of a group of entities) should carry out a desk review at Headquarters before embarking on an audit. The review should comprise a study of the guard file, data analysis to determine the direction/ focus of audit and to identify records / transactions that are potentially error prone for verification in the field. Ideally this can be synchronized with the quarterly scheduling of audits, when audit of similarly placed entities could be grouped/ scheduled simultaneously (e.g. billing units/schools /PWD units etc.), so that focus areas/ common focus areas could be defined and pursued in audit. Use of data analytics at this stage is recommended. While ordinarily a desk review needs to be carried out for gaining an understanding of the entity to be audited and its focus areas, in certain cases, based on the context - size, complexity, scale of audit, desk review as a distinct procedure may not be warranted. In such cases, specific relaxation should be obtained from the concerned Group Officer, duly explaining the circumstances. And recording/ documenting the reasons for the relaxation, before commencing the audit.

**4) Planning audit procedures:** Based on an understanding of the individual entity (after the desk review), the SAO/AAO in charge of the audit party should prepare a plan of audit procedures for the specific entity detailing the audit objectives, scope of audit, main focus areas for audit and assignment plan for the team members, which should be approved by the respective Group Officer before the audit is undertaken. A recommended format for planning audit procedures is provided as *Annexure XII*. Where a specific subject matter has been selected, an audit design matrix as envisaged in the Compliance Auditing Guidelines should also be prepared. Man-days required for the purpose of carrying out desk review and planning audit procedures may be appropriately factored into the annual audit plan to the extent required. It is expected, however, that this would not adversely impact the overall audit coverage.

**B) Conducting audits:** during this process, monitoring the field audit parties and supervising the quality of audit and documentation of the field audit work are the most critical processes. The audit procedures that should be followed to achieve better process outcomes are:

**5) Interface with Headquarters:** An effective two-way interface between field audit parties and Headquarters needs to be established during the field audit process whereby Headquarters can effectively monitor the field audit process and the audit parties can report on audit challenges being encountered and also follow up on Headquarters directions. This would involve the following:

- (i) Technological solution such as the OPTIMA being implemented in State PAG (Audit) offices need to be leveraged to enhance the quality and effectiveness of monitoring.
- (ii) Issues emerging from Group Officer Supervision should be effectively followed up and reported. A format has been devised to be provided by the field audit party as part of the Title Sheet to the Draft Inspection Report.



(iii) Any systemic issue observed during audit should be communicated to other parties carrying out similar audits to enable holistic assessment across all audited entities.

**6) Certification of field audit process:** The SAO/AAO of the field audit party should certify that the audit process was conducted as planned in accordance with the Auditing standards and Code of Ethics and those documentation requirements have been adhered to. The certification may be part of the Title Sheet that the field audit party submits along with the Draft Inspection Report. The revised format of the Title Sheet is provided in Chapter IV of this Manual.

### **C) Reporting results**

Preparation of Draft Inspection Report and vetting of Inspection Reports are very crucial processes. As envisaged in the Compliance Auditing Guidelines, the findings in the Inspection Report should be presented in two parts - Part IIA comprising significant audit findings and Part II-B comprising other incidental findings with best practices being separately highlighted. The vetting process should have the same rigour as that adopted for Draft Paras. The following procedures should be adopted in this regard:

#### **7) Presentation of Draft Inspection Report:**

- (i) Each Para should clearly bring out whether the deficiency /best practice is an isolated case or it has a systemic connotation.
- (ii) The paras should be drafted in an orderly manner by identifying the criteria (both for regularity and propriety subject matters) against which the subject matter is being evaluated, describing the condition ( deviation from criteria as observed in audit), correlating the cause of deviation and determines the effect of deviation. The reply of the audited entity should be incorporated and audit rebuttal/ contention thereon should be clearly presented.
- (iii) While reviewing paras outstanding from previous Inspection Reports, in case of a continuing deficiency or a persistent irregularity the audit team should identify systemic issues/ control deficiencies rather than routinely updating the Para with latest information/ revised monetary value.

#### **8) Vetting of Inspection Reports:**

- (i) The vetting process should ensure that every finding is supported by sufficient and appropriate evidence (Key Documents) and conclusions reached should be appropriate in the circumstances.
- (ii) It has to be ensured whether the IR paras have been categorized appropriately as Part IIA and Part IIB paras respectively. An illustrative list of paras that should be categorized in Part IIA and Part IIB are provided as *Annexure XIII*.
- (iii) While seeking approval of the Group Officer for issuing the Inspection Report, a judgment of the persistent irregularities that need to be brought to the notice of the Executive

through a 'Department Appreciation Note' needs to be taken. Accordingly, a 'Department Appreciation Note' may be issued to the respective Principal Secretary by the PAG/DG/AG/PD as envisaged in the Compliance Auditing Guidelines.

(iv) **Nil IRs:** In order to maintain the deterrent value of audit, some low risk entities may have to be audited and in such cases 'nil' reports may have to be issued. However, it has to be ensured that the requisite process rigour has been adhered to. All cases of 'nil' reports should be well documented, logically borne out and should be issued only after prior approval of the PAG/DG/AG/PD of the field office.

#### **D) Grading of Inspection Reports**

The Inspection Reports should be graded so that their quality can be benchmarked. A scoring methodology has been defined to measure the efficiency and effectiveness of critical audit processes against a maximum score of 100, which would consequently be translated into a grade to evaluate the quality of Inspection Report on a scale of 10. The process scoring methodology and grading matrix of Inspection Reports is provided as *Annexure XIV*.

The Vetting section in state PAG Audit Offices and Reports/Headquarters sections (as appropriate) in other Field Audit Offices should be vested with the responsibility of scoring and grading each Inspection Report, which should be approved by the Group Officer after the dispatch of each Inspection Report. Extant instructions require that Inspection Reports should be issued with the approval of the Group Officer, which has to be diligently observed in all cases.

At the Group officer level, the mechanism of grading of Inspection Reports would represent a self-certification process. It provides a framework for objective evaluation, as process parameters and their scoring methodology have been prescribed. As a control measure, the procedure of scoring and grading Inspection Reports should be periodically reviewed by the PAG/DG/AG/PD of the respective field office by a random selection of Inspection Reports, which should include Inspection Reports of Audited entities that were considered high risk.

The grading of Inspection Reports should not remain restricted as an isolated exercise and should distinctly reflect in the overall performance assessment of the field office. The peer review and inspection teams from Headquarters need to include this as an item in their respective check list to assess the scoring and grading procedure for their compliance and efficacy.

**Annexure – XII**

**(Refer: Para No. 6.7)**

**Format for planning audit procedures**

Sl No	Description	Details
1	Name of the Entity	
2	Period of audit	
3	Duration of audit	
4	Have the documents of the Entity (such as the Financial budgets/Outcome budgets/Result Framework Documents/Annual Report/ New Policies and changes in policy, previous Inspection Reports/Performance Audits Reports conducted earlier etc) been desk reviewed	
5	Have documents and data from secondary sources (such as Reports of the State and Union Governments and of various Commissions/ / Census data/ Statistics put out by Government/NSSO data/digitized data available in data.gov.in, VLC data, Beneficiary data (if applicable) etc, and other sources like media reports, research reports, academic reports etc) been desk reviewed	
6	Potential risk/focus areas that emerge of the review conducted as at (4) and (5) above.	
7	List the Audit Objectives that are intended to be pursued both on regularity and propriety aspects	
8	Summaries the planned scope of audit	
9	Audit procedures that are intended to be applied (review of records, physical verification, joint inspections, external evidence collection etc)	
10	Broad Assignment Plan for each party member	
11	Other remarks	

Senior Audit Officer

Group Officer

**Annexure XIII**  
**(Refer: Para No. 6.7)**

**Statement showing the classification principles for categorization of Inspection Report paras**

Classification principle	Category	Part — II A	Part — II B
a) Nature of objection	1) Systemic issues 2) Isolated cases	<p>Systemic issues: Systemic deficiencies/ weaknesses/ deviations (other than issues that are only procedural) subject to materiality as per (b) below.</p> <p><b>Isolated</b> cases: Individual cases of deviations/violation and aberrations that relate to operational, functional and financial matters subject to materiality as per (b) below.</p>	<p>Systemic issues: Procedural deviations that do not significantly impair process(es), outputs and outcomes.</p> <p>Isolated cases: Individual cases of deviations/violation and aberrations that relate to establishment, personnel, administrative and other miscellaneous matters.</p>
b) Materiality	1) Quantitative 2) Qualitative	<p>Issues that are quantifiable (Quantitative) — Materiality value has to be determined for each audited entity.</p> <p>Issues where materiality is determined by context (Qualitative) Materiality has to be determined based on professional Judgment after considering various factors that are enumerated in Compliance Auditing guidelines (para5.11).</p>	<p>Cases of (a) above and those that ordinarily pertain to PART —IIA but are not material. However, cases that can be classified as trivial need not be reported.</p>

c)Fraud and <b>misappropriation</b> , presumptive fraud, Leakage of revenue	NA	All cases to be taken as Part-IIA.	NA
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**Annexure XIV**

**(Refer: Para No. 6.7)**

**Matrix for grading the Inspection Reports**

SI No	Process Parameter	Allocated score	Scoring methodology	References to Compliance Auditing Guidelines
<b>1</b>	<b>Planning</b>	30		Chapter 4
1 (a)	Desk review- Understanding the auditable entity			
	Review of guard file, data analysis and understanding internal controls. This should comprise review of both internal documents and external applicable data bases/data.	10	<p>This has two dimensions.</p> <p>Review of internal documents (Max score-5): A comprehensive review of the entire range of available documents would yield the maximum score of 5 and a limited/restricted review would have to be correspondingly scored lower than 5.</p> <p>Review of internal documents include budgets-financial and outcome, rules/regulations, past audit findings etc.</p> <p>Review of relevant external databases (Maxscore-5): A comprehensive review of the entire range of available data/data sets/reports would yield the maximum score of 5 and a limited/restrictive review would have to be correspondingly scored lower than 5.</p>	Paras 4.3, 4.10 to 4.15, 4.20 and H9rs guidelines on Data analytics and compliance audit

			Review of external data includes data analysis of relevant external databases, reports/statistics of Government etc.	
	Identification of potential risk/ focus areas	10	<p>This has two dimensions.</p> <p>Focus areas from past audits (Max score - 5): Identification of persistent irregularities, systemic issues emerging from past audit findings would be scored based on the range of areas identified up to a maximum of 5.</p> <p>New focus areas (Max score- 5): Identification of any new focus area(s) would yield a score of 5.</p>	
1 (b)	<b>Audit</b> plan - Planning audit procedures			
	Determination of scope of audit and Audit Objectives	05	Determining the scope and audit objectives duly approved by the Group Officer (as per the prescribed template) prior to commencement of audit would fetch a score of 5. Not doing so would yield a score of zero.	Pa ras4.6 to 4.8
	Deciding the assignment plan for team members, audit procedures and preparation of audit design matrix if applicable	05	Deciding the assignment plan and broad audit procedure duly approved by the Group Officer (as per the envisaged template) prior to commencement of audit would fetch a score of 5. Not doing so would yield a score of zero.	Paras 4.16 and 4.17

2	<b>Conducting the audit</b>	45		Chapter 5
2 (a)	<b>Findings and evidence</b>			
	Extent of findings from identified risk/focus areas	25	<p><b>The score against this parameter would have to be determined on the basis of the percentage/rate of conversion of risk focus areas identified (as at 1(a) above) into findings in the Inspection Report. The specific findings from other than focus areas included in the Inspection Report would also be considered.</b></p> <p>A) Clear cases of overpayments/wasteful or in fructuous expenditure/leakage of revenue/revenue foregone or short collected/frauds or presumptive frauds /losses /non-compliance with laws or rules/ violation of contractual obligations/ undue favour to contractors/service providers (scoring to be based on proportion of such paras to total paras in IR e.g if all paras in the IR fall in this category it would fetch full score of 25. If 60% of the paras fall in this category it would fetch a score of 15 i.e 60% of 25 ) — (Max score 25).</p>	<b>Paras 5.10 to 5.14</b>



		<p>B) Clear cases of idle investments/blocking of funds/delays in procurements, commissioning of equipment, project execution and diversion or mis-utilisation of funds (scoring to be based on proportion of such paras to total paras in IR e.g if all paras in the IR fall in this category it would fetch full score of 15. If 20% of the paras fall in this category it would fetch a score of 3 i.e 20% of 15)—(Maxscore 15)</p> <p>C) Procedural issues either not involving financial implications or having financial implications lower than materiality (scoring based on proportion of such paras in IR e.g if all paras in the IR fall in this category it would <i>fetch full score</i> of 5. If 20% of the paras fall in this category it would fetch a score of 1 i.e 20% of 05)—(Max score-5)</p> <p>In case of ‘NIL’ Inspection Reports, the conduct of audit has to be evaluated against the nature of the audited entity (high risk/ medium risk/low risk) focus areas that have been pursued against applicable audit criteria. The scoring would</p>	
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			be based on proportion of focus areas that were pursued vis-à-vis that were identified during planning it age and compliance to the envisaged audit process(if all areas were satisfactorily pursued against applicable audit criteria and the audit process was followed it would yield a full score of 25 else the score would have to be proportionately reduced)	
	Extent of sufficient and appropriate Evidence(Key documents) obtained and evaluated.	10	Part II A- (Max Score -8): The score against this parameter would have to be determined on the basis of the percentage of paras in the Inspection Report for which sufficient and appropriate evidence have been obtained and evaluated. (e.g. If the IR has 20 PartIIA paras and full set of KDs (evidence)have been obtained for only 14 paras(70% of paras), this parameter would fetch a score of 5.6 (70% of the maximum allocated score of8)  PARTIIB–(Maxscore2)The score against this parameter would be on similar basis as envisaged for Part IIA paras above.	<b>Paras 5.5, 5.6, 5.10 to 5.14</b>
2 (b)	<b>Documentation</b>			<b>Paras 5.15 to 5.19</b>

	Preparation of Audit file and documentation of Working papers -Extent of field work done-	10	Preparation of Audit file comprehensively as envisaged in Compliance Auditing Guidelines and containing the audit strategy, scope and methodology, sample selection, audit procedures applied, Audit Design and Audit Findings matrices (where applicable) etc and documenting the working papers comprehensively as envisaged in Compliance Auditing Guidelines and detailing the extent of work done, contracts/agreements examined etc would yield the full score of 10. The score against this parameter would have to be proportionately reduced based on the extent of gaps in documentation observed during the process vetting the IR. This is applicable for NIL IRs also.	
<b>3</b>	<b>Reporting</b>	25		Chapter 6
3(a)	<b>Drafting and presentation</b>			
	Drafting quality	05	The score against this parameter would have to be determined on the basis of extent of revision that was necessary while vetting the IR. This is not applicable for NIL IRs.	Para 6.5 and Hqrs <b>guidelines</b>

	Appropriate classification of paras into Part—IIA and Part- IIB.	05	The score against this parameter would have to be determined on the basis of the proportion of paras that were incorrectly classified to the total paras. (e.g if two out of six paras in the IR were incorrectly classified (which had to be rectified during vetting process) ie. 30% incorrectly classified and 70% correctly classified ,the score to be awarded would be 3.5(70% of the total score).This is not applicable for NIL IRs.	<b>Guidelines issued by Hqrs</b>
	Mortality of paras	05	The score against this parameter would be determined on the basis of Percentage of paras retained (number of paras retained wrt total paras in Draft IR) during the vetting process. i.e if 80% of the paras have been retained, the score to be awarded would be 4 (80% of the total score). This is not applicable for NIL IRs.	
3 (b)	Timeliness			Para 6.4
	Submission of Draft IR	05	Dispatch of Draft IR/ emailing the Draft IR promptly (7 days) would yield the full score of 5,which would be proportionately reduced for delays as under: Delay up to five days: 4 Delay up to seven days: 3 Delay up to nine days: 2 Delay of 12 days: 1	

			Delay > 12 days: .0 This would apply to NIL IR also	
	Issue of IR	05	Issue of IR promptly within the specified time (30 days) would yield the full score of 5, which would be proportionately reduced for delays as under: Delay up to five days :4 Delay of one week: 3 Delay of 10days: 2 Delay of two weeks: 1 Delay > two weeks : 0 This would apply to NIL IR also	
	Total	100		

IR Grading

Score of IR	Less than 25	26-30	31-35	<b>36-40</b>	41-45	46-50	<b>51-60</b>	61-70	71-80	<b>81-90</b>	91-100
IR Grade	0	1	2	3	4	5	6	7	8	9	10

(CAG's Guidance Note number 226 – 09/PPG/2017 dated: 23<sup>rd</sup> August 2017)

## CHAPTER VII

### GENERAL PRINCIPLES AND PROCESS OF LOCAL AUDIT

**7.01 General Principles :** The general principles to be observed in inspection and local audit of the initial accounts of Government offices and institutions are laid down in the Manual of Standing Orders (Audit), Second Edition, 2002, Volume I issued by the Comptroller and Auditor General of India. These and other instructions to be followed generally in the audit of these accounts are summarized below.

The procedure for the selection of months for detailed check and the extent of checks to be exercised in local audit are detailed in the Secret Memorandum of Supplementary Instructions regarding extent of audit. It has been ordered by the Comptroller and Auditor General that it is for audit to decide as to what is to be treated as outside their purview. In future, in all cases where department takes a view that records in respect of payment to question setters, moderators, printers of question papers etc. are of secretive or confidential nature, audit should be stopped then and there and the matter referred to OAD (HQrs) for further instruction.

#### **7.02 Receipts**

The general rules regarding the audit of receipts are given in paras 2.3.1 to 2.3.16 of MSO (Audit) Second Edition-2002. The various processes and stages of collection and accounting of receipts should be intelligently examined in order to ensure that there are no weak points in the system which may lead to leakage of receipts or commission of irregularities. It should also be seen that:

- (a) Adequate regulations and procedure have been framed to secure an effective check on the assessment, collection and proper allocation of revenue;
- (b) Such regulations and procedure are being observed;
- (c) Where any financial rule or order prescribes the scale or periodicity of recoveries, there is no deviation from such scale or periodicity without proper authority;
- (d) A register of all recurring and non-recurring demands is kept in accordance with the rules, and collections watched against it;
- (e) Arrangements for collection are satisfactory and there is no outstanding requiring special notice.
- (f) Payees are invariably granted machine-numbered receipts in the prescribed form, a proper stock account is kept of all receipt books, the stock thereof is periodically verified and a certificate of actual count of receipt forms in a receipt book recorded before a Receipt Book is issued from stock;
- (g) Moneys received are brought to account immediately and ordinarily there is no undue delay in their remittance into treasury;

- (h) The return of the counterfoils of used receipt books is properly watched and the counterfoils are recorded after check so as to avoid delay or omission in bringing the receipts to account;
- (i) The responsibility of conducting the internal checks on the lines of (d) to (h) above is held by some responsible official with recorded evidence to that effect.
- (j) that proper receipts are issued by authorized persons;

### **7.03 Audit of Demand Register**

- (i) The demand Register should be examined to see that:
  - (a) All demands have been correctly noted in the register;
  - (b) All sums due are received and checked against demands, and the demands are realised punctually and fully.
- (ii) It should be examined whether the names of all persons from whom taxes, fees or other revenue are due have been noted in the demand register. The register should therefore, be checked with other registers, roll or other records maintained. It should further be seen that the closing balances of the previous demands have been correctly brought forward, and all amounts shown in the counterfoils of the receipts granted to the parties have been noted in the demand register and credited in the Cash Book.

### **7.04 Audit of Receipt Books:**

The stock account of duplicate carbon or counterfoil receipt books should be examined to see that:

- (a) The number of receipt books received agrees with the indent or requisition made for the same and that all such receipt books are kept under lock and key by a responsible officer;
- (b) Only one book is issued to an individual officer on return of the previous used up book;
- (c) The number of receipt forms contained in each book is recorded on the covering page under the initials of a responsible officer and all the forms are machine numbered;
- (d) The issue of a receipt book and the return of a used up book are duly acknowledged;
- (e) As for cancelled receipt forms both the original and the duplicate are retained in the receipt book; and
- (f) The closing balance in the stock account is verified by the head of office, by actually counting the number of receipt books in hand at the end of each month and a certificate to that effect is recorded in the stock account.

## **7.05 Audit of money value forms**

It should be seen that: -

- (a) the opening balance agrees with the closing balance of the earlier period;
- (b) all the forms received through the indents/by local printing have been brought to account;
- (c) the issues are supported by acknowledgements and the moneys realized have been credited on the date of realization; and
- (d) the closing balances of forms are struck periodically and have been subjected to physical verification.

## **7.06 Audit of Expenditure.**

The general rules regarding the audit of expenditure are given in Paras 2.2.1 to 2.2.46 of MSO (Audit) Second Edition, 2002. The main points to be looked into while taking up the local audit of expenditure are detailed below:

It should be seen that:

- (a) There is proper sanction, either special or general, accorded by competent authority authorizing the expenditure;
- (b) The payment has actually been made, and to the proper person and it has been acknowledged and recorded so that a double payment on the same account would not be possible;
- (c) The charges incurred do not exceed any rate or scale fixed under the rules or orders issued by competent authority;
- (d) The expenditure has been incurred with due regard to financial propriety, e.g. supplies in excess of requirements have not been obtained, the purchases have not been made at unreasonable rates and the expenditure has been incurred only for legitimate purposes, etc.
- (e) Vouchers which are not required to be sent to the Audit Office are kept on record duly cancelled so that they cannot be used again; (these voucher should be examined during local audit)
- (f) Entries in the local accounts are properly vouched;
- (g) The acquaintances of menials for whom pay has been drawn on contingent bills, have been duly taken in the office acquaintance rolls;
- (h) The entries of payments in the local accounts have been initialed by the disbursing officer after examination;
- (i) All materials and stores billed for, have been brought on to the respective inventories;



- (j) The articles or materials billed have been purchased on tender system, as prescribed in the financial rules of the Government concerned and that in case of non-acceptance of the lowest tender, the reasons for such non-acceptance have been recorded in writing;
- (k) Contract agreements for the supply have been executed;
- (l) The quality and quantity of stores have been certified as correct before payment;
- (m) The rates paid are not in excess of the accepted market rates;
- (n) Suitable notes regarding payment have been recorded against the original indents and the invoices concerned to prevent double payment;
- (o) On the sub-vouchers, dates of payment are recorded;
- (p) The details when added up tally with the totals;
- (q) There are no erasures and any alteration in the figures have been attested by the drawing officer and the expenditure has been recorded under the correct heads of account; and
- (r) Expenditure has not been incurred with a view to preventing the lapse of budget allotment, or charges incurred in one year have not been met from the budget allotment of the next year;
- (s) Where fees are realized to meet certain payments on behalf of private parties, the total expenditure on this account during the year has not exceeded the fees received; and
- (t) Expenditure on contingencies, works, etc. is being properly regulated according to the financial rules and the accounts indicate no laxity in supervision and control.

#### **7.07 Audit of establishment vouchers**

The establishment vouchers should be subjected to those checks during local audit in the manner and to the extent indicated

- (a) The establishment vouchers relating to the establishment should be checked by the Inspection Parties with cash book, office copies of the pay bills, acquaintance rolls, Treasury bill books etc.

Acquaintance rolls and the register of undistributed pay and allowances are examined to see that each amount shown as disbursed has been disbursed to the persons entitled to receive them and the arrangement for keeping a proper watch over the undisbursed amount is satisfactory,

- (b) Besides the overtime allowance claims, children's education claims, reimbursement of tuition fees claims and TA bills should be checked with reference to the local records kept in the departmental accounts offices to ensure the correctness of the certificates on the basis of which the claims have been drawn and to see that the rules and regulations in regulating such claims have been followed,

- (c) The pay and allowances drawn for each individual as per vouchers taken from the central office are compared with the corresponding entries in the office copies of pay bills,
- (d) It should also be checked that no payment has been made to a Government servant beyond his attaining the age of superannuation or on the expiry of terms of extension of service sanctioned by competent authority. The audit endorsement duly signed by the in charge of the inspection party is required to be made in the service books checked during the audit.
- (e) The months selected for test audit are to be adopted for number audit as well as nominal audit.
- (f) Audit against sanctioned strength of establishment will be done for the period from 1-4-1984 with reference to the orders of competent authority for the creation/continuation of the posts in the offices visited. In the case of establishments borne on provincial or circle scales, the records maintained by the cadre controlling authorities to ensure that the number of officials employed does not exceed the sanctioned strength should also be checked during local audit of the offices of such cadre controlling authorities
- g) The results of audit of establishment pay bills, Service Books and leave accounts should be incorporated in separate paras in Part II or Part III as the case may be, of the inspection report. A certificate to the effect that nominal audit and number audit of establishment pay bills, audit of increment certificates, checks of pay fixation on promotion/reversion, check of service books and leave accounts and check of office copies of bills and acquaintance rolls have been conducted to the extent prescribed, should invariably be furnished along with each inspection report.
- h) Cases of increments sanctioned to the members of establishment of the office under inspection and cases of fixation of pay on promotion/reversion during the period covered by local audit can be integrated with that of check of service books done, as a process of other local audit checks, during audit of all departmental offices.
- (i) As regards the procedure for audit pay bills of gazetted officers in whose cases the system of issue of pay slips by Sr. Audit Officers has been dispensed with and salary and allowances are drawn in the same manner as the non-gazetted establishment the existing system of check in Central Audit will continue
- j) Headquarters office has reported some instance of fraudulent drawal of pay and allowances that have occurred in some States by preparing fictitious pay bills of a few employees every month and has instructed all audit group to exercise extra care and vigilance to prevent similar and other frauds. During local audit, monthly salary bills should be scrutinized with reference to the actual staff strength. Special attention should be paid in the Attendance Registers/ acquaintance rolls/Register of Service Book, Register of sanctioned posts, GPF/GIS account numbers and such other relevant records and information

#### **7.08 Audit of Contingent Vouchers:**

General rules regarding audit of contingent vouchers are given in Paras 3.4.1 to 3.4.19 of MSO Audit (Second Edition) 2002.

i) It should be seen, in addition to the points mentioned in the above paragraphs that:

- (a) The sub-vouchers contain pay orders signed by competent authority and they are supported by payee's acknowledgement with date of payments;
- (b) The details given in sub-vouchers agree with entries in other registers or records maintained in the office, e.g. the number of days of attendance in court as shown in the Witness Register of the Court, or the stores purchased agree with the Stores Ledgers etc.
- (c) The totals are noted in words as well as in figures;
- (d) Any alterations in the figures have been attested by the officer authorizing payment;
- (e) Revenue stamps have been affixed to the payees' receipts in all vouchers for sums over Rs.5000/- and the stamps have been defaced.

ii) In auditing the accounts of offices which normally incur heavy contingent expenditure, it should also be seen whether any of the following common irregularities exist: -

- (a) Heavy payments made to firms in cash instead of by cheque or bills endorsed in favour of the firms which is in contravention of the instruction contained in Rule 303 (i) of the Compilation of the Treasury Rules or the corresponding Rules of the State Government.
- (b) Fraudulent withdrawals by altering the amount shown in the vouchers;
- (c) Purchases in excess of financial powers;
- (d) Presentation of duplicate claims.

(CAG's letter No. 951/Admn.215-49 dated 19-5-1949).

iii) During the check of cash book for the months selected for audit, where these months are April or later months the local audit parties should check whether relevant payees' receipts have been received and properly kept by the Drawing Officer in respect of payments from 1<sup>st</sup> April. During local audit, if the departmental officer states that any payee's receipt has been forwarded to the Principal Accountant General, a certificate of payment should be obtained from the Drawing and Disbursing Officer, verified with the local records and attached to the concerned audit enquiry and reply, after acceptance by the supervising Sr. Audit Officer/AAO of the party. In cases where the officer supervising the party considers that it may be desirable to check the Payee's receipts stated to have been forwarded by the departmental officer to the office of the Accountant General (A & E), a special note for this purpose should be sent along with the draft inspection report. The Section dealing with the draft inspection report should in such cases, get the relevant payee's receipts verified by the concerned Central Audit Party.

(Authority:-CAG's Office Letter No. 620-Audit.II/172-83 Cir.No. 15-Aud.II/1985 dated 14-5-1985)

### **7.09 Audit of Abstract Contingent Bills**

The following instructions based on CAG's guidelines regarding local audit of Abstract Contingent bills should be followed by the Local Audit Parties:

- (i) Sub-vouchers below ` 1,000/- kept in local offices should be put to normal audit checks to see whether
  - a) The amount drawn was required for immediate utilization.
  - b) The amount was adjusted within the stipulated period of 90 days from the date of drawl.
  - c) The vouchers were chronologically and systematically maintained to prevent double drawl.
- (ii) The field officers draw advance from Treasuries on Regular Contingent Bill form instead of in Abstract Contingent Bill form just to avoid submission of detailed contingent bills. The loophole should be checked in audit and commented in the Inspection report.
- (iii) The Local Audit Parties should ensure that in respect of all abstract contingent bills, the drawing and disbursing officer prepared detailed contingent bills in time and presented them in treasuries or sent them to the Account General (A & E) directly. Non-adjustment of Abstract Contingent bill should be commented in the inspection reports

(Authority:- CAG's circular No. 12 of 1999 No. 946-Rep(s) 127-98 dated 29-9-1999).

### **7.10 Audit of Contingent Register**

The entries in the contingent register should be checked to ensure the propriety of the expenditure with reference to the rules. It should be seen that:

- a) The register is maintained in the prescribed form;
- b) Each entry is initialed by the drawing officer;
- c) They are correctly entered in the columns which show as heading the classification under which the expenditure falls;
- d) The total of the sub-vouchers agrees with the total of the contingent bills drawn;
- e) The details of stores and other articles purchased, as shown in the entries in this register, for which no sub-vouchers are available, agree with those in the stock books or other registers or records maintained in the office;
- f) The register is closed regularly indicating the progressive expenditure and the allotment of funds available for expenditure in future,
- g) The total of the bills drawn in the Contingent Register are also checked and
- h) The relevant rules of GFR and GTR had been properly observed.

### **7.11 Audit of Travelling Allowance Bills:**

The check exercised by Controlling Officers in TA Bills has to be audited by occasional test check and for this purpose audit should check a few specimen cases at the time of local audit of Government Offices, to ensure that the duties assigned to the Controlling Officers are properly exercised by them. Cases that may come to notice in which the Controlling Officers did not discharge their responsibilities in this regard should be brought specially to their notice.

The test-check of TA bills should be conducted during Local Audit to see whether: -

- (a) a register of TA bills is maintained by all controlling officers to guard against double claims;
- (b) the distances of road journeys are scrutinized by the controlling officer;
- (c) the documents on the basis of which scrutiny is made is an authenticated one;
- (d) stations which could conveniently be visited in a continuous circuit were visited on different occasions necessitating more than one journey from headquarters and
- (e) any other feature exists which would vitiate the responsibilities entrusted to the controlling officers.

The results of this test-check and cases in which controlling officers did not discharge the responsibilities entrusted to them should be incorporated in the Inspection Report of the office concerned.

(Authority:-O.O. No. OAD/Control/Civil/A dated: 1.5.1964)

(Please also see Para 3.2.15 of MSO (Audit) Second Edition-2002)

### **7.12 Audit of vouchers relating to overtime allowance:**

The function of nominal audit of establishment vouchers entrusted with the Central Audit has been transferred to Local Audit, considering the fact that effective audit of O.T.A. bills is possible only in local audit. It should also be scrutinized to check the admissibility of overtime, correctness of payment, sanction of competent authority, furnishing of prescribed certificates etc.

(Authority:-CAG's Office Letter No. 1142/TA I/140-82 dated 14-9-1982).

### **7.13 Audit of scholarship vouchers:**

The parties are to select scholarship vouchers pertaining to a particular month and scrutinize them in details, even though payments might have taken place in different months, to ensure the existence of a proper system to safeguard against double payments and to see that acquaintances are received in all cases and filed.

(Authority:-CAG's office Letter No. 540.TA. I/45/82 dtd. 24/4/82).

### **7.14 Check of permanent advance:**

Para 3.13-13 of MSO (Audit) Second Edition-2002 requires that permanent advances held by local offices should be checked occasionally in order to see that the amounts held by the various disbursing officers, are not in excess of their normal monthly requirements. The inspecting parties should therefore, verify the actual requirements of each office inspected and a report is to be sent to the Debt Head Section of the Office of the Accountant General (A & E).

It should be seen that: -

- (a) permanent advance has been sanctioned and authorized by competent authority;
- (b) the balance held as permanent advance did not exceed the sanctioned limit at any time;
- (c) the recoupment of permanent advance has been entered in the sanctioned limit at receipts side;
- (d) there is a valid voucher in respect of each payment;
- (e) the daily totals of receipts/payment are carried forward to the cash book and;
- (f) a certificate evidencing the holding of permanent advance has been furnished at the close of each financial year.

#### **7.15 Treasury Bill Book:**

It should be seen that:

- a) All bills drawn and presented are entered in the register;
- b) Entries have been attested by the Head of the Office inspected,
- c) The date and amount of payment have been attested by the Treasury Officer;
- d) There are no erasures, over-writings, etc. in the registers;
- e) The cash received has been taken correctly to the cash book.
- f) The Register has been page numbered and a certificate of count of pages recorded over the signature of the Drawing Officer on the covering page of the Treasury Bill Book.
- g) The bill register is maintained in the prescribed form;
- h) The bills do not remain un encashed for a considerable time.

#### **7.16 Stamp Account:**

It should be seen that:

- (a) The account has been maintained properly bringing into account all receipts and issues;
- (b) The physical balance has been verified periodically and agreed with the book balance;

- (c) The postage stamps have been issued for official purpose only; and
- (d) The expenditure on telegram is not excessive.

**7.17 Register of Stationery, Register of Uniforms, Register of Books and Periodicals etc.**

It should be seen that:

- (a) the purchases as seen from the vouchers have been entered in the relevant register;
- (b) the issues are not in excess of authorized scales;
- (c) The acknowledgements of the recipients are available for the issues and
- (d) Physical verification of stock on hand is conducted annually.

**7.18 Cash Accounts:**

(i) The arrangements for the withdrawal of cash from treasury and/ or its realization from other sources, its custody, payment and accounting should be examined to see that they are in conformity with the prescribed rules.

ii) The cash books should be examined to see that:

- a. All entries relating to the months(s) selected for detailed check regarding receipt of cash as shown in the counterfoils of receipt books as well as cash received from the treasury on bills, cheques, cash orders, or Reserve Bank drafts are traceable under proper dates and with correct particulars;
- b. Cash which should be remitted into the treasury are remitted without delay and the remittances supported by the challan are acknowledged by the treasury officer, or the bank or by the treasury pass book. It should be seen that all entries in the treasury pass book have been initialed by the Treasury Officer;
- c. All payments are supported by proper vouchers, acquaintance rolls etc. which are complete in all respects;
- d. The totals are correct and the balance correctly worked out;
- e. Private cash is not mixed with the cash balance of Government;
- f. The cash book is closed and balanced on the prescribed dates;
- g. There are no erasures or interpolations and errors are rectified properly;
- h. There is no tendency to keep an unduly large cash balance in hand and the cash in hand with the Cashier and others does not exceed the amount of security taken from them;
- i. There is evidence in the cash book of the verification of all entries made therein regarding receipts, payments and balances, and the balance of cash in chest has

been counted at least once a month and duly certified by the head of the office concerned;

- j. The expenditure shown in the permanent advance column, justifies the full amount of the permanent advance;
- k. Expenditure has not been incurred in excess of the permanent advance by spending from the departmental receipts, except when specifically authorized;
- l. the cash balance is subjected to surprise checks at irregular intervals.

**Note:** Accounts of imprest and temporary advances if any, should be examined to see that they are closed punctually every month and that they are properly examined by the recouping officers before recoupment.

iii) It is one of the important duties of audit to see that all departmental revenue have been remitted in time to the treasury to the credit of Government. With a view to ensuring that all the remittances to the treasury have gone to the credit of Government the audit staff should verify the credit entries in treasury records. In this connection, the instructions contained in Para 23 of the Secret Memorandum of Instructions may also be borne in mind.

**NOTE:** The verification with treasury records should be conducted even if the treasury is located beyond 8 Kms. from the place of inspection. Details of journey, if any, undertaken for the purpose should be reported to APM Section for regulating TA claim.

iv) Where important initial records such as cash books, pass books security registers, etc. are not maintained properly, it will not be sufficient to state in the inspection report that such records are not maintained properly. Improper maintenance or non-maintenance of important initial records having a direct bearing on cash transactions will prima facie indicate irregularities in cash transactions. In such cases the Sr. Audit Officer, besides mentioning the technical defects and shortcomings noticed in keeping accounts, registers etc. should also make an intelligent probe to see if the defective maintenance or non-maintenance of accounts, registers and other initial records is a cover for any fraud or misappropriation.

v) The cash book should be checked up-to-date.

While doing this, the Inspecting Officer should try to get all the facts and explanations on the spot. If satisfactory explanation for any irregularity detected is not forthcoming, he should collect all the relevant facts and make a special report for pursuing the point with higher authorities.

vi) Objection, if any, taken on checking of Cash Account should be explained in sufficient details to enable the Central Office to find out whether the defects mentioned disclose any technical defect or serious irregularity. Audit parties should examine specially the adequacy of the procedure followed by various authorities for the receipt, custody and disposal of cash and other valuables, and defects, if any in this regard, should be commented upon in the report.



vii) All irregularities relating to the accounting of cash whether technical or material should be mentioned invariably in Part II of the Inspection Report.

(viii) In cases where the cash book is maintained properly and the rules observed correctly, the Supervising Officer/AAO of the Local Audit party should mention the fact specifically in the letter forwarding the inspection report.

#### **7.19 Cash verification:**

(i) The supervising officer or when the party is unsupervised, the AAO should ensure that physical verification of cash as per the records is done by the Drawing and Disbursing Officer in his presence and include comments, if any, arising from such verification in the Inspection Report which should comprise the following:

- (a) The opening cash balance as on date;
- (b) Cash receipts / disbursements during the day till the time of verification;
- (c) Closing cash balance;
- (d) Actual cash balance found on physical verification;
- (e) An analysis of the difference between the cash balance and the balance found on physical verification indicating whether the difference was due to
  - Misappropriation i.e. unexplained shortage of cash
  - Unadjusted advances given from un-disbursed cash or
  - Unadjusted voucher specifying disbursements on account of item for which there are no allotment or sanction.
- (f) Cases of retention of heavy cash balances.

(Authority:-Annexure to Para 6.1.7 of M.S.O. Audit) Second Edition, 2002.

It should be seen in audit that the Government Safe contains nothing but Government money and other Government Valuables.

(ii) Whenever cash is verified it should be seen that the cash book is written upto date and all entries should be vouched to the date of verification. The composition of the balance in hand so verified, i.e. cheques, notes, coins, etc. should be recorded in the verification report also.

(iii) If the cash balance pertaining to the cash book is counted, it is desirable to have simultaneous count of all cash balances in the same office, with relevant accounts in charge of the disbursing officer or other custodian of the cash chest. This verification of cash should preferably be done at a time when the officer-in-charge is present.

(iv) The above instructions apply also to surprise inspection of cash undertaken when temporary misappropriation is suspected

(Authority:-vide CAG's D.O.No. 70/Admn. I/54 dated 26-7-1974).

#### **7.20 Accounts of works**

It should be seen that: -

- a) estimates are prepared and sanctioned by competent authority prescribed in the rules;
- b) the rates of the sanctioned estimates do not exceed those allowed in the neighboring public works divisions;
- c) rates paid are in accordance with contracts, in cases where they are not covered by contracts, they do not exceed the market or schedule rates;
- d) where through rates for finished work are allowed to contractors, the value of any material, carriage etc., and incidental charges are not charged to Government but recovered from contractors;
- e) no financial aid is given to a contractor beyond that agreed upon in the contract;
- f) in cases where contractors are allowed labour rates only or work is carried out by daily labour, arrangements exist for exercising detailed control over transactions relating to materials and for verifying the unused materials;
- g) the materials received from dismantling old structures, etc., are properly accounted for and are disposed of to the best interest of Government;
- h) there is no undue delay in closing the accounts of works;
- i) the excess over sanctioned estimate are investigated and sanctioned by competent authority and
- j) Where materials for the work are supplied by Government, to the contractor, the prices of the materials are fixed correctly as per rules and adjusted against the contractor.

While auditing the offices which maintain accounts on the public works accounting system, it should be seen that the provisions contained in the C.P.W.D. Code and the G.P.W.D. Manual are observed. The checks to be exercised on the two initial records for works accounts, the measurement book and the muster rolls, have been enumerated in the succeeding paragraphs. For scrutiny of other works records, the "Manual of the Works Audit" should be consulted.

### **7.21 Measurement Book**

It should be seen that: -

- a) the books are maintained in accordance with the prescribed rules;
- b) the arrangements in force for taking measurements and for the check of measurements by some officer superior to the official who had originally taken the measurements and the result to check measurements are not such as to indicate laxity of control;

- c) the pages containing detailed measurements paid for are scored out by a diagonal line in red ink and the abstract of measurements bears a reference to the number and date of vouchers of payment;
- d) the dates of measurements of any out station works are traceable in the travelling allowance bills of the official concerned (only a few cases need be test-checked to see to this point);
- e) in respect of running contract account, reference to the previous set of measurement is given;
- f) the contractor's acceptance is obtained below each set of measurements;
- g) the standard measurement books on the basis of which either estimates for annual repairs, etc., are prepared or payments are made should be examined to see that:
  - (i) they are duly certified as fully checked by some responsible officer and;
  - (ii) they are brought up-to-date from time to time and additions and alterations in the books are approved by a responsible officer.

Manual of Works Audit may also please be referred.

### **7.22 Muster Rolls**

Muster rolls should be generally examined to see that the instructions prescribed for their maintenance are followed. In particular, it should be seen that:

- a) attendance is taken daily and the record of attendance is checked at intervals by responsible officers inspecting the works for which the labour is employed;
- b) disbursement are not entrusted as a rule to officials of low rank;
- c) where possible, the officer making the disbursement is not the same as the one controlling the labour;
- d) a record is kept of the progress of work done by labour and the cost of the work done is not in excess of the value at current rates indicating either loss to Government or need for closer financial control and
- e) labourers paid from muster rolls are not engaged in any work other than that for which they are detailed.

Manual of the Works Audit may also please be referred.

### **7.23 Account records not specifically mentioned**

All other account records not specifically mentioned in the preceding paragraphs or in the chapter dealing with the audit of accounts of the particular office or institution, should be examined to see: -

- a) that they are maintained in accordance with the prescribed rules and are up-to-date and

- b) that they are periodically reviewed by a responsible officer.

#### **7.24 Intelligent exercise of checks**

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

- a) Erasures, overwriting, interpolations, alterations and unattested corrections in figures, pass orders etc., in account books and registers, bills, receipts, etc.;
- b) Removal of pages from account books and registers;
- c) Tampering with totals and carry forward of totals especially in cash books and stock books;
- d) Erroneous arithmetical totaling in bills;
- e) Errors in carrying over figures from subsidiary registers to main register;
- f) Delay in disbursement of moneys drawn from treasury to payees (including moneys recovered against court attachment, undisbursed salaries etc.);
- g) Non-availability of challans in support of remittance entries in cash books and tempering of figures in challans;

Note: - Fictitious entries of remittances in cash book will be brought to light during the verification of credit for remittances for months selected direct from the books of the treasuries, prescribed by the Comptroller and Auditor General.

- h) Persistent delay in the submission of payees "Stamped receipts, suppliers' invoices and countersigned detailed bills to audit;
- i) Payments made on duplicate invoices, absence of proper reference to entry in stock books invoices, failure to cancel sub-vouchers or paid invoices;
- j) Issue in stock accounts not supported by proper initials and acknowledgements issues on free transfer bills not acknowledged by the recipients;
- k) Bills presented at the treasury without entry in the treasury bill book, interpolation and alteration of entries in the treasury bill books.
- l) Items stores, works etc paid for in bills not being traceable in the relevant registers, viz, stock account, works registers, measurement books, etc.;
- m) Signing office copies of bills in full, difference between the entries in the office copies and fair copies of bills in regard to name of payee, endorsee etc., or absence of office copies;
- n) Persistent failure to conduct physical verification of stores or to take action on the verification reports;

- o) Entries in important records like cash book, stock accounts, etc., not being attested;
- p) Absence of proper periodical scrutiny of cash book, stock books, contingent registers and D.C. bill registers by the head of the office or the authorized gazetted Government servant;
- q) Non-reconciliation of departmental figures with those of the treasury.

### **7.25 Accounting of Non-Government Money:**

Where under any special sanction, a Government Servant deals with both Government and non-Government money in his official capacity, it should be seen that the provisions of Gujarat Treasury Rules are observed.

### **7.26 Audit of Property Account:**

Local audit parties should also bestow adequate attention on the audit of property accounts which include accounts of immovable properties like land, buildings and other assets with a view to safeguarding the financial interest of Government. Specific comments should be included in the inspection report regarding the maintenance of property accounts in respect of each Government institution audited by them.

(Authority:-CAG's Confidential letter No. 83 Admn.I/152-61 dated 11-1-1962)

It should also be seen whether the permanent register prescribed by Government to show the assets of immovable properties and buildings in the custody of several departments is being maintained properly and is posted up-to-date.

They should also call for the connected records and examine them as indicated below;

- a) If a new property has been purchased, the purchase proceedings from inception to termination should be scrutinized to see that purchase has been made properly and in accordance with the rules etc., on the subject;
- b) It should be seen that lease agreements exist in all cases where properties have been leased under the rules;
- c) If any property is of a revenue-yielding nature, it should be seen whether the revenue has been properly assessed and prompt action has been taken to collect the assessed revenue. The records maintained for demand and collection of revenue should be carefully examined;
- d) In respect of various assets, it should be seen that capital value is brought up-to-date (e.g. by charging, where necessary, appropriate amounts of depreciation etc.) and the return, if any, is calculated properly.

**Note:** - It will not ordinarily be necessary to comment on the cost of current repairs as compared to the original cost of construction or purchase unless the magnitude of the cost of repairs, the life of the property and other relevant data indicate any abnormal feature warranting comment.

(Authority:- Confidential O.O. No. TM/20(10) dated: 16.6.1962 and OAD-I/28 (33) 3464 dated: 9.10.1962)

### **7.27 Stores and Stock Accounts:**

The audit of stores and stock accounts is a statutory responsibility of the Comptroller and Auditor General under Section 17 of the Act. As these accounts form part of the initial and subsidiary accounts, local audit parties should check them as part of their audit, of expenditure on purchase of stores, their sale, issue etc.

(1) The general principles and regulations in accordance with which audit of stores and stock accounts should be conducted, as laid down in paras 2.4.1 to 2.4.13 of MSO (Audit) Second Edition-2002, should be carefully borne in mind.

(2) Comptroller and Auditor General has decided that dead stock and office furniture should not be included in the Stock accounts furnished by the departments to audit for inclusion in the Audit Report.

(Authority:-CAG's Letter No. 1637-Admn.II/1248-60 dated 7-9-1960)

(3) During the audit of stores accounts, it should be seen whether the departmental regulations governing purchase, receipts, issue, custody, condemnation, sales and stock taking of stores are well devised and duly implemented. Following checks may be done:

- (i) The quantity accounts of the receipts, issues and balances as well as the value accounts (where they are maintained) should be examined with a view to ascertain that they tally in all respects, with the expenditure and other transactions concerned with the stores.
- (ii) It should be seen whether there exists a satisfactory system of control of stock and stores in the form of departmental regulations for the purchase, receipt, custody, issue, sale and condemnation of stores and for periodical stock taking and that the system works without any grave defects.
- (iii) The following points should be specially looked into in the audit of Stores/stock:
  - (a) Every article purchased or otherwise obtained for store is entered in the store account (this should be checked at the time of audit of contingent vouchers or the contingent register);
  - (b) the accounts are kept in the prescribed form;
  - (c) that entries of receipts and issues are made in the accounts as and when the transactions actually occur, that issues are supported by proper authority for issue and by proper acknowledgements and that same official is held responsible for checking that this is done properly and for seeing that balances are worked out correctly;
  - (d) that the accounts of balance which were audited in the previous inspection have been produced complete in all respects, that the entries in them have not been tampered with, that the closing balances as per previous accounts have

been correctly carried forward to the accounts under scrutiny and that there exists a certificate of periodical check of balances;

- (e) that stores are periodically counted, weighed or otherwise examined by some responsible official, other than the custodian of stores wherever possible and verified with the balances in the stock books and that necessary action has been taken to adjust the surpluses or shortages noticed;
  - (f) there is no unnecessary accumulation of stores and that the balance in hand does not exceed the maximum limit prescribed by competent authority and that it is not in excess of requirements for a reasonable period:
  - (g) Adequate action has been taken for the disposal of surplus, obsolete and unserviceable stores;
  - (h) Where a periodical account is maintained, it should be seen that:
  - (i) the issues are priced with reasonable accuracy and the rates initially fixed are reviewed from time to time and revised where necessary so as to bring them within the market rates;
- (iv) the value accounts tally with the accounts of works and of departments connected with stores transactions, the total of the value account agrees with the outstanding amount in the general accounts and the numerical balance of stock materials is reconcilable with the total of value balances in the accounts at the rates applicable to the various classes of stores; and
- (v) Steps are taken for the adjustment of profits, or losses due to revaluation, stock-taking or other causes and these are not indicative of any serious non-observance of rules;
- (vi) The stock account of the various departments should be checked with reference to the above points and any general or special directions in the matter. The various irregularities noticed in the maintenance of stock account in different offices should be included as distinct comments in the Inspection Report/List of statement or minor objections which could not be settled on the spot. Details of the irregularities commented by the inspection parties should be kept office wise by the OAD (Hqrs.) in a Register in such a way that certain irregularities can be identified as pertaining to particular office at any time later on; material for the para on stores and stock to be included in the Audit Report should be furnished by OAD to AR section duly approved by Sr.DAG/DAG between 15th July and 15th August every year.

(AG/PA/115/115 dated 2-7-1963 O.O./28(8) dated 19-7-63).

(4) APM Section will obtain a list of departments which are required to maintain stock accounts from Government and will keep this list up-to-date. A copy of the list should be given to Report Section. OAD Sections should also keep a record of institutions which are required to keep accounts of stores and stock pertaining to the departments under their audit control. During the course of audit, if the Central Audit Sections come across other departments which maintain stores and stock of appreciable value they should bring it to

the notice of Government in consultation with APM Section for inclusion in the list of departments maintaining stores and stock and at the same time furnish the names of such departments to Report / OAD Sections.

(5) APM Section will arrange the local audit of stock accounts of the departments annually as soon as compiled stock accounts are received. The annual programme of audit of stock accounts should be so drawn up by APM Section that the reports on the results of audit together with the certified stock accounts are made available to Report Section by 30<sup>th</sup> September each year.

(6) As far as practicable the work relating to the audit of stores and stock of all the institutions selected for audit in one year should be entrusted to one or two audit parties under the supervision of one Sr. Audit Officer.

(7) APM Section will keep separate files for the stock account of each department included in the list. All general and special orders governing the maintenance of the respective stock accounts should be kept in these files and the files made available to the local audit parties for guidance. The accounts and audit report of the previous audit should also be made available to the audit party for reference at the time of audit.

(8) (a) The Supervising Officers and the AAO engaged in the local audit of the accounts of stores and stock should make themselves conversant with the relevant rules and instructions before taking up the audit.

(b) Whether conversion of money to materials has been done merely to prevent surrender of the grants.

(c) Whether the inventories in different departments are commensurate with their normal requirements. Specific cases of inventories where the balances are much higher than the normal consumption may be examined to find out the reasons for the flabbiness of the inventory; and

(d) Particular purchase decisions should be examined to see whether purchases were justified keeping in view the then existing stock and the future trend of consumption.

If necessary, one or two major stores holding departments may be taken up each year for detailed analysis of their procedure and material management systems.

(Authority:- CAG's Gen. Cir. No. 1204 - 84 (s) /76-82/11 dated 30-7-1982).

## **7.28 Register of undisbursed pay and allowances.**

It should be seen that: -

- a) the closing balances of cash on hand have been analyzed bill-wise/individual-wise in the register.
- b) the cash remaining undisbursed within three months of its drawal has been credited back to the treasury or has been adjusted by short drawals in the bills and;
- c) the entries have been attested by the head of the office.



## **7.29 Register of Advances**

It should be seen that: -

- a) the registers are maintained in the prescribed form.
- b) the advances have been sanctioned properly and;
- c) the recoveries of advances are effected regularly with interest.

## **7.30 Purchase of stores:**

The accounts relating to acquisition of stores should be examined with a view to ensuring:

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- a) That a reasonable estimate has been prepared regarding the requirements for the year;
- b) That the annual indent has been prepared.
- c) That in the case of stores required for works, the purchases are in accordance with the works programme and if not, stocks are required to meet the requirements for a reasonable period only;
- d) That sufficient funds have been provided and the expenditure has been properly sanctioned;
- e) That purchases have been made by tender system duly observing price preferences;
- f) That the quotations/tender notices are in the prescribed form;
- g) That sufficient time is allowed to tenderers to submit their tenders;
- h) That a time has been fixed for firmness of offers;
- i) That purchase is made from the lowest tendered (except in cases in which price preferences are applicable) and in cases where the lowest tenders are not accepted, valid reasons are recorded in writing.
- j) That the prescribed EMD has been collected unless exempted (In the case of running contracts collection of EMD is compulsory);
- k) That an agreement in proper form has been executed and security taken from the successful tenderer and that the agreement does not contain any unusual clauses detrimental to the interests of the State;
- l) That terms of supply have been fulfilled by the supplier in all respects;
- m) That the rates paid agree with those shown in the contracts/agreements;
- n) That certificates of quality and quantity are furnished by the government servants who receive the stores before payment is made;
- o) That purchase orders have not been split up in order to avoid sanction of higher competent authorities;

- p) That in the case of articles which are covered by rate contracts, the purchases are effected at the rates so fixed, without calling for competitive tenders/quotations;
- q) That the goods are insured against risk during transit if necessary and that losses if any, during transit are taken up and settled with the insurance agencies promptly;
- r) That all articles received and paid for are taken into the appropriate stock register and acknowledged as such by the officer in charge of the stores
- s) Check by audit of Goods and Services Tax paid on Government Purchases: Goods and Services Tax is a tax on sales and not on purchases. There is nothing in the law to make it necessarily payable by the purchaser. In respect of payments under contracts, local audit should therefore see (a) that the Goods and Services Tax is paid by Government, only when it is payable and that (b) in cases where sales tax is paid by Government on its purchase, the relevant contract of purchase includes a specific provision for the payment of sales tax and (c) in such cases even with the tax, the purchase is made on terms most favorable to Government comparing the price paid by Government including the Goods and Services Tax with other quotations.

(Authority:-CAG's Endt. No. 2434 Admn.I/628-54 dated 18-12-1954, letter No. 1280.Admn. I/628-54 dated 28-6-1955 and Government of Gujarat Notification No. 26 of 2017).

### **7.31 Custody and issue/disposal of stores:**

It should be examined:

- (i) Whether the permissible limit for the value of stock in hand has been exceeded at any time without justifiable reasons;
- (ii) Whether the departmental regulations provide adequate arrangements for the safe custody and controlled issue of stores;
- (iii) Whether all issues are supported by indents, issue notes and goods received notes and the issues are properly recorded in the appropriate stock register.
- (iv) Whether the issue to sub-stores from stock are properly accounted for at the receiving end and the issues and receipts are reconciled by the issuing and receiving authorities periodically both in quantity and in value;
- (v) Whether the sale of stores (if permitted under the Rules) is made only by authorized persons and the sale price fixed by competent authority, includes a percentage to cover the overhead charges, including cost of departmental supervision, etc.;
- (vi) Whether the issues of articles for direct consumption on works or manufacture are regulated in accordance with the scales prescribed by competent authority;

- (vii) Whether periodical inspection of the stores has been conducted at the prescribed intervals and the report on unserviceable, perishable and surplus stores submitted to the appropriate authorities and action taken to dispose of such stores wherever necessary;
- (viii) Whether the physical verification of stores has been conducted by the head of office or a gazetted subordinate other than the officer-in-charge of the items at least once a year and discrepancies / shortage investigated.
- (ix) Whether amounts shown against depreciation, shortages, etc. when written off, give a break-up of the figures as under:
  - (a) Depreciation
  - (b) Shortages
  - (c) Losses and indicate:
    - The period to which the shortages or losses relate;
    - The action taken to get the shortages and losses regularized after due investigation. It should be seen in audit that the action is adequate and that the value of articles is not removed from the stock account without the sanction of competent authority for the write off.
- (x) Whether timely action is taken for providing adequate funds to meet possible increase in the price of materials, so that expenditure does not exceed budget provision.

### **7.32 Consolidated Stock Account:**

The main check consists in seeing that the consolidated stores and stock account has been prepared by each Head of Department correctly with reference to the returns received from the subordinate offices and that there is no omission to include the stores relating to any office or institution in the department. It should also be seen that:

- (i) The consolidated account has been prepared in the prescribed form and is signed by the officer in charge as well as the Accountant or other subordinate who prepared the account;
- (ii) The opening balance agrees with the closing balance of the previous year;
- (iii) The amount, if any written off is supported by the write off orders;
- (iv) The arithmetical calculations are correct;
- (v) The quantities issued from the Central office are taken correctly in the books of the subordinate offices and vice versa;
- (vi) The certificates and explanations on the following points are furnished by the department keeping the stock account:

- (a) Whether the figures represent a true and correct statement of affairs;
  - (b) Whether the figures represent a substantially verified stock and if so by what agency;
  - (c) Whether action has been taken for write off of stores which have been lost/unserviceable;
  - (d) Whether the closing stock is in excess of requirement;
  - (e) Whether there is abnormal variation in the closing stock or the amount written off as compared with previous year and if so the reason for such variation;
  - (f) Whether the accounts indicate purchase in excess of requirement and if so the reasons for such purchase;
- (vii) That unnecessary boosting up of stock account is avoided in the departments having a Central Store where the stores are initially acquired and distributed to sub-stores or subordinate institutions. In such cases it is usually noticed that the same article is accounted twice or thrice as receipt and issue depending on the number of institutions it passes through.
- (viii) Where a priced account is maintained, it should be seen that
- (a) The issues are priced with reasonable accuracy and the rates initially fixed are reviewed from time to time and revised when necessary so as to bring them within the market rates;
  - (b) The value accounts tally with the accounts of works and of departments connected with stores transactions, the total of the value accounts agrees with the outstanding amount in the general accounts and the numerical balance of stock materials is reconcilable with the total of value balances in the accounts at the rates applicable to the various classes of stores, and
  - (c) Steps are taken for the adjustment of profit or loss due to revaluation, stock taking or other causes and these are not indicative of any serious non-observance of rules.
- (ix) Depreciation is shown as an item in the Stores Accounts only when there is a definite policy of writing down stores value by such means. Where there is no such policy only actual write off of stores or losses on revaluation should be shown. This principle will apply both to commercial and non-commercial departments and undertakings.

In addition to the above points to be seen during local audit, the correctness of the explanation and certificates furnished by the department should also be examined and commented upon.

### **7.33 Local Audit of accounts of stores received under various foreign aid programme**

Large quantities of material and equipment are received by many Government departments/office for selected scheme and works under Technical Co-operation Agreements (now I.D.) programme, Colombo plan, etc. Besides the above aid, materials and equipments are also received as gift from other foreign Government/agencies: Ford Foundation, Rock Feller Foundation, United Nations and their specialized agencies, West Germany, Japan, Netherlands, Sweden, etc. The accounts of these articles are to be kept in proforma attached to Government of Gujarat, Finance Department Circular No.ACC-1062-1573-A dated 27-4-1962 (**Annexure XV** of this Manual). It should be ensured during local audit that these accounts are checked in all offices where they are required to be kept. Non-maintenance or defective maintenance of the accounts should be commented on in the Inspection Reports.

(Authority:-No.OAD I/17/28(14)/2276 dated 17.8.62 and No.OAD/Control/Civil/8 dated 12.3.55)

### **7.34 Audit of contracts and agreements:**

It should be examined:

- i) The contracts, agreements, purchase bills, purchase files etc. should be carefully scrutinized in local audit. The items of contracts and agreements entered into by the offices to be inspected should be obtained from the OAD (HQrs). These items should be checked with the list maintained by the office inspected to see that there are no omissions. Special points if any, noticed in Central Audit to be looked into at the time of local audit, will also be communicated to the Local Audit parties by OAD (HQrs).
- ii) The general instructions for the audit and agreements are contained in paragraphs 3.7.1 to 3.7.22 of MSO (Audit) Second Edition-2002. The supplementary instructions given by the Comptroller and Auditor General for general guidance in local audit are given in Appendix II of OAD Manual. These instructions should be adopted to suit the requirements of audit of particular cases or types of contracts, in the light of departmental rules and regulations.
- iii) Local audit should be conducted in respect of all contracts and agreements of value above ` 5.00 lakh all rate and running contracts and 20 per cent of other contracts. The audit of contracts should be conducted under the supervision of a Sr. Audit Officer.
- iv) Under Section 194C of the Income Tax Act, 1961, any person responsible for paying any sum to any resident contractor is required to deduct income tax at source at 2 per cent from any sum credited or paid in pursuance of any contract for carrying out any work, including supply of labour for carrying out any work entered into between the contractor and

- (a) The Central Government or any State Govt. or
- (b) Any local authority or
- (c) Any corporation established by or under a Central, State or Provincial Act, or
- (d) Any company or
- (e) Any co-operative society,

if the consideration for the contract is not less than ` 30,000/- (with effect from 01-07-2010) In order to enforce this provision, Section 37(7) of the Income Tax Rules, 1962 stipulates that the person making deduction of tax in accordance with Section 194C from payment made to any contractor shall send to the Income Tax Officer concerned an Annual statement by the end of June immediately following the previous year in Form 26.C in respect of deductions made by him during the immediately preceding quarter.

Local Audit Parties should ensure that the quarterly return is forwarded regularly to the Income Tax Officer on due dates. Omissions if any, noticed in local audit have to be incorporated in the inspection report and extract of such para should be forwarded to ITRA wing of office of the Principal Director of Audit (Central), Ahmedabad.

- v) The inspecting staff should see particularly that tenders have been invited in case of purchase of articles and stores for which tenders are to be called for as prescribed by specific orders of Government or under instructions contained in the manual of the offices inspected. They should examine the original of tenders and the agreements finally accepted. Cases of alteration of figures, over writings and other unauthorized corrections of tendered rates or other errors in the original tenders should be investigated in detail. The inspecting staff will also see that the rules laid down by Government or set out in the Manuals in regard to invitation and acceptance of tenders and for entering into agreements with contractors have been observed. The inspecting staff should also see that wherever necessary, the indenting officers have consulted the Stores Purchase Department at various stages before finalizing the purchases.
- vi) The files for contract agreements should be scrutinized to see that
  - (a) Tenders are invited in the most open and public manner;
  - (b) Contracts are executed either on standard forms or on special forms prepared in consultation with the law officers of Government and the terms are precise and definite and there is no room for ambiguity or misconstruction.
  - (c) Contracts are sanctioned by the competent authority and the terms once entered into are not varied without special and proper sanction;
  - (d) Agreements generally provide that payment will not be made until the stores have been received and examined; and

- (e) Suitable security has been taken from the contractor for ensuring the fulfillment of contract.
- vii) In cases where a formal contract is not entered into, it should be seen that the order for supplies or for execution of works is not given without at least a written understanding about the price or the rate at which payment is to be made.
- viii) When a number of cases are noticed in which the lowest tender has not been accepted and audit considers that the accepting officer has exercised his discretion improperly (for which view definite reasons should be given), the percentage of such cases with a bearing on the total number of cases investigated by audit and the extra cost caused to Government resulting from this should be indicated. Where a test audit has been conducted, it must always be made clear in the report that this percentage is the result of test audit and the rough proportion of the cases selected for audit to the whole should also be stated.
- ix) It will also be necessary to ascertain whether the ratio of cases of non-acceptance of lowest tender to the total number of cases examined points to the conclusion that they are merely individual lapses or are indication of a general tendency. The result of such investigation should also be included in the Inspection Report.

### **7.35 Security Deposits:**

It should be seen that:

- (a) Security is taken as required under rules from persons entrusted with the custody of cash or stores;
- (b) Security deposits are covered by a proper bond or agreement setting forth the conditions under which the security is held;
- (c) Government bonds tendered as security are taken at their face value or market value whichever is less at the time of depositing the security and re-adjustment is made if there is a subsequent appreciation or depreciation in the value, as prescribed by rules;
- (d) The register of receipts and disposal of securities is properly maintained and all entries since the previous audit are correct and acknowledgements of the depositors exist for the return of securities;
- (e) The register as well as the securities is examined at least once a year by a responsible officer of the department.
- (f) Either the securities or the acknowledgements of their authorized custodians (vide Government Securities Manual) are produced for inspection;
- (g) In the case of Post Office/ Treasury Savings Bank Pass Books, they are hypothecated to the head of the office and kept in his custody.

### **7.36 Acquaintance Rolls of establishments**

These should be examined to see that there is a proper acquaintance for each amount disbursed, the amounts have been disbursed to the persons entitled to receive them and that the arrangements for keeping a proper watch over un-disbursed amounts are satisfactory. It should also be verified whether the checks prescribed in Gujarat Treasury Rules are being exercised by the head of office.

**7.37 Check of log books, etc. relating to Government vehicles including staff cars and station wagons.**

i) A list of staff cars, lorries, jeeps, etc. in use in the office inspected should be called for and it should be ascertained whether suitable rules and regulations regarding their use have been framed and got approved by Government. It should also be examined whether these rules and regulations are adequate and are being observed in actual practice. The log books and other connected records should be scrutinized to see that:

- (a) They are maintained in accordance with the rules prescribed.
- (b) Effective control is exercised over the use of the vehicles and the consumption of petrol/diesel.
- (c) The vehicles are used only under proper sanction and for authorized purposes;
- (d) Recoveries are correctly and promptly effected in cases where the vehicles are used for non-official purposes.
- (e) Entries regarding the distance between the places travelled are correct; and
- (f) The entries in the log book agree with tour diaries, if any, submitted by the officer.
- (g) The average mileage has been worked out and the average run is reasonable.

ii) The history sheet of vehicles is to be scrutinized to see that: -

- (a) it is maintained in the proper form;
- (b) all the repairs/additions have been noted therein and
- (c) the maintenance of the vehicles is economical.

**7.38 Assessment and collection of rent of Government quarters.**

The following details in respect of gazette as well as non-gazette employees should be verified in local audit to see: -

- (a) Whether rent free quarters are being occupied by ineligible personnel;
- (b) Whether two months' deposit of standard rent is collected (in case of deposit of family quarters of Police personnel).
- (c) Whether penal rent is realized in the case of unauthorized occupants.



- (d) Whether register of allottees with details of allotment, date of occupation / vacation, rent collected, list of furniture, fittings etc. are properly maintained.

### **7.39 Audit of Non-tax Receipts:**

The various departmental receipts are subjected to audit along with the audit of expenditure of the departments. In order to make audit of departmental receipts effective, such receipts should be subjected to detailed checks which are similar to those exercised in the audit of tax receipts. Paras relating to non-tax receipts should be included in the Inspection Report under a separate part.

NOTE:-Non-tax receipts relating to departments, the audit of which has not been taken up by Revenue Audit wing should be audited by other wings and subjected to scrutiny as prescribed in chapter 3 of M.S.O. (Audit) Second Edition-2002. The extent of checks exercised should be specified in a special note.

### **7.40 Advance of pay, TA on tour and transfer:**

Since the watching of adjustments of advance of pay and leave salary, TA on tour and transfer, advances in connection with leave travel concession etc. in Central Audit has been dispensed with, efficiency of the system and procedure for recovery of those advance in the departmental offices should be examined during local audit. The party should trace all debits and credits related to the selected month from the original vouchers or the office copies of the vouchers to the registers maintained in the office inspected. A few credits (recoveries of advances) appearing in the registers should be traced to the office copies of original vouchers.

### **7.41 Group Insurance Scheme:**

Local audit parties should check the transactions relating to Group Insurance Scheme, 1984 at the time of local audit of the institutions on the following lines.

1. Verify the office copies of the schedules attached to the pay bills in respect of the selected months with reference to the pay bills for that month.
2. Check the nomination pasted in the service books at the time of verifying the service books.
3. Check whether the details of the Group, and the date of commencement of subscription etc., are noted promptly in the last pay certificate of the subscriber when he/she is transferred.
4. Verify whether the payments from the funds are covered by proper sanctions of the Directorate and the accounts shown in the bills are correct and whether the amounts are properly disbursed to the parties concerned.

All Assistant Audit Officers and Sr. Audit Officers if supervision is provided should attach a separate report after checking the transactions relating to Group Insurance Scheme, 1984, along with the Draft Inspection Report. A nil report should be forwarded if there is no

discrepancy/irregularity in the accounting procedure of transactions relating to the schemes.

#### **7.42 Proforma Accounts**

i) The watching of receipt, audit and certification of proforma accounts is entrusted to CA (HQrs) in respect of institutions/schemes which are declared commercial and to OAD (HQrs) in respect of others. As soon as a copy of the Government order requiring a Government department to maintain proforma accounts in respect of a scheme is received, the sections concerned should furnish a copy of it to OAD (HQrs) section. OAD (HQrs) section should enter the fact in the Programme Register and at the time of drawing up the annual list of local audit to be undertaken, such items should be included as annual items with a specific note that the proforma accounts are also to be audited. The audit of proforma accounts should not be postponed on the ground of non-receipt of accounts in time.

As per Section 13 (c) of CAG's (DPC) Act, 1971, it is obligatory on the part of the CAG to audit all trading, manufacturing, profit and loss accounts, balance sheet and other subsidiary accounts kept in any department of the Union or a state and in each case to report on the expenditure transactions or accounts so audited by him. In order to comply with this requirement, it is necessary for Audit to ascertain from Government the exact nature and scope of the activities of any department with a view to determining whether it is essential or advisable to maintain suitable subsidiary and proforma accounts where Government have not suo-motu decided to maintain such accounts. The question of dispensing with such commercial accounts will arise only when the nature of activities change from 'commercial' to 'service'. Even in such cases a self-contained account of receipt and expenditure and in some cases a simple cost account should be maintained to indicate the financial results of the undertaking to facilitate better financial control. Government have accepted this requirement.

In view of the provision contained in MSO (Audit) the OAD sections should review the budget documents/ relevant sanctions issued by the State Government and take action, wherever necessary, to ascertain from Government the nature of the activity i.e. whether 'commercial' or service activity and take up with the State Government the question of maintenance of proforma accounts in the case of activities declared as commercial and at least a simple self-contained account of receipts and expenditure or a simple cost account in the case of trading / manufacturing operations treated as service activity. The audit of self-contained account of receipts and expenditure/ cost account is also to be arranged by APM.

ii) During the audit of subsidiary accounts of Government Commercial and quasi-commercial departments, undertakings etc. kept on proforma basis outside the general accounts of Government, it should be seen that:

- (a) The figures appearing in the proforma accounts tally with the figures booked in the office of the Accountant General (A&E) under various heads.

- (b) The proforma accounts present full and true picture of the financial result of the transactions of the undertakings, schemes in terms of commercial ideas of liabilities and assets, debits and credits, profit and loss.
- (c) The allocation of expenditure between the capital and revenue is correct, the valuation of assets is on a reasonable basis and there is provision for depreciation and bad debts. At the same time it is not necessary that every practice of commercial audit should be applied meticulously.
- (d) The above instructions apply mutatis mutandis to the audit of self-contained accounts of receipts and expenditure and cost account.

**7.43 Audit of centrally assisted / sponsored schemes.**

Local audit parties visiting offices for routine expenditure audit are to audit the accounts of the centrally assisted/sponsored schemes. For this purpose, the local audit party must ascertain from the office visited whether any centrally assisted scheme is implemented by that office. A separate report should be sent to AM (Cell) Section, Office of the Principal Accountant General (Audit-I), by all the local audit parties in the form given below. If no such schemes are implemented by the office visited by the Audit party, a nil report should invariably be sent to AM (Cell) Section.

Form of Report

50% / 100% centrally sponsored schemes.

1. Office/Department visited
2. Party who conducted audit
3. Period covered during the audit
4. Nomenclature of the scheme
5. Whether statement of annual expenditure of the scheme is obtained and forwarded duly checked with relevant documents.
6. Audit observation/objections.

Signature of Sr. AO/AAO

The instructions contained in the M.S.O. (Audit) Para no.3.16.17 to 3.16.21 and the Departmental Manuals should be kept in view while auditing the expenditure met out of Central Assistance. The following instructions may particularly be kept in view while examining the utilization of assistance at the time of local audit/inspection.

- (i) the amount of assistance obtained by the State Government is not more than the amount actually spent by the State Government;

- (ii) the expenditure has not been inflated by fictitious adjustment by drawing A.C. bills of heavy amounts, the detailed accounts of which not rendered in reasonable time or in any other manner;
- (iii) any general and special conditions attached to the sanction have not been deleted and funds utilized for other purpose;
- (iv) if a copy of the scheme, has not been received from the Headquarters same should be obtained and the expenditure incurred by the department may be checked keeping in view the details of the scheme;
- (v) the audit of expenditure incurred through local bodies and autonomous institution should be conducted on the basis of the utilization certificates. All cases where the execution of schemes by the local bodies etc., has been unduly delayed beyond the time limit specified for this purpose by the State Government, should be commented in the inspection report for taking up the matter with the Government by FAA Section concerned.

#### **7.44 Audit of deposit repayment vouchers.**

The items of work relating to deposit transactions were transferred from central audit to local audit. The field parties should check the vouchers of deposit repayment pertaining to the selected months and forward with the inspection reports of offices, a special report giving the number of vouchers audited.

Supervising Officer or in his absence, the senior Asst. Audit Officer should ensure that the special report is sent to OAD (HQrs).

#### **7.45 Audit of Personal Ledger Accounts**

The object of local audit of the personal ledger accounts is to ensure that the initial accounts of the moneys are properly maintained, that the persons operating on the accounts do not delay remittances in to the accounts, of moneys received by them in connection therewith and that they do not make withdrawals or divert the funds temporarily for purposes not connected with the accounts. The object of audit is to safeguard the possibility of fraud or embezzlement of moneys lodged there in.

#### **7.46 Audit of Detailed Contingent Bills**

It has been decided that check of D.C. bills and payees receipts, which was hitherto done in central audit should be conducted in local audit.

While D.C. bills in the present form should continue to be sent to the Accountant General in proof of adjustment of amount drawn on abstract contingent bills, sub vouchers need not be sent to the office of the Accountant General (A&E); they may be retained by the Drawing & Disbursing Officers. The local audit party should conduct test check of the supporting vouchers at the time of local audit. For this purpose, D.C. bills received in any two months in a year may be selected for audit by the Principal Accountant General (Audit-I) and the voucher bundles may be obtained from the Accountant General (A&E) and supplied to the local audit party for check during audit of the Drawing and Disbursing Officer concerned.

#### **7.47 Audit of Payees Receipt**

The audit is required to satisfy itself that the amount drawn out of the State exchequer has been paid to the correct payee and the payee's receipt as a proof of payment is available with the person who has made payment. This should be verified during local audit. At the time of checking the cash, local audit parties should also check that the relevant stamped receipts have been properly retained by the Department.

(Authority:-CAG's No. 15/Audit-UU/1985 dated: 14.5.1985 OAD-I/Misc.).

#### **7.48 Dealing with Fraud and Corruption**

Fraud and corruption have increasingly become important concerns for countries around the world. In the broadest of the terms, fraud can be defined as a deliberate misrepresentation of facts and significant information to obtain undue or illegal financial advantage, and corruption can be termed as an effort to influence or abuse public authority through the giving or the acceptance of inducement or illegal reward for undue personal or private advantage.

Bribery, falsifying a material fact, embezzlement, collusive bidding, price fixing or bid-rigging, over or under invoicing, extortion using official authority, nepotism and favouritism, tax or duty evasion, computer fraud, etc., are some of the most typical fraud and corruption.

Fraud poses a serious problem from an audit perspective because it is normally accompanied by efforts to cover, falsify and misdirect entity records and reporting. Fraud and corruption are interlinked, although certain types of fraud do not necessarily qualify for being viewed as corruption and can be perpetrated by an individual or a small group.

While fraud and corruption should be perceived independently for their numerous implications, the auditor should be well aware of the complex correlation between the two. Fraud and corruption includes both those committed by government employees or management of an auditee and those perpetrated against the auditee by outside individuals or groups.

Auditors should be alert for situations, control weaknesses, inadequacies in record keeping, errors and unusual transactions or results which could be indicative of fraud, improper or unlawful expenditure, unauthorized operations, waste, inefficiency or lack of probity.

In searching for the evidence of fraud and corruption, the auditor must always search for the strongest possible evidence and investigate it without delay. In doing this, even small clues or leads should not be ignored and facts that confirm or refute suspicions should be looked for.

The auditor should concentrate on the weakest point in the fraud and corruption and must identify and summarize the evidence indicating that fraud and corruption may have been committed. The possible extent of the fraud and corruption should be identified, the pattern used in covering up the fraud and corruption explained and any possibility of collusion examined.

The possible scenario of fraud and/or corruption should be identified and summarized, the accounting and control systems involved, the paper trail involved in the transaction and the deviations from the systems explained.

The auditor may rely on the following sources for evidence:

- Originals or photocopies of documents from the auditee.
- Internal Audit Report
- Information collected by interviewing various employees of the auditee.
- Report on physical verification, inspection and observation of documents
- Reply to questionnaire issued to the auditee
- Information obtained from other related parties like bank, treasury, etc.
- Results of analysis of financial and non-financial information
- Expert opinion

It is an essential function of management to establish controls and safeguard assets of the entity. However, it does not relieve the auditor of his responsibility to provide a creditable assurance within his supreme audit institution's audit mandate about the actions taken by the management or those that may materially affect the picture that emerges from audited financial reports.

When cases of fraud, defalcation, etc. come to notice during local audit, audit should carefully examine the case to ascertain whether the defalcation or loss was rendered possible by any defect in the rules or whether it was due to neglect of rules or lack of supervision on the part of the treasury or other authorities. Audit party should report the matter to the Head of office and request him to keep the connected records in his safe custody, simultaneously reporting the matter to the Deputy Accountant General/AMG-II for further action.

(Authority ASOSAI Guide Lines for dealing with Fraud and Corruption)



## **CHAPTER VIII**

### **DEFALCATIONS AND FRAUDS**

#### **8.1 Introduction**

Examination of system for detection and prevention of fraud and corruption will henceforth be an integral part of all regularity audits and also of performance audits, whenever it forms one of the audit (sub) objectives. The standing order in the Annexure to this communication is issued in supersession of the existing instructions on the subject. As and when the need arises detailed guidelines will be issued. Some of the important points to be kept in view are as under:

(1) Corruption and fraud are generally interlinked. In fact corruption is a special type of fraud and treated as such in many jurisdictions. In any case audit teams/officers should be well aware of the complex distinction as well as correlation between the two.

#### **8.2 Types of Fraud and Corruption**

(2) 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.
  - a) 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).
  - b) 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.

**(Authority:-Para 2.27 of ASOSAI Guidelines for dealing with Fraud and Corruption)**

**Appendix-A** of this Chapter contains some illustrative (not exhaustive) types of fraud and corruption that the audit teams may come across.

### **8.3 Identification of High Risk Areas**

(3) 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.

**(Authority:-Para 2.28 of ASOSAI Guidelines for dealing with Fraud and Corruption)**

#### **8.4 Fraud examination**

(4) Fraud examination is a part of the normal auditing procedures. Fraud has a legal (criminal) connotation. Audit teams/officers do not make legal determinations of whether fraud has actually occurred. Hence, audit teams/officers can put red flags (an indication that further scrutiny of the items would be required) which need further investigation by appropriate agencies. When the evidence is clear, audit teams/officers can come to a conclusion about a suspected fraud and include it in their findings.

#### **8.5 Respective responsibilities of management and audit**

(5) The responsibility for the prevention and detection of fraud and error rests primarily with the management of the audited entity through the implementation and continued operation of accounting and control System designed to check fraud. Audit must, however, evaluate and report on the adequacy of the systems in place and competence with which the management has discharged its responsibility in relation to prevention detection, response and follow-up/remedial measures in relation to fraud and corruption.

(6) During audit of financial statements, two types of intentional misstatements are relevant to the audit teams/officers, viz., misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Similar considerations apply in case of performance audits. In performance audit, while selecting themes and issues/sub-issues, the vulnerability to fraud and corruption should be given due consideration.

#### **8.6 Professional skepticism**

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

#### **8.7 Fraud awareness at the audit planning stage**

(8) The field offices should carry out independent risk assessment and prioritize their audit planning accordingly. The audit plans in relation to fraud and corruption should focus on high risk areas. Some of the common high risk areas (illustrative) are contracts of service/procurement, inventory and asset management, sanctions/clearances, performance information, revenue receipts, cash management, general expenditure, grants, financial statements, operating information, computerized environment, privatization of government entities and any other areas involving public interface.

(9) While planning audit, the field Principal Accountants General/Accountants General, etc. should assess the risk that fraud may cause to the financial statements to contain material misstatement or record material irregular transactions. Based on the risk assessment, the Principal Accountants General/Accountants General should develop the audit objectives and design audit procedures so as to secure reasonable expectation of detecting and evaluating material misstatement and irregularities arising from fraud and corruption.

### **8.8 Vigilance about fraud at audit execution stage**

(10) At the commencement of each audit, information about the fraud and corruption awareness, detection and prevention policy and related environment (including any instances of fraud and corruption noticed since last audit and action taken on such instances including strengthening of internal control systems) should be collected from the audited entity management.

(11) During the course of audit work, the audit teams / officers should be vigilant seek explanations, if they come across possible fraud Indicators. Some illustrative Lid indicators (red flag areas) are given in **Appendix-B** of this Chapter.

### **8.9 Audit evidence and documentation**

(12) Any indication that an irregularity, illegal act, fraud or error may have occurred which could have a material effect on the audit finding/opinion should cause the audit teams/officers to extend procedures to confirm or dispel such suspicions. Instructions regarding the illustrative procedures to be adopted are given in the **Appendix-C of the Chapter**. If the irregularities had a material effect on the accounts, suitable reporting and qualification in the audit opinion may be warranted. Audit should also recommend improvement in the control procedures to management.

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

(14) The audit teams/officers should clearly understand that the audit evidence obtained can be only persuasive and not conclusive. While reporting all cases of suspected or presumptive fraud or corruption, they should refrain from making any judgment regarding the existence of fraud or corruption. The evidence should also be

capable of proving that the audit teams/officers have discharged their functions with reasonable care and due diligence.

#### **8.10 Reporting and follow-up**

(15) Reports of individual cases of suspected fraud / corruption should be confidentially addressed, in the first instance, to the controlling authority concerned, with the approval of Group Officers. More serious cases should also be confidentially reported to the Secretary of the Administrative Departments (where they are not the controlling officers) concerned and the investigative authorities like Central/State Vigilance Commission, Lok Ayukta, etc. as applicable in the manner indicated in the Annexure either over the signature of the Principal Accountant General or with his/her approval.

(16) Cases relating to suspected/presumptive fraud and corruption should be specially highlighted in the concerned Inspection Reports, Audit Notes, etc. and also in the Audit Reports. All such cases should be printed in bold type.

(17) While forwarding the Bond Copy of the Audit Reports to Headquarters, the Principal Accountant General should indicate in the forwarding letter the number of cases of fraud and corruption included in the Report together with the money value of the concerned paras. In the submission note of the file relating to the bond copy, the number of cases of suspected/presumptive fraud and corruption in the Report should be highlighted together with the money value of concerned paras.

(18) The draft of the annual post-audit report letter to the Chief Ministers should have a brief mention of issues relating to suspected fraud and corruption where such issues appear in the Audit Reports and the system put in place by the field Accountants General, etc. to monitor paras relating to fraud / corruption. In addition, all such cases should be taken up immediately after approval of the bond copy with appropriate authorities in the Union and State Governments, viz., Central / State Vigilance Commission, etc. as a follow-up. If such cases have been reported earlier by the Principal Accountant General, reference may be drawn to them with the additional information that these cases have been included in CAG's Audit Report to the Parliament / Legislature.

#### **8.11 Miscellaneous**

(19) The Principal Accountant General may require the Audit teams / officers to provide a Memorandum / Certificate of Assurance which will include, *inter alia*, examination of issues relating to fraud and corruption

(20) The Principal Accountants General should develop sector specific guidelines/checklists for audit of fraud and corruption in the audit of entities belonging to specific sectors (viz., health, education, works, etc.), for the guidance of the field staffs deployed in such audits and furnish a copy of such guidelines/checklists to DG (Audit).

(21) The field offices should submit half-yearly reports on cases of material fraud and corruption noticed by them to the Headquarters Office or through the rationalized management information system, when introduced.

(CAG's Letter No. 126/Audit (AP)/1-2004 dated 06.09.2006)

## Appendix-A

### **Illustrative fraud and corruption 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 or supplier, which may affect the basis on which the contract was awarded to the contractor or supplier in the first instance. This may also involve front-loading of contract in the hope of increasing the price of the original contract through change orders or subsequent modifications to the contract.

**Duplicate Payments** - The contractor or supplier claims and receives payment for the same service or work done or goods supplied under the same or different contracts.

**Collusive or Cartel Bidding** — Contractors or suppliers form cartels to fix artificially high prices for goods and services supplied by them.

**Conflict of Interest** - Contracts are awarded on the basis of vested interests of the decision makers.

**Defective Pricing** - The contractor or supplier submits inflated invoices.

**False Invoices** - The contractor or supplier submits invoices for goods that have not been delivered or do not properly represent the quantity or quality of goods and services supplied or work done as per contracted specifications.

**False Representations** - The contractor falsifies the goods specifications or his ability to provide certain services.

**Splitting of Purchases** - The purchases of goods and services are split either to avoid open competition or having to seek the approval of higher authority.

**Phantom Contractor** - Purchases are made from a fake supplier or contractor.

**Pilferage of Public Assets** - Public funds are used to acquire goods for personal use or public assets pilfered by officials.

**Tailored Specifications** - Specifications and time limits are manipulated to favor a certain contractor or supplier.

**Supply Orders** — in excess of, or without establishment the requirement/ need and much ahead of the actual requirement.

## Appendix B

### Some indicators (red flags) for possible fraud and corruption (illustrative)

#### Procurement and contracting of goods and services

##### Requirements defining stage:

- Inadequate needs analysis:
- Inadequate information about potential suppliers:
- Inadequate review of existing and required inventory:
- Unduly short supply period:
- Needs analysis is product rather than needs oriented:
- Someone other than the user defines the user requirements: and
- Unwarranted involvement of senior officials.

##### Bidding and selection stage:

- The specifications are not clearly defined:
- A very limited number of offers is received:
- Documentation indicates unusual involvement of an official;
- Suspicion about conflict of interest:
  - Evidence of early- receipt of information by some contractors or suppliers:
- Request for proposal is not properly advertised:
- Unusual handling of the bidding process:
- Evaluation criteria is not consistent for different offers:
  - Exceptions to the tender deadlines:
- Changes in the bids made after their formal receipt:
- Lowest responsive bidder is not selected:
- Contractor or supplier submits unrealistic bid indicating collusion or bid rotation:
- Unusual withdrawal of bids;
- Re-bid results identical to original bids:
- Successful contractors or suppliers use competitors as sub-contractors or sub-suppliers; and
- Justification for single source procurement is inadequate, etc.

##### Contract performance and evaluation stage:

- Changes in a contract result in the large increase in the cost of goods and services;
- Changes made without adequate explanations;

- Unwarranted contract extension;
- Complaints about the quality of goods and services received;
- Inadequate inspections and quality assurance of goods and services received;
- Evidence of overcharging and duplicate billings;
- Dubious invoices;
- Insufficient pre-audit of contractor payments;
- Contracts repeatedly awarded to one contractor; and
- Unduly high labour payments; etc.

**Accounting records:**

- Missing vouchers;
- Production of photocopies of documents instead of originals;
- Alterations and erasures in accounting records;
- Any unusual accounting entries;
- Discrepancies between control accounts and subsidiary records;
- Discrepancies between predicted figures and actual figures during analytical review procedures; and
- Employees in sensitive posts not taking leave; etc.

**Performance Information**

- Performance information about delivery of goods / services, assets creation, etc. not supported by original documents and downstream data.
- Theoretical calculations not supported by actual measurements, muster rolls, inspection notes, quality reports, etc;
- Non-production of basic records, viz., asset register, muster roll, measurement books, etc.
- Non-availability of transparent evidence of expenditure and receipts into Government Account; and
- Inconsistency between financial and physical information about progress of scheme / work.

Note: These are only illustrative examples. The Principal Accountants General may please prepare a comprehensive list of 'red flag' items in audit of various Departments/sectors and establish procedures to ensure that such items are reckoned while planning the audits, transparently documented and evidence of addressing all such items and their treatment are recorded and retained.



## Appendix C

### 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

(Authority:-ASOSAI Guidelines for dealing with Fraud and Corruption)

## **CHAPTER – IX**

### **AUDIT OF GRANTS-IN-AID**

#### **9.1 Introduction**

The audit of grants or loans for specific purposes should begin with a scrutiny of sanctions issued by competent authorities. It should be seen that they are competent to sanction the loans or grants and while doing so, the financial rules governing them have been followed. The second step will be to see whether the grant or loan has been utilized by the recipient body or authority for the purpose for which it is sanctioned. The financial rules of the Central, State and Union territory Governments make the sanctioning authorities or disbursing authorities responsible for satisfying themselves about the fulfillment of conditions attaching to the grant or loan and for furnishing to the Sr. Audit officer certificates of utilization within prescribed period. These utilization certificates are to be watched through the register of grants or loan register. To make the audit of grant or loan for specific purpose effective, the first part of section 15(1) of CAG's (DP & Cs) Act, 1971 provides for scrutiny by audit of the procedures followed by sanctioning authorities in regard to proper utilization of grants or loans and fulfillment of conditions attached to them. In exercising this part of the check it will be necessary for audit to study the procedure prescribed for the sanctioning authorities to satisfy themselves regarding proper utilization of loans or grants and to check up whether they are following the prescribed procedure and whether the procedures themselves are not deficient in any respect. Factors like the amount of grants/loans sanctioned, existence of prescribed procedural instructions, existence of efficient internal audit and administrative inspection systems in the departments for an effective control over the proper utilization of grants and loans are to be looked into in this connection. The second part of section 15(1) gives CAG the right of access to the books and accounts of the recipient bodies or authorities and this scrutiny is not obligatory. Decision to undertake the actual scrutiny of the books and accounts of particular bodies or authorities receiving grants/loans for specific purposes, may be taken in the light of the examination referred to above. During the scrutiny of the procedures followed by the sanctioning authorities, the accounts and audit arrangements existing in the recipient body or authority should be ascertained. Unless proper arrangements in these respects exist and the accounts of the said body or authority stand audited by its usual auditors for the period in question, local scrutiny of its books and accounts may have to be deferred as a matter of prudence till such audit is got completed by the recipient body or authority. The absence of or deficiency in such arrangements and the consequent delay in Audit scrutiny by us of the books and accounts should be mentioned in a separate paragraph in the chapter on "Grants and Loans" of the audit report.

The instruction contained in paragraph 10 of CAG's letter No149-TA-I/50/69-Vol.II dated: 2.3.1974 regarding the scope of audit of section 14 of the CAG's (DP & CS) Act, 1971 and in the annexure thereto regarding the institution wise register, should apply to section 15 also. In certain States, besides Government, subordinate authorities are also empowered to sanction grants or loans to different bodies or authorities, copies of sanction of which are

not received in audit although the sanction of grants or loan implies an outgo from the Consolidated Fund. In many cases, there may not be any formal sanction as such, the mere countersignature on bills signifying such sanction. There may be cases where sanctions accorded by subordinate authorities are not sent in advance to Audit but copies of the sanctions are attached to the bills in which the amounts are drawn. In these cases, which will ordinarily be for comparatively small amounts, it may perhaps be impracticable to keep a complete record in the register referred to in the previous paragraph. In regard to such cases, when local audit is undertaken of the offices of the sanctioning authorities the Inspecting Officer should scrutinize the records relating to sanctions issued by them and report the amount of grants or loans sanctioned together with relevant particulars regarding the recipient bodies or authorities to the OAD (HQrs)/ECPA section to determine whether the books and accounts of a particular recipient body or authority should be scrutinized locally.

## **9.2 Scope of audit of accounts of authorities or bodies.**

The right of access to the books and accounts of authorities or bodies under section 15(1) of the Act will be limited to checking whether the grant or loan received from Government has been duly shown as receipt in the accounts of the authority or body, whether the grant or loan has been fully utilized for the purposes or objects for which they were sanctioned and the financial procedure, if any, prescribed in this behalf has been observed, whether unspent balance, if any, has been refunded to the Government and whether the conditions attached to the grant or loan have been fulfilled.

- (a) "Specific purpose" loan or grant will include loan or grant to cover deficit, but not general purpose loan or grant without any condition. In case of doubt, whether a loan or grant was for a specific purpose, the Government/Department files leading to the issue of the relevant sanction should be consulted.
- (b) If the recipient of a "Specific purpose" loan or grant happens to be an "individual" or a "firm", full particulars of the case, with the views of the Principal Accountant General about the desirability of audit of the accounts, should be reported to the Hqrs. office for orders.
- (c) In case of "Corporations", if the law by or under which these have been established provides for the audit of its accounts by an agency other than the CAG, the right of access to their accounts is not available to him unless specifically authorized by the President/Governor under section 15(2) of the Act.
- (d) The results of audit should be communicated in the form of inspection reports as per section 13 audits, addressed to the sanctioning authorities, with extracts of relevant portions to the authorities/bodies. Facts indicated in the draft reports should be got verified by the head of authorities/bodies where accounts are locally audited and the report as a whole discussed with the sanctioning authority.

After scrutiny of sanctions in the office of the sanctioning authorities, if a detailed audit of accounts of authority/body situated outside the State is decided upon, the concerned the Principal Accountant General of the State in which the institution is located could be requested to do the audit.(CAG's letter No1078-TA-I/76-75 dated: 2.12.1975).

General instructions relating to grants-in-aid audit are contained in Chapter 5 of Section III of MSO (Audit). The following subsidiary instructions are issued for guidance.

### **9.3 Rules regulating grants-in-aid**

Financial rules and conditions governing grants-in-aid are prescribed by competent authority and embodied in the grants-in-aid or other codes of the departments concerned.

### **9.4 System of payments of grants**

There are two types of payments (1) Pre-payment system and (2) Post-payment system. A grant may be paid to meet the expenditure for a specified purpose in advance and before the actual expenditure for the period can be ascertained. It may be based on an estimate of the probable expenditure of the corresponding period, as modified by careful forecast of circumstances likely to affect the actual expenditure of the period in question. Such grant is said to be on the pre-payment system. A grant is said to be on the post-payment system, when it is a contribution to meet the whole or a moiety of the expenditure already incurred by the grantee.

### **9.5 Condition of grants**

Every payment of grants-in-aid on the pre-payment system involves three principal processes: -

- i) Sanction of the Grant.
- ii) Disbursement to the grantee.
- iii) Utilization of the grant by the grantee.

In the case of grant paid on the post-payment system there are only two stages viz. (i) and (ii) above since the expenditure has already been incurred by the grantee, i.e. stage (iii) precedes stage (i).

### **9.6 The local audit of the accounts of grant-in-aid is conducted in two stages: -**

- i) Local audit of the accounts in the office of the sanctioning authority.
- ii) Local audit of the expenditure incurred at the institutions of the grantees, where such a course of action is decided upon.

### **9.7 Conduct of audit of grants**

The checks to be applied in local audit are detailed below:-

- (A) At the office of the sanctioning authority

At the time of Test Audit, which is to be conducted at the office of the sanctioning authorities, it should be seen:

- (i) That the grant has been sanctioned by the competent authority in exercise of the powers conferred on it under the rules and regulations framed by Government.
- (ii) That the conditions, if any, attached for the eligibility of the grantee concerned prior to receipt of a grant were duly fulfilled.
- (iii) Where the admissible amount of the grants has been calculated in the manner prescribed in the Departmental rules or orders after obtaining necessary statements like audited accounts, etc.
- (iv) Whether the grant has been sanctioned after obtaining full particulars from the grantee and not in advance of receipt of such particulars.
- (v) Whether the grant has been sanctioned only up to the extent of requirement and to the extent which can be utilized in the financial year and whether any time for the expenditure has been fixed.
- (vi) That there is proper method by which the sanctioning authority satisfied itself about the fulfillment of the conditions and whether the method is adequate.
- (vii) Whether necessary periodical reports, statements, etc. have been prescribed by the sanctioning authority and whether their receipt on the due dates from the grantee is properly watched.
- (viii) That the accounts rendered by the grantee are complete and duly supported by relevant vouchers and payee's receipts;
- (ix) Whether the procedure for internal check of the grantee's account is adequate and whether the certificate furnished by the administrative authority is based on such checks.
- (x) That the statements preferred for claiming the share reimbursable by the Government of India are correct in all respects.
- (xi) Whether the register of grants-in-aid maintained by the sanctioning and disbursing authorities is (i) in proper form, (ii) whether the entries have been made properly as and when, (a) sanctions are issued and (b) the bill is received from grantees for counter signature.
- (xii) Whether there is a tendency on the part of the sanctioning authority to sanction the payment of the grant-in-aid towards the end of the financial year with the stipulation about spending it during the year which practically becomes impossible to fulfill and consequently gives rise to several irregularities.

**(B)** At the offices of the grantees.

It should be seen:

- (i) Whether the expenditure incurred is closely related to the object for which the grant was made and whether there is any diversion of funds.

- (ii) Whether the expenditure has been incurred with planning and economy.
- (iii) Whether the grants are spent according to the conditions and action has been taken to refund the unutilized portion within the time specified.
- (iv) Whether all the registers including stock register for purchases from Government grants have been maintained properly and checked periodically.
- (v) Whether the scale of expenditure is approved and the purchases are made economically by calling for tenders or quotations.
- (vi) Whether in the case of accounts of works, maintenance of muster rolls, measurement books, preparation of estimates and payment of bills have been done observing the general principles and whether there is any evidence of periodical check of the progress of work.
- (vii) Whether the records of the grantees bear evidence of check by the sanctioning authorities and whether periodical registers or statements prescribed by them have been sent to them on the prescribed dates and whether the statements represent true extract of the initial records.
- (viii) Whether in the case of recurring grants the grantee continues to function in accordance with the terms and conditions attached to the grant and whether the circumstances in recognition of which the grant was sanctioned still continue to exist.
- (ix) That the unspent balance is not utilized in subsequent year without obtaining sanction of the competent authority.
  - (i) that there is no undue delay in submission of accounts by the grantees.
  - (ii) That all payments are covered by proper vouchers and sanction for payments.
  - (iii) As regards payment of grant-in-aid to freedom fighters and their families it may be scrutinized with reference to initial records whether the concerned authorities have followed the rules in scrutinizing application for assistance under the schemes and have satisfied themselves about the eligibility of the applicants for the grants of such assistance. During the course of local audit of accounts in the office of the disbursing authorities, it may, interlaid, be seen whether the conditions attached to the grant of such assistance have been fulfilled, both in respect of recurring and non-recurring payments and prompt action has been taken in the case of breach of any of the conditions.

(Authority:-OAD-II/O.O. No.12 dt: 10.3.1971).

## **9.8 Common irregularities**

A list of common irregularities which occur in the payment of grant-in-aid is given as **Annexure-XVI** to this chapter.

## **9.9 Non-receipt of utilization certificate**

The CAG has decided that in respect of grants-in-aid, where utilization certificates have not been submitted to audit, the reasons thereof should be investigated at the time of local

audit of the offices of the sanctioning authorities and a brief mention of the reasons for the delay should be made in the conventional Audit Report. The Asstt. Audit Officer of the local audit parties concerned should ascertain in writing the reasons for the delay in the submission of the utilization certificates and incorporate suitable paragraphs in the Inspection Reports.

(Authority:-O.O. No. OAD/Control/20 dt:11.2.1965).

Some important checks to be applied in the audit of grants-in-aid are given in **Annexure-XVII** to this chapter.

### **9.10 Inspection Reports**

The results of audit of the grant-in-aid transactions at the office of the sanctioning authorities will be incorporated in the regular Inspection Report of the institution as usual.

(a) The procedure to be followed for the issue and pursuance of inspection report relating to audit in grantee institution will be as follows:

The Sr. Audit Officer is not the final authority either to condone any irregularities noted in audit or to ensure adequate action by the private institutions receiving the grants-in-aid to settle the objections promptly and satisfactorily. It has, therefore, been decided in consultation with Government of India, Ministry of Finance, that the Inspection Reports in such cases should be forwarded to the Administrative Ministry concerned (with a spare copy) with the request that necessary action may be taken to have the irregularities set right and to keep the Sr. Audit Officer informed of the action taken from time to time. The Inspection Report in respect of the grants sanctioned by the State Government should similarly be forwarded to the departments concerned.

(CAG's letter No.1312/Admn-11/283-89 dated: 8.6.1959).

(b) The reports on the utilization etc. of the grants received from the grantee institutions should mainly be concerned with admissibility and utilization of grants-in-aid paid. The report should state the amount received as grant-in-aid, the amount found admissible and excess payment of grant, if any, if there is any item of expenditure, admissibility of which is doubtful, it should be mentioned separately, indicating the amount involved on each account.

The following instructions should also be borne in mind.

(i) A certified copy of the Income and Expenditure (or Receipts and Payments) account and balance sheet for the accounting year of the institution during which the grant was paid should be obtained from the institution, checked with reference to the original records and attached to the report in all cases after certifying them as checked.

(ii) Where overpayments of grants are noticed, the exact amount overpaid should invariably be calculated and mentioned in the Inspection Report. Where this is not possible, the reasons therefore should be mentioned in the margin of the relevant paragraphs.



(iii) Important irregularities should be prominently indicated in the title sheet. The following irregularities are generally considered for inclusion in the Conventional Audit Report.

1. Inadmissible or excessive payment of grants.
2. Unutilized grants not refunded within the prescribed period.
3. Wasteful, uneconomic or in fructuous expenditure from grants.
4. Non fulfillment of conditions attached to grants.
5. Misappropriation and other irregularities.

(Authority:-O.O. No. 8-OAD-I/165/392 dt: 26.6.1962).

### **9.11 Grants-in-aid sanctioned by the Government of India.**

According to the simplified procedure of payments of grant-in-aid, the Director of Audit, Central Revenue would exercise audit checks with reference to the records in the office of the Ministries of Government of India located at New Delhi and that office would be responsible for watching the utilization certificates. The inspection reports, draft paras, etc., in respect of grantee institutions located in the audit jurisdiction of the State Accountants General should be processed by the respective Accountants General. The draft paras finally approved for inclusion in the audit report should, however, be sent to the Director of Audit, Central Revenues through Comptroller and Auditor General as hitherto fore.

(Authority:-AGCR New Delhi's letter No.TM/7-1/68-71/1390 dt: 15.2.1971 and No.TM/7-1/68-79/323 dt: 24.6.1971).

## ANNEXURE-XVI

### (vide para 9.8)

Important irregularities that occur in Grant-in-aid payments

- 1 Grants drawn from the treasury are neither accounted for nor disbursed and utilized nor refunded to the treasury but retained in hand for indefinite period.
- 2 Conditions of grants are not fulfilled and the amounts are spent without any planning and estimate and departmental control over expenditure and without following the usual financial rules of Government to safeguard economy.
- 3 Utilization certificate is not furnished and the utilization of grant is not checked.
- 4 Actual payees' receipts are not available for audit check in proof of the payment.
- 5 Scale of expenditure is not approved as a condition of grant and purchases are made without calling for tenders or obtaining quotations.
- 6 Stock register of books, maps and furniture purchased out of grant is not maintained.
- 7 Contingent register is not maintained properly. Payment is made without obtaining completion certificate of work and technical scrutiny.
- 8 Grant sanctioned for one year is utilized in another year without obtaining fresh sanction.
- 9 Large amounts are drawn from the treasuries during the month of March evidently to avoid lapse of grants. In some cases sanctions to individual works are accorded in the course of the next financial year or yet to be issued.
- 10 Statement of expenditure on schemes for which grants-in-aid was given is not submitted to audit punctually in many cases.
- 11 Amounts drawn in a year for execution of work are not utilized during that year. In some cases the amounts are redeposit in the treasuries.
- 12 Certain works were left incomplete because the anticipated public contribution was not forthcoming. In a few others the amount of the grant was drawn and spent but the construction is reported as still to be undertaken.
- 13 Defective maintenance of register in respect of flood relief. No stock books of articles of clothing and rice purchased for relief maintained. No account is kept of a large amount of grant made to a local body for relief work.
- 14 Diversion of grant from one head to another without previous approval of authority sanctioning the grant.
- 15 There are a few cases in which the amount of the grant sanctioned was much in excess of the amount that could be utilized during the course of the year and where the unspent balance was subsequently allowed to be utilized in the following year.

16 Certain local bodies and institutions do not surrender the unspent balances of grants.

17 Overlapping of grants and duplicate sanctions.

18 Miscellaneous irregularities in the accounts of works e.g. improper maintenance of muster rolls, payments of final bill in advance of the execution of work or without detailed measurement, expenditure in advance of requirements, avoidable and unauthorized expenditure and execution of work on the basis of revised estimates which have not been sanctioned, etc.

19 Scales of admissible staff, rent of buildings, misc. items of expenditure etc., not properly observed.

20 Free Ships lying undisbursed.

## **ANNEXURE–XVII**

**(vide para 9.9)**

Checks to be applied

It should be seen that:

- i) A financial statement duly certified by an approved auditor has been submitted by the Management showing all receipts and expenditure of institutions for the previous year.
- ii) The financial statement shows a deficit to justify a grant from Government.
- iii) The various subsidiary statements to the financial statements have been scrutinized with reference to the relevant rules and instructions issued by the Government/Department from time to time.
- iv) The admissible items alone are taken into account in the assessment of grant.
- v) The method and the memorandum of calculation of grant payable are correct and statement attached thereto.
- vi) The deficit is arrived at as the excess of "approved" expenditure.
- vii) The sanction issued as a result there of is in order.

## **CHAPTER X**

### **PERFORMANCE AUDIT**

**(Based on Performance Audit Guidelines – 2014)**

#### **10.1 Introduction**

1. Performance Audit Guidelines, 2014 contain the framework for the process of performance auditing within the Indian Audit and Accounts Department (IA&AD) headed by the Comptroller and Auditor General (C&AG) of India hereinafter referred as the Department. They provide the best practices that the officers and the staff of Department must follow in planning, implementation, reporting, observing follow-up processes and obtaining quality assurance in performance audits. They inter alia outline principles, objectives, approach, methodology, techniques and procedures for conducting performance audits. These guidelines are based on the existing guidelines of C&AG of India and International Standards of Supreme Audit Institutions- (ISSAI) 100, 300 and 3000 and ASOSAI Performance Auditing Guidelines.
2. The Principal Accountant General is expected to make situational or subject specific adjustments to the provisions set out in these guidelines.
3. Performance auditing seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement.
4. Performance Audits is required to address the issues of economy, efficiency and effectiveness.
5. Performance auditors may find answers to the following two basic questions:
  - a. Are things being done in the right way?
  - b. Are the right things being done?
6. The main objective of performance auditing is to constructively promote economical, effective and efficient governance. It also contributes to accountability and transparency.
7. Public Sector audits have certain basic elements (i) Three parties in the audit i.e. the auditor, the responsible party, intended user, (ii) the subject matter information and (iii) criteria to assess the subject matter.
8. The subject matter of a performance audit need not be limited to specific programmes, entities or funds but can include activities (with their outputs, outcomes and impacts) or existing situations (including causes and consequences). The subject matter is determined by the objective set out and formulated in the form of audit questions.
9. Audit criteria within the context of performance audit are audit specific, reasonable standards of performance against which the economy, efficiency and effectiveness of operations can be evaluated and assessed. These could be the rules and regulations in force.

10. As in all audits, the users of performance audit reports seek confidence about their liability of information in the reports. The performance auditors should, therefore, in all cases provide findings based on sufficient and appropriate evidence and actively manage the risk of inappropriate reports.

11. Performance audits provide entities and stakeholders with information and assurance about the quality of management of public resources and also assist public sector managers by identifying and promoting better management practices.

## **10.2 Definition:-**

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

## **10.3 Mandate and General Principals of Performance Audit**

1. The audit mandate of the Department is derived from the Constitution of India. Article 151 of the Constitution of India provides that the reports of the Comptroller and Auditor General of India relating to the accounts of the Union or a State government shall be submitted to the President or the Governor of the State respectively, who shall cause them to be laid before each House of Parliament/Legislature of the State.

2. The General Principles are–

- a. Auditor should comply with the relevant ethical requirements and be independent.
- b. Auditors should set a clearly defined audit objective that relates to the principles of economy, efficiency and effectiveness.
- c. Auditors should choose a result, problem or system-oriented approach, or a combination thereof, to facilitate the soundness of audit design.
- d. Auditors should establish suitable criteria which correspond to the audit questions and are related to the principles of economy, efficiency and effectiveness.
- e. Auditors should actively manage audit risk, which is the risk of obtaining incorrect or incomplete conclusions, providing unbalanced information or failing to add value for users.
- f. Auditors should maintain effective and proper communication with the audited entities and other parties sharing the responsibility of the subject matter throughout the audit process and define the content, process and recipients of communication for each audit.

- g. Collectively, the audit team should have the necessary professional competence to perform the audit. This would include in addition to the knowledge of the domain of the audited entity, sound knowledge of auditing, research design, social science methods and investigation or evaluation techniques, as well as personal strengths such as analytical, writing and communication skills.
- h. Auditors should exercise professional skepticism, but also be receptive and willing to innovate.
- i. Auditors should apply procedures to safeguard quality, ensuring that the applicable requirements are met and placing emphasis on appropriate, balanced and fair reports that add value and answer the audit questions.
- j. Auditors should consider materiality at all stages of the audit process. Thought should be given not only to financial but also to social and political aspects of the subject matter, with the aim of delivering as much added value as possible.
- k. Auditors should document the audit in accordance with the particular circumstances thereof. Information should be sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit to subsequently determine what work was done in order to arrive at the audit findings, conclusions and recommendations.

#### **10.4 Strategic Audit Planning and Selection of Subjects**

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

Selection of subjects:-

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

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

### **10.5 How to plan individual performance audits**

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



- g. Preparation of Audit Design Matrix;
- h. Establishing time table and resources;
- i. Intimation of Audit programme to audit entities.

## **10.6 Various Elements of Implementing the Performance Audit**

1. This chapter contains the practices and procedures to be followed by the audit team during the implementation of the performance audit.
2. Entry conference at the commencement of performance audit is to be held with Secretary of the department concerned by the Principal Accountant General. The purpose of this conference is to inform the entity about the areas to be audited along with audit objectives, the audit approach and the time-frame within which the audit is expected to be carried out.
3. The Principal Accountant General should send an engagement letter to the Secretary/Chief Executive of the entity, communicating the launch of the audit along with details of the entity units tentatively selected for audit and the timeframe for audit and request him/her to issue necessary directions to the functional officers and field units
4. The steps involved in field audit process to collect, interpret and analyse the data in relation to the stated audit objectives are as under:-
  - a. Entry Meeting besides Entry Conference before commencement of the audit of selected auditable units.
  - b. Information may be gathered on the basis of physical evidence, documents (including written statements), oral testimonies (interviews), or by other means depending on the objectives of the audit.
  - c. Audit findings are the specific evidence gathered by the auditor to satisfy the audit objectives. The audit design metric and the audit findings matrix assume importance.
  - d. Developing Recommendations
  - e. Exit Meeting
  - f. Supervision

## **10.7 Aspects Relating to Evidence and Documentation**

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

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

1. Samples selected are not representative (sufficiency);

2. Evidence collected relate to an isolated occurrence (sufficiency);
  3. Evidence is incomplete and does not establish a cause and effect relationship (sufficiency, relevance);
  4. Evidence is conflicting (competence); and
  5. Evidence is biased (competence).
- Evidence can be categorized with reference to their type as physical observation (photographs, charts, maps, graphs or other pictorial representations, etc.) oral (audit interviews and inquiries), documentary (physical or electronic form) or analytical (analysis and verification of data).
  - The sources of evidence may vary from case to case. The following are however some illustrative sources of evidence:
    1. Policy Statements and Legislations
    2. Published Programme Performance Data
    3. Management Reports and Reviews
    4. Files of the entity on the subject
  - Meticulous documentation of the evidence supports the audit conclusions and confirms that the audit was carried out in accordance with relevant standards.
  - All relevant documents and information collected and generated during a performance audit constitute the working papers. Ideally the working papers should consist of three sections – each linked to the other: planning; execution and reporting.
  - Documentation in a performance audit requires maintenance of audit file along with set of working papers.

### **10.8 Reporting Process of Draft Performance Audit Report**

The reporting process is illustrated as under:-

1. Preparation of audit observations
2. Draft report issued to the entity
3. Response of the entity
4. Exit Conference
5. Sr. Management response to the report
6. Draft Final report
7. Response of the entity or those charged with Governance on Draft Final report
8. Final Report

- An Audit Observation is defined as an area of potential control weakness, policy violation, financial misstatement, inefficiency in programme implementation and achievement of programme objectives, or other problematic issue identified during the audit.
- The audit teams should be encouraged to use Audit Design Matrix as well as Audit Finding Matrix for cross reference to ensure that nothing is left out.
- The draft audit report is to be prepared upon conclusion of the field audit of the controlling unit of the entity and all field units selected for audit. The purpose of preparation of the draft report is to seek formal response of the entity audited.
- It is important that the entity is persuaded to provide written response to the draft audit report.
- The performance audit should be concluded with an exit conference with the Chief executive of the audited entity e.g. Secretary/ Principal Secretary to the Government concerned as the case maybe.
- In case any information is required from third parties, audited entity would requisition the same from the third party and provide to Audit.
- The supervision and review by the headquarters of the audit report prepared by field audit offices with particular reference to the audit findings and conclusions, recommendations, evidence, drafting, etc is a measure of quality control.
- After incorporating the replies of audited entity and modifications suggested by headquarters, the draft final report should be prepared.
- Then send the bond copy of the report with appropriate annotations for the approval of the report by Comptroller and Auditor General, after which the report stands cleared for printing.
- Characteristics of a good report include completeness, objectivity ensured through balanced content and tone, the conclusions and recommendations follow logically, the report is easy to read and understand and consistency throughout.

### **10.9 Follow-up Procedures**

The objectives of follow up of performance audits are –

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

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

*[[http://cag.gov.in/sites/default/files/guidelines/PA\\_Guidelines2014.pdf](http://cag.gov.in/sites/default/files/guidelines/PA_Guidelines2014.pdf)]*

## **CHAPTER-XI**

### **INTERNAL CONTROL**

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

#### **11.1 Definition:**

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

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

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

- Internal control is a process. It is a means to an end, not an end in itself.

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

**Weak internal control not only permits fraud, they actually encourage it.**

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

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

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

**11.2 INTOSAI Guidelines for Internal Control**

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

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

Ethics has been made an important control objective as ethical behavior by public servants is considered a keystone of good governance. A practical dimension of this objective would

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

### **11.3 Audit of internal control: Indian context**

In India, no specific internal control legislations have been enacted. In the absence of specific legislation, the requirement for maintaining internal control is not clearly recognized as an explicit management responsibility. The traditional view that internal controls are the annualized rules and procedures guiding departmental functions still persists. Many procedures thought to be "internal controls" are simply processing procedures required to capture and record data, but they provide no effective "control." An audit of internal controls relevant to an audit objective is very often an exercise to secure compliance with applicable laws and regulations. The control environment is usually a given endemic situation and there is very little managerial flexibility in improving the situation. Risk identification and assessment is informal and rudimentary; and very often only an intuitive exercise motivated by the desire to cover short-term personal/departmental risks to career/reputation. Adoption of the CoSO framework would involve a paradigm shift in the managerial approach towards internal controls and internal audits. A moot point is whether the CoSO framework could be utilized for the audit process when far from being a statutory requirement it is not even a general expectation from the managerial class. The Committee felt that in the current global scenario of converging professional practices, it was inevitable that CoSO would emerge as the benchmark criterion for the management of internal controls. Accordingly through our audits we could recommend adoption of better practices in this area.

### **11.4 Components of Internal Control**

Internal controls are "the whole system of controls, financial or otherwise, established by the management in order to carry on the business of the organization in an orderly and an efficient manner, ensure adherence to management policies, safeguard assets and secure, as far as possible, the completeness and accuracy of records". Internal controls consist of the control environment and control procedures. While the former reflect the attitude and

commitment of the management towards running the organization, the latter are the processes established to reassure that the specific objectives of the organization are met. For control procedures to work in the fashion envisaged the various functionaries in the organization must perform their jobs correctly. Errors of judgment or misinterpretation, negligence and the like can undermine the effectiveness of internal controls. More serious impairment can arise out of abuse of authority or from collusion between functionaries to circumvent controls for perpetrating fraud. Therefore, the mere fact that internal controls are in place is not enough. The internal controls must be periodically assessed for their adequacy to ensure that they are being adhered to in the manner envisaged.

Internal Control is an intrinsic part of all systems within the organization. It is built in to the systems and is used by the managers to guide its operations on a continuous basis, it should not be thought of as a separate system within the organization. Internal Control consists of five components (1) Control Environment (2) Risk Assessment (3) Information & Communication (4) Monitoring (5) Control Activities.

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

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

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

#### **11.6 Audit Methodology**

The audit team should consider the nature, scope and focus of their audit objectives to arrive at a conclusion regarding relevance of internal controls to audit. The audit team should examine the internal controls significant to the audit objectives and determine, if specific, internal control procedures have been properly designed and implemented. Based



on the effectiveness of internal control the audit team should consider if it needs to modify the nature, timing, or extent of audit. Components of internal control or any weakness therein is significant to an audit's objectives if it is likely to significantly affect the (1) nature and/or presentation of other potential findings and conclusions that may result from carrying out the audit or (2) the auditor's judgments (either positively or negatively) about the sufficiency, competence, or relevance of planned audit evidence required to satisfy the audit objectives.

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

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

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

### **11.7 Reporting:-**

A "reportable condition" means that:

- The problem is serious, but not material; or
- The problem is material but not persistent or pervasive; or
- The problem is material and persistent or pervasive.
- For financial audits (objective above) the reportable conditions may include

- Absence of appropriate segregation of duties consistent with appropriate control objectives;
- Absence of appropriate reviews and approvals of transactions, accounting entries, or systems output;
- Inadequate provisions for the safeguarding of assets;
- Evidence of failure to safeguard assets from loss, damage, or misappropriation;
- Evidence of system failure to provide complete and accurate output consistent with the control objectives of the audited entity due to misapplication of control activities;
- Evidence of intentional override of internal controls by those in authority to the detriment of the overall objectives of the system;
- Evidence of failure to perform tasks that are a significant part of internal control such as reconciliations not prepared or not done on time;
- A weakness in the control environment at an entity such as absence of positive and supportive attitude towards internal control by the management within the organization;
- Deficiencies in the design or operation of internal control that could result in violation of laws, regulations, provisions or contract or grant conditions: fraud; or abuse that has a material effect on the audit objectives or the financial reports;
- Failure to correct deficiencies identified earlier.
- For the other objectives the reportable conditions would include any significant deficiencies in the internal control, all acts of fraud and illegal acts unless absolutely inconsequential, significant violations of provisions of contracts or grant agreements and significant abuse.
- Derive audit conclusion: The audit conclusions flow from and highlight the significance of the audit findings. This would indicate whether the internal controls under audit study are adequate and performing satisfactorily and highlight weaknesses noticed. The assurance with regard to internal controls could be a negative assurance – a statement that nothing came to the auditor’s attention that would indicate inadequate controls.