

**Office of the Comptroller & Auditor General of India, New Delhi**  
**Professional Practices Group**

**Practice Note**  
**FAA/PN 1 of 2019**

**No. 88/PPG/05-2019**

**Date 27/03/2019**

**Subject: Forming an Opinion and Reporting on Financial Statements**

**Introduction**

Financial Attest Audit Manual-2009 (FAAM) contains framework for the process of financial attest audit (FAA), the primary objective of which is to express audit opinion on the financial statements and to provide reasonable assurance that they are free from material misstatement and irregularity. Guidance for conducting financial attest audit of State Governments was issued in 2015 as 'Financial Attest Auditing Guidelines for audit of State Governments Accounts' (FAASG). The results of such audit are communicated to the external stakeholders through an audit opinion which has two components *viz.*, (a) Audit Certificate, and (b) Significant audit findings in the report on State Finances/ Accounts of the Union Government.

1.2 This practice note is in furtherance of the FAAM and FAASG to provide application guidance with an operational focus in forming an opinion and reporting on financial statements for audit of Finance and Appropriation Accounts of State Governments and Union Government as well.

**2. Renaming of SFR**

The report of CAG on State Finances (SFR) would continue to be prepared and renamed as the 'State Finances Audit Report' (SFAR) as it contains account comments on Appropriation and Finance Accounts. In respect of Union Accounts, the report shall continue with the existing nomenclature i.e. 'Report on Accounts of the Union (Financial Audit)'.

**3. Reporting requirements**

The reporting requirements laid down under FAAM stipulate that the audit opinions should be appended to and published with the financial statements to which they relate. It may, therefore, be ensured that SFAR is prepared in coordination with and in time, with Government accounts. CAG will submit both the certified Government accounts and the SFAR to the President/Governor at the same time for presentation to Parliament/State Legislature. Principal Audit Offices must, therefore, ensure that the certified Finance and Appropriation Accounts and SFAR are submitted to the President/Governor of the state simultaneously, as the case may be.

**4. Adherence to prescribed procedure**

The Principal Audit Offices must ensure that the process of financial attest audit as prescribed in Financial Attest Audit Manual-2009 and Financial Attest Auditing Guidelines-2015, and other relevant instructions on the subject are strictly followed. Deviations, if any, must be brought to the notice of the functional DAIs/ADAs concerned before forming/expressing the audit opinion on the Government accounts.

## 5. Records not produced to audit for scrutiny

There may be circumstances where (a) the Department failed to provide all the information and explanations that Principal Auditor considers necessary to complete his/her audit despite information being maintained and available (b) the absence of important records due to non-maintenance, and (c) the Principal Auditor is prevented from carrying out necessary audit procedure so that a material figure in the accounts cannot be confirmed/verified. It is important to bring out such cases of 'scope limitation' and the consequent inability of audit to vouchsafe the genuineness of the underlying transactions, in SFAR and the Audit Certificate, wherever considered necessary on the grounds of materiality, importance and impact. Such comments/observations may be included as 'Qualifications' or under 'Emphasis of Matter' in the Audit Certificate to be decided on case to case basis. However, before making any comment/qualification in Audit Certificate/Audit Report, the matter should be brought to the notice of the Department/Government at the highest level (Finance Secretary and Chief Secretary) appropriately by AsG/PAsG concerned. Absence of important/critical records is to be recorded, and presented, as a 'Significant audit finding' in SFAR.

## 6. Persistent irregularities

In case of persistent irregularities noticed in management of State Finances, the underlying risk and recommended course of action should be emphatically brought out in the audit comments/observations included in SFAR. Some illustrations of what might be indicated with regard to these are given in **Annexure-1**.

## 7. Emphasis of Matter

(a) In cases where Principal Auditor is of the view that the financial statements do represent a true and fair view, but there are certain issues or concerns which must be brought to the notice of stakeholders as part of audit opinion, Principal Auditor may include explanatory paragraph as 'Emphasis of Matter' in the Audit Certificate. The 'Emphasis of Matter' paragraph may be included as last paragraph of the Audit Certificate. A sample format indicating the place where 'Emphasis of Matter' paragraph is to be inserted is given in **Annexure-II**. If there are many issues/concerns to be highlighted under 'Emphasis of Matter', these may be included in a separate Annexure to the Audit Certificate and the following 'Emphasis of Matter' paragraph may be included in the Audit Certificate:

*'I want to draw attention to the significant issues/concerns raised in Annexure----- to this Audit Certificate which are important from the point of view of accuracy, transparency and completeness of these accounts and maintaining legislative financial control over public finances'.*

(b) The Emphasis of Matter may relate to appropriateness of accounting policies, adequacy of disclosures, internal control management issues or significant transactions carried out in contravention of financial rules or accounting policies. While the exact comments/observations to be included under Emphasis of Matter would vary from case to case depending upon the facts and circumstances of each issue included therein, some sample comments/observations have been listed in Annexure-III to serve as illustrations of how comments/observations under Emphasis of Matter should be made to ensure that the issues/concerns get conveyed clearly and precisely to the stakeholders.

## **8. Criteria for deciding ‘Qualification’ /‘Emphasis of Matter’**

Whether an issue/concern/observation is to be included in the Audit Certificate as ‘Qualification’ or under ‘Emphasis of Matter’ will depend on the materiality, and disclosures made in the Finance and Appropriation accounts. If an explanation or disclosure has been made in the ‘Notes to accounts’ on the issue but the Principal Auditor still feels that the matter is important enough to be brought to the notice of the stakeholders through emphasis in the Audit Certificate, the issue may be highlighted under ‘Emphasis of Matter’. However, if no adequate explanation or disclosure has been made in accounts about the issue/concern/observation, the Pr. Auditor may include such issues in Audit Certificates as ‘Qualifications’ depending on the materiality, importance and significance of the matter.

## **9. Transactions requiring ‘emphasis’ in audit certificates**

A few transactions which could form part of the ‘Emphasis of Matter’ in audit certificates are discussed below. These are only illustrative and not exhaustive. The Principal Audit Officers may examine these cases carefully for inclusion of appropriate ‘qualifications’ or ‘expressing unqualified opinion with emphasis of matter’ as may be necessary depending on the materiality, importance and circumstances in each case.

**9.1 National Pension Scheme:** Under National Pension System, a Government servant (who joined service on or after 01.01.2004) is required to make mandatory contribution at the prescribed rate, with equal matching contribution by the Government. The Government has responsibility to deposit both employee’s and employer’s shares with the designated authority i.e., NSDL/trustee bank for further investment as per scheme guidelines. It has been observed that some state Governments have not been adhering to these statutory requirements i.e.,

- (a) state governments have not contributed their matching share fully and significant amount of outstanding liability has been created on this account; and/or
- (b) state governments have contributed their matching share and have also deducted employees’ share but have not deposited the entire contributed/deducted amount timely with the designated authority viz., NSDL/trustee bank.

While necessary disclosures in this regard must have been made by A&E offices in Notes to Accounts, appropriate comments need to be included in the Audit Certificates as such non-compliances with the statutory requirements have the impact of deferring Government liabilities to future years and also affect accuracy and transparency of accounts. Delays in investment of NPS contributions with the Fund Managers also create an atmosphere of uncertainty about:

- the rate of return to be permitted to the employees concerned for such periods on the investment of their NPS contribution, and
- the amount of avoidable financial liability to be borne by the Government for not depositing the NPS contributions with the designated authorities timely.

Keeping in view the materiality and importance of the issue, Pr. Audit offices may include a paragraph in the Audit Certificate under ‘Emphasis of Matter’, to highlight instances of Governments not making matching contribution under NPS and not depositing Government’s and employees’ shares with the designated authorities, wherever applicable.

**9.2 Personal Deposit Accounts:** Some states are parking scheme funds in Personal Deposit /Personal Ledger Accounts (PD/PLA) to avoid lapse of grant. PD/PLA are established either under

statutory provisions of the Government or created under any Law or Rule for discharging liabilities of the Governments arising out of special enactments. Besides, PL Accounts are also opened by transferring funds from the Consolidated Fund of the State for execution of various projects and schemes. Such accounts involving scheme funds are lapsable and should be closed at the end of the Financial Year. Keeping scheme funds in PD/PL Accounts is not only irregular but also artificially inflates the expenditure in the Consolidated Fund and also overstates the liability of the state Government.

Though issues related to irregular opening of PD Accounts/irregular retention of funds in such accounts for long periods have been pointed out in the Audit Reports of various states in the past, the state governments have not taken concrete measures to address the problem effectively. In this regard following directions are issued:

In case of PD/PL Accounts, the scheme funds that have remained unspent for more than the stipulated period should be ascertained and a paragraph may be included in the Audit Certificate under 'Emphasis of Matter', wherever applicable, to bring this irregularity to the notice of the stakeholders.

**9.3** Information should also be collected on PD/PL Accounts which have been opened without consultation with AG (A&E) in contravention of instructions and matter escalated to appropriate level for corrective action. The functional wings in HQ must ensure that there is consistency in examination of PD/PL accounts across states so that such accounts are comprehensively examined in treasury inspection and local audits based on a standardized checklist to make appropriate comments on state accounts. Similar approach must also be adopted in case of NPS and Reserve Funds.

#### **9.4 Reserve Funds, AC/DC Bills and Utilization Certificates**

Appropriate comments in the form of 'Emphasis of Matter' or 'Qualifications' also need to be made in the following cases, wherever considered material:

- (a) Failure to make mandatory/statutory contributions to various funds such as (i) Reserve Funds (ii) Sinking Funds (iii) Guarantee Redemption Fund (iv) State Disaster Response Fund, (v) Central Road Fund etc. Overdrawals from such funds vitiate the system of legislative controls and, therefore, should also be brought to the attention of stakeholders.
- (b) AC bills where DC bills have not been submitted within the stipulated period and are outstanding. In such cases there is no assurance that expenditure has actually been incurred before the close of the Financial Year.
- (c) Utilization Certificates not furnished against grants provided by the Government leading to parking of funds and non-incurrence of expenditure.

#### **10. Approval of Audit Certificates**

The draft Audit Certificates on Finance and Appropriation Accounts for both Union and State Governments shall be submitted to CAG on file for prior approval, before submitting the printed copies of Accounts with Audit Certificate for obtaining signature of CAG of India.

#### **11. Applicability for Union Reports**

The above guidance will also apply to audit of Union Government accounts. However, since CAG is not responsible for compilation of accounts of Union Government, the

comments/observations discussed above may be included either as 'Qualifications' to accounts or under 'Emphasis of Matter', depending on the materiality, importance, circumstances of each case and disclosures made in notes to accounts, if any.

## **12. Dissemination and Compliance**

**This issues with the approval of C&AG**, who has also requested all DAIs & ADAIs to acknowledge this communication, along with the assurance that they have fully discussed and explained the meaning and intent of this circular to all the Principal Accountants General/ Accountants General/ Principal Audit Officers and compliance with the contents of this circular shall be ensured.

Encl.: As above.



**(P.K. Kataria)**

**Director General (PPG/SMU)**

**All DAIs/ADAIs  
All Directors Generals/ Principal Directors in HQ  
All Heads of Audit Offices  
Secretary to CAG**

## **Annexure-1**

### **Some illustrative cases of financial irregularities and underlying risks**

- (a) In case of persistent excess expenditure over budgetary provisions, it should be stated that such repeated excess expenditure over grants approved by the State Legislature/Parliament are in violation of article ----- of the Constitution which provides that no money shall be drawn from the Consolidated Fund except under appropriations made by law. As this vitiates the basic principle of legislative financial control in our Parliamentary democracy, Parliament/State Legislature need to view such cases of financial irregularity/indiscipline seriously. All the existing cases of excess expenditure need to be got regularized at the earliest and, in future, such unauthorized excess expenditure may be stopped completely, except in case(s) of dire and extreme emergency, the amount of which cannot be met from the Contingency Fund.
- (b) In case of unspent scheme funds lying in Personal Deposit Accounts and their non-reconciliation, we may consider stating that non-reconciliation of balances in PD accounts periodically and not transferring the unspent balances lying in PD accounts to Consolidated Fund before the closure of the financial year entails the risk of misuse of public fund, fraud and misappropriation.
- (c) In case of delay in furnishing Utilisation Certificates (UCs), we may consider stating that high pendency of UCs was fraught with the risk of misappropriation of funds and fraud.
- (d) In case of pendency in submission of Detailed Contingent bills against Abstract Contingent bills, we should consider stating that non-submission of DC bills within prescribed time breaches financial discipline and entails risk of misappropriation of public money and unhealthy practices.

## Annexure - II

### **Certificate of the Comptroller and Auditor General of India on Finance Accounts**

This Compilation containing the Finance Accounts of the Government of----- for the year ending----- presents the financial position along with accounts of the receipts and disbursements of the Government for the year. These accounts are presented in two volumes, Volume-I contains the consolidated position of the state of Finances and Volume-II depicts the Accounts in detail. The Appropriation Accounts of the Government for the year for Grants and Charged appropriations are presented in a separate compilation.

The Finance Accounts have been prepared under my supervision in accordance with the requirements of the Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 and have been compiled from the vouchers, challans and initial and subsidiary accounts rendered by the treasuries, offices and departments responsible for the keeping of such accounts functioning under the control of the Government of----- and the statements received from the Reserve Bank of India. Statements (-----), explanatory notes (----) and appendices in this compilation have been prepared directly from the information received from the Government of-----/Corporations/Companies/Societies who are responsible to ensure the correctness of such information.

The treasuries, offices, and/or departments functioning under the control of the Government of---- are primarily responsible for preparation and correctness of the initial and subsidiary accounts as well as ensuring the regularity of transactions in accordance with the applicable laws, standards, rules and regulations relating to such accounts and transactions. I am responsible for preparation and submission of Annual Accounts to the State Legislature. My responsibility for the preparation of Accounts is discharged through the office of the Principal Accountant General/ Accountant General (A&E). The audit of these accounts is independently conducted through the office of the Principal Accountant General/Accountant General (Audit) in accordance with the requirements of Article 149 and 151 of the constitution of India and the Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, for expressing an opinion on these accounts based on the results of such audit. These offices are independent organizations with distinct cadres, separate reporting lines and management structure.

The audit was conducted in accordance with the Auditing Standards generally accepted in India. These Standards require that we plan and perform the audit to obtain reasonable assurance that the accounts are free from material misstatement. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements.

On the basis of the information and explanations that my officers required and have obtained, and according to the best of my information as a result of test audit of the accounts and on consideration of explanations given, I certify that, to the best of my knowledge and belief, the Finance Accounts read with the explanatory Notes to Accounts give a true and fair view of the financial position, and the receipts and disbursements of the Government of \_\_\_\_\_ for the year \_\_\_\_\_.

Points of interest arising from study of these accounts as well as test audit conducted during the year or earlier years are contained in my Financial, Compliance and Performance Audit Reports on the Government of \_\_\_\_\_ being presented separately for the year ended \_\_\_\_\_.

### **Emphasis of Matter**

I want to draw attention to:

- 1.
- 2.
- 3.

My opinion is not qualified with respect to these matters under emphasis.

(Name)

Comptroller & Auditor General of India

Date

Place

## **Certificate of the Comptroller and Auditor General of India on Appropriation Accounts**

This Compilation containing the Appropriation Accounts of the Government of----- for the year ending----- presents the accounts of the sums expended in the year compared with the sums specified in the schedules appended to the Appropriation Acts passed under Article 204 and 205 of the Constitution of India. The Finance Accounts of the Government for the year showing the financial position alongwith the accounts of the receipts and disbursements of the Government for the year are presented in a separate compilation.

The Appropriation Accounts have been prepared under my supervision in accordance with the requirements of the Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 and have been compiled from the vouchers, challans and initial and subsidiary accounts rendered by the treasuries, offices and departments responsible for the keeping of such accounts functioning under the control of the Government of----- and the statements received from the Reserve Bank of India.

The treasuries, offices, and/or departments functioning under the control of the Government of---- are primarily responsible for preparation and correctness of the initial and subsidiary accounts as well as ensuring the regularity of transactions in accordance with the applicable laws, standards, rules and regulations relating to such accounts and transactions. I am responsible for preparation and submission of Annual Accounts to the State Legislature. My responsibility for the preparation of Accounts is discharged through the office of the Principal Accountant General/ Accountant General (A&E). The audit of these accounts is independently conducted through the office of the Principal Accountant General/ Accountant General (Audit) in accordance with the requirements of Article 149 and 151 of the constitution of India and the Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, for expressing an opinion on these accounts based on the results of such audit. These offices are independent organizations with distinct cadres, separate reporting lines and management structure.

The audit was conducted in accordance with the Auditing Standards generally accepted in India. These Standards require that we plan and perform the audit to

obtain reasonable assurance that the accounts are free from material misstatement. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements.

On the basis of the information and explanations that my officers required and have obtained, and according to the best of my information as a result of test audit of the accounts and on consideration of explanations given, I certify that, to the best of my knowledge and belief, the Appropriation Accounts read with observations in this compilation give a true and fair view of the accounts of the sums expended in the year ended----- compared with the sums specified in the schedules appended to the Appropriation Act passed by the State Legislature under Articles 204 and 205 of the Constitution of India.

Points of interest arising from study of these accounts as well as test audit conducted during the year or earlier years are contained in my Financial, Compliance and Performance Audit Reports on the Government of----- being presented separately for the year ended-----

**Emphasis of Matter**

I want to draw attention to:

- 1.
- 2.
- 3.

My opinion is not qualified with respect to these matters under emphasis.

(Name)

Comptroller & Auditor General of India

Date

Place

### Annexure-III

#### Some examples of comments/observations under 'Emphasis of Matter' for inclusion in Audit Certificate on Finance Accounts in respect of State Governments

1. Government did not discharge its statutory liability as it failed to contribute Rs. \_\_\_\_\_ crore in the financial year \_\_\_\_\_ as its matching share under National Pension Scheme in respect of Government employees and deferred its current year liability to that extent to future years. This has impact of understating the fiscal deficit of the Government by an equivalent amount.
2. Government collected Rs. \_\_\_\_\_ crore as employees' share under National Pension Scheme during \_\_\_\_\_ and did not deposit Rs. \_\_\_\_\_ crore with the designated authority for further investment as per provisions of the scheme. Government, therefore, unauthorizedly used funds collected from Government employees under NPS.
3. Department of \_\_\_\_\_ parked Rs. \_\_\_\_\_ crore of scheme funds under Personal Deposit Account/Personal Ledger Account (Major Head \_\_\_\_\_) to avoid lapse of grant during the financial year \_\_\_\_\_ in violation of principles of budgetary and financial control and without any legal authority of legislative approval.
4. \_\_\_\_\_ Departments of the Government parked Rs. \_\_\_\_\_ crore of scheme funds under Personal Deposit Account/Personal Ledger Account (Major Head \_\_\_\_\_) for periods ranging from \_\_\_\_\_ to \_\_\_\_\_ years to avoid lapse of grant during \_\_\_\_\_ in violation of principles of budgetary and financial control and without any legal authority of legislative approval. The amount of such irregularly parked funds stood at Rs. \_\_\_\_\_ crore as on 31<sup>st</sup> March, \_\_\_\_\_.
5. Government has not made mandatory/statutory contributions of Rs. \_\_\_\_\_ crore to \_\_\_\_\_ Reserve fund during the financial year \_\_\_\_\_ in violation of rules and, therefore, has deferred its current year liability to future years, which has impact of under stating of fiscal deficit by equivalent amount.
6. Despite having insufficient balance in \_\_\_\_\_ Reserve fund at the beginning of the financial year \_\_\_\_\_, Government disbursed Rs. \_\_\_\_\_ crore from the fund during the financial year resulting in negative balance/overdrawal of Rs. \_\_\_\_\_ crore at the end of the financial year. Such

irregular over draws are in gross violation of accounting policies and also vitiates the system of legislative financial control.

7. Financial records of transactions aggregating Rs. \_\_\_\_\_ crore were either not maintained or not produced to audit. This imposed a limitation on the scope of audit to be conducted by me under the Constitutional Provisions and CAG's DPC Act, 1971. As my officers were unable to conduct audit and obtain satisfactory explanation in respect of the above financial transactions, we are unable to provide an assurance that the above amount of Rs. \_\_\_\_\_ crore has been prudently spent for the purpose for which it was sanctioned by the legislature.

8. The Department \_\_\_\_\_ had drawn Rs. \_\_\_\_\_ crore from Government accounts (Major Head \_\_\_\_\_) in the financial year \_\_\_\_\_ against Abstract Contingent (AC) bills but did not submit Detailed Contingent (DC) bills of Rs. \_\_\_\_\_ crore before the close of the financial year and, therefore, there is no assurance that the amount of Rs. \_\_\_\_\_ crore has actually been incurred during the financial year for the purpose for which it was sanctioned/ authorized by the legislature.

9. Government has made investment of Rs. \_\_\_\_\_ crore in \_\_\_\_\_ Public Sector Undertakings in the form of equity and loans. These companies have not finalized their accounts for last \_\_\_\_\_ to \_\_\_\_\_ year in gross violation of provisions of the Companies Act. I am, therefore, unable to discharge my responsibilities with regard to the accounts of these companies as required under CAG's DPC Act, 1971 and the Companies Act.

**Examples of comments/observations under ‘Emphasis of Matter’ for inclusion in Audit Certificate on Appropriation Accounts in respect of State Governments**

1. There was an excess disbursement of Rs. \_\_\_\_\_ crore over the authorization made by Parliament/State Legislature under \_\_\_\_\_ grants during the financial year \_\_\_\_\_. This is in violation of article - ----- of the Constitution which provides that no money shall be withdrawn from the Consolidated Fund except under appropriation made by Law by the Parliament/State Legislature. This vitiates the system of budgetary and financial control and encourages financial indiscipline in management of public resources.
  
2. There are significant variations between the total grant or appropriation and expenditure incurred aggregating Rs. \_\_\_\_\_ crore under \_\_\_\_\_ grants the reasons for which have not been appropriately explained in the Appropriation Accounts.