

Office of the Comptroller and Auditor General of India
Professional Practices Group

Practice Note

No: 310 16/PPG-II/2017

Date: 25, October 2017

Subject: Financial Attest Audit of Autonomous Bodies

1 Introduction

- 1.1 The audit of Autonomous Bodies entrusted to the Comptroller and Auditor General of India is regulated by sections 14, 15, 19 and 20 of the CAG's (Duties, Powers and Conditions of service) Act 1971 as amended from time to time. The audits taken up under Sections 19 and 20 involve certification of accounts of the Autonomous Bodies and preparation of Separate Audit Reports. The CAG's Auditing Standards, 2017 envisage the auditing principles and set out the norms/benchmarks in the form of general standards and specific standards applicable for financial audits. The Manual for Standing Orders (Audit) and Manual of Instructions for audit of Autonomous Bodies prescribe, among others, the process and provide a check list for conducting financial audits of Autonomous Bodies.
- 1.2 This guidance is in furtherance of the Manual of Instructions for audit of Autonomous Bodies and the objective is to provide application guidance with an operational focus so as to serve as a ready reckoner for financial audit of Autonomous Bodies.

2 Format of Accounts

- 2.1 The Central Autonomous Bodies are required to compile their accounts in a Uniform Format of Accounts and Format of Accounts and Format of Accounts for Major Port Trusts, prescribed by Government of India, Ministry of Finance, which has been effective from the accounting year 2001-02 and Separate Format of Accounts for Central Autonomous Bodies prescribed by Ministry of HRD under its administrative control from the financial year 2015-16. The Uniform Format of Accounts is given in Volume II of the Manual of Instructions for audit of Autonomous Bodies. The standard norms of accounting for the Major Port Trusts, prescribed in consultation with the CAG has been made applicable from the accounting year 2003-04, which are also available in Volume II of the Manual

of Instructions for audit of Autonomous Bodies. The State Autonomous Bodies may or may not adopt the Uniform Format of Accounts.

- 2.2 The Annual Financial Statements of Central Autonomous Bodies comprise the following statements, prepared and presented in the formats and in the manner as provided in the Uniform Format of Accounts:

- (i) Balance Sheet;
- (ii) Income and Expenditure Statement;
- (iii) Statement of Receipts and Payments;
- (iv) Schedules to Financial Statements;
- (v) Instructions and Accounting Principles;
- (vi) Notes and Instructions for the Schedules; and
- (vii) "Statement of GPF and NPS Accounts" prescribed in the format of accounts prescribed by MHRD

3 Objectives of financial audit

- 3.1 The purpose of an audit of financial statements is to enhance the degree of confidence of the intended users in the financial statements. The primary objective of financial audit of an Autonomous Body is to express an opinion on the financial statements. In order to express an opinion, auditors seek to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. However, audit mandate arising from legislations, regulations and government policy requirements may result in additional objectives.
- 3.2 It needs to be recognised that a financial audit is conducted with reference to the assertions of the management that underlie the preparation and presentation of financial statements, which constitute enabling audit objectives. The assertions relating to Income and Expenditure statement and those relating to Balance Sheet items are as under:

Assertions for receipts and payments or income and expenditure account items

Assertion	Explanation
Completeness	All transactions relevant and material to the year of account have been recorded.
Occurrence	All recorded transactions pertain to the entity and properly occurred (i.e. the underlying event took place), and were relevant to the year of account.
Measurement	The recorded transactions have been correctly valued, properly allocated to the period and measured with reliability in accordance with established accounting policies, on acceptable and consistent basis.
Regularity	The recorded transactions are in accordance with primary and secondary legislation and other specific authorities

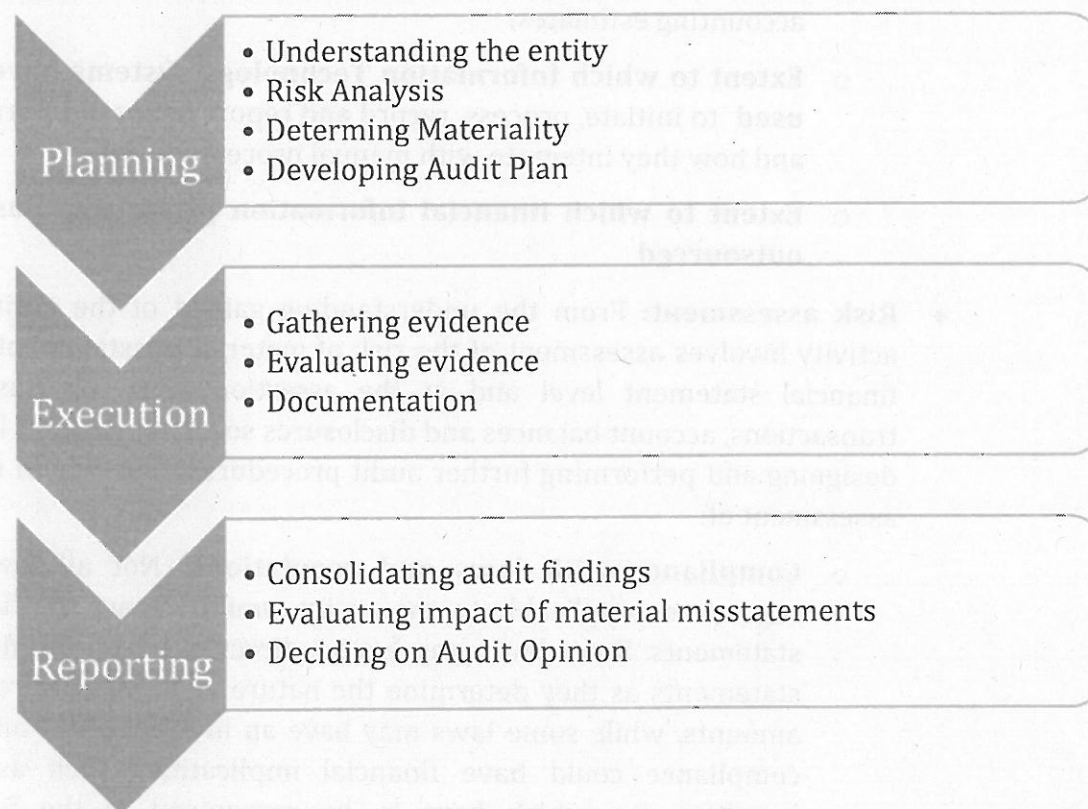
	required by them.
Disclosure	The recorded transactions have been properly classified, accounted for/disclosed where appropriate.

Assertions for Balance Sheet items

Assertion	Explanation
Completeness	All assets and liabilities have been recorded.
Existence	All recorded assets and liabilities exist on the given date.
Valuation	The values ascribed to the assets and liabilities are accurate and have been arrived at in accordance with established accounting "policies on an acceptable and consistent basis".
Ownership	The entity owns the assets and the liabilities on the given date and both arise from regular activities.
Disclosure	The assets, liabilities, capital and reserves have been properly disclosed.

4 Phases of the audit process

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



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

- **Understanding the entity:** This includes understanding the relevant objectives, operations, regulatory environment, internal controls, finance and other systems and researching on potential sources of audit evidence. This would involve obtaining an understanding of:
 - **Nature and objectives of activities of the entity:** This comprises understanding its operations, its ownership and governance structures, the way the entity is structured and financed;
 - **Legal and regulatory framework** governing the entity and how the entity is complying with them;
 - **Financial reporting framework:** This includes review of accounting manuals, review of accounting principles and conventions adopted to understand their consistency with the reporting framework and the extent to which the Accounting Standards issued by the Institute of Chartered Accountants of India are applicable to the entity;
 - **Internal control mechanism relevant to audit:** This includes understanding the internal control culture set by the governing body, controls surrounding preparation and presentation of financial statements including those relating to journal entries and accounting estimates;
 - **Extent to which Information Technology systems have been used** to initiate, process, record and report financial information and how they integrate with manual processes; and
 - **Extent to which financial information processing has been outsourced**
- **Risk assessment:** From the understanding gained of the entity, this activity involves assessment of the risk of material misstatement at the financial statement level and at the assertion level for classes of transactions, account balances and disclosures so as to provide a basis of designing and performing further audit procedures. This would include assessment of:
 - **Compliance with laws and regulations:** Not all laws and regulations applicable to the entity would impact the financial statements. Some laws may have a direct effect on the financial statements as they determine the nature and extent of reported amounts, while some laws may have an indirect effect and non-compliance could have financial implications such as fines, penalties etc, which have to be recognised in the financial statements;
 - **Changes in legal or regulatory requirements, policies of government and accounting policies adopted by the entity:**

Review of Minutes of the Governing Body and correspondence with the Ministry/Department would help identify risk exposures;

- **The complexity and subjectivity in measurement of financial information or accounting estimates:** This is a potentially red flag. Cases that involve a substantial degree of complexity, subjectivity or use of judgement are intrinsically exposed to the risk of misstatement;
- **Risk of fraud:** Some of the areas prone to risk of fraud are procurements, grants, misrepresentation of financial information, inventory valuation and misappropriation of assets;
- **Management override of financial reporting controls:** Cases of rectification journal vouchers, journal vouchers being periodically initiated by other than the authorised personnel could potentially involve financial misstatements; and
- **Events occurring after the date of financial statements:** Financial statements may be affected by certain events occurring after the date of financial statements that impact the presentation of financial statements
- **Internal audit function**
- **Issues and irregularities that featured in the previous year's Audit Report**
- **Materiality:** Materiality is judged from the users' perspective. Based on the risk assessment a materiality threshold would have to be determined for the financial statements as a whole. CAG's Auditing Standards envisage that where one or more classes of transactions, account balances or disclosures could reasonably be expected to influence the decisions of users on the basis of the financial statements, the auditor shall also determine materiality level or levels for the classes of transactions, account balances or disclosures concerned. The materiality level denotes the upper limit up to which a misstatement, individually or when aggregated with other misstatements could be tolerated and misstatements beyond this threshold(s) would be considered material.
- **Developing an audit plan:** Based on risk assessment and materiality, the audit plan should be developed. The audit plan should determine the audit approach, sampling methods and a detailed audit program describing the audit procedures required to be carried out as a response to the assessed risks and the roles and responsibilities of team members so as to ensure that resources are deployed efficiently and effectively.

4.2 Execution: The primary objective of the execution process is to apply the planned audit procedures to gather sufficient and appropriate evidence and evaluate evidence so as to form appropriate conclusions and determine the audit opinion on financial statements. To facilitate a broad understanding of the

various individual accounts that appear in the financial statements, a compilation of account heads that appear in the Income and Expenditure Account and the Balance Sheet, along with a brief commentary on their composition is provided as **Annexure I**.

During the entire execution phase, auditors need to be alert to the risk of material misstatements. Therefore, when the audit procedures carried out on a selected sample of accounts or transactions indicate any potential deviation, abnormality or doubt, conducting further audit procedures should be considered either to confirm or dispel the doubt, deviation or abnormality. The audit procedures include test of controls and substantive procedures - test of details and substantive analysis of classes of transactions, account balances and disclosures. While the techniques for evidence gathering in financial audit are essentially record based analysis/review, they would also include Computer Assisted Audit Techniques where the financial systems are maintained in IT platforms.

The Manual of Instructions for audit of Autonomous Bodies enumerates the audit procedures (check list) - primarily substantive procedures that are to be exercised for each of the items appearing in the Receipts and Payments Account, Income and Expenditure Account and the Balance Sheet. Prior to conducting substantive procedures, however, the controls regulating the respective areas/items have to be tested to assess the nature and extent of substantive procedures that are warranted. Guidance on application of audit procedures explaining the essential documents /information that are required, the test of controls to be exercised and the approach for application of and obtaining assurance from substantive procedures for the major items appearing in the financial statements are provided as Annexure II. A check list for evaluation of internal control system of the entity is provided as Annexure III.

4.3 Reporting: The objective of financial audit is to express an opinion on the financial statements. The CAG's Auditing standards, 2017 envisage (para 3.2.11) that in order to form an opinion, the auditor must first conclude whether reasonable assurance has been obtained as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Therefore, the auditor needs to determine whether the uncorrected misstatements are material, individually or in aggregate as envisaged (para 3.2.10 of the CAG's Auditing Standards, 2017).

The uncorrected misstatements should therefore be judged for their reporting materiality and may be related/mapped against the assertions of the management (as listed at para 3.2 above) to determine whether the material misstatements are applicable to a particular assertion or are pervasive across various assertions. This forms the basis for expression of the audit opinion. Audit opinion can be of the following types (refer paras 2.5.2.3 and 3.2.10 of the CAG's Auditing Standards, 2017):

- **Unqualified:** Where the Auditor has obtained reasonable assurance on the financial statements;

- **Qualified:** Where the Auditor disagrees with, or is unable to obtain sufficient and appropriate audit evidence about certain items in the subject matter which are, or could be material but not pervasive;
- **Adverse:** Where the Auditor, having obtained sufficient and appropriate audit evidence, concludes that deviations or misstatements, whether individually or in aggregate, are both material and pervasive; and
- **Disclaimed:** Where the Auditor is unable to obtain sufficient and appropriate audit evidence due to an uncertainty or scope limitation, which is both material and pervasive.

Deepak Narain

(Deepak Narain)
Principal Director (PPG)

To

All DAIs/ADAs

DsG and PDs in Hqrs

All field Audit Offices (as per mailing list)

Secretary to CAG

Annexure-I

Compilation of accounting heads appearing in Income and Expenditure Account and Balance Sheet

Description	
Balance Sheet	
Corpus/Capital Fund	Corpus/Capital Fund is akin to Capital, Share Capital or Owners Funds. It comprises amounts received by way of contributions specifically to the Corpus, as increased/decreased by the net operating results shown in the Income and Expenditure Account. The Opening Balance, Additions to, Deductions from and the Closing Balance of the Corpus/Capital Fund shall be shown under this head. Additions to the Corpus Fund shall be net of transfers, if any, to any Reserve or Earmarked Fund required under statute or as per applicable regulations.
Reserves and Surpluses	
Capital Reserves	The expression 'Capital Reserves' shall not include any amount regarded as free for distribution through the Income and Expenditure Account. Surplus on revaluation should be treated as Capital Reserves and shown separately. The Opening Balance, Additions and Deductions during the year shall be shown under this head
Revaluation Reserve	When the fixed assets, otherwise stated at historical costs are revalued and the historical cost substituted by a revaluation, normally done by competent valuers, such substitution resulting in an upward revaluation is required to be shown as a 'Revaluation Reserve'. This reserve is an unrealized gain and should not be credited as income in the Income and Expenditure Account. The Opening Balance, Additions and Deductions during the year shall be shown under this head
Special Reserves	These would comprise Special reserves required to be created pursuant to any statutory or regulatory requirement applicable to the Entity. This should also be clarified in the Notes on Accounts. The Opening Balance, Additions and Deductions during the year shall be shown under this head
General Reserve	The expression 'General Reserve' shall mean any reserve other than capital reserve and revaluation reserve. This item will include all reserves, other than those separately classified.

	The Opening Balance, Additions and Deductions during the year shall be shown under this head
Earmarked/ Endowment Funds	<p>Amounts received as grants or assistance, or retained by the entity to be utilized for specific or earmarked purposes are required to be disclosed under this head. Such funds may be received in cash or kind from Government, Government agencies, institutions and other agencies etc. and are subject to compliance of certain stipulated terms and conditions by the entity. The following shall not be reckoned as part of Earmarked Funds:</p> <p>(a) Grants/funds which have the characteristics of promoters' contribution which are of the nature of additions/accretion to the Corpus Fund.</p> <p>(b) Funds/grants received by the Entity as compensation for expenditure/losses incurred in the earlier years, as these would be reckoned only in the Income and expenditure Account for the year.</p> <p>(c) Non-monetary grants by way of capital assets or other resources, corresponding credit of which is of the nature of capital reserve, unless such grants are specified as irrevocable contribution to the Corpus.</p>
Secured Loans and Borrowings	Includes loans from Central and State Governments, Financial Institutions, Banks (Term loans and other loans), Other Institutions and agencies. The nature of security would have to be disclosed.
Unsecured Loans and Borrowings	<p>Includes loans and borrowings from Central and State Governments, Financial Institutions, Banks (Term loans and other loans), Other Institutions and agencies, Debentures and Bonds and Fixed Deposits. Normally loans from Banks are in the form of Term Loans. Pending creation of a charge on assets, bridge loans may be given as 'unsecured' Loans.</p> <p>The terms of redemption of debentures and bonds should be stated with the earliest date of their redemption.</p>
Deferred Credit Liabilities	<p>This includes acceptances and other similar long-term obligations contracted in respect of acquisition of assets, the liability for payment of which generally falls in periods longer than 12 months as at the date of Balance Sheet.</p> <p>If the assets are charged as security or encumbered corresponding to the liability, this fact should be disclosed. Similarly, if acceptances are also guaranteed for repayment by the Government, any Government Agency, Bank, Institution or other Body/entity, this fact should also be disclosed.</p>
Current Liabilities And Provisions	
Liabilities	
Acceptances	Included under this sub-head would be the value of bills of exchange which have been accepted by the entity

Sundry Creditors	The amounts to be shown against this sub-head shall comprise amounts owed by the entity in favour of others on account of goods purchased or services rendered or in respect of contractual obligations.
Advances received	The liability against this sub-head shall comprise amounts received in respect of which goods or services have yet to be supplied/ rendered or for which value has yet to be given, and included advance subscriptions
Interest accrued but not due	Includes interest accrued up to the year-end but not due on secured and unsecured loans and borrowings
Statutory liabilities	These comprise liabilities accruing from Central/State legislations and includes overdue and/ or un-paid liability for income tax deducted at source, statutory bonus, provident fund, pension, gratuity ESI, Interest to SSI Units on their overdue, sales tax, excise, customs duty, and other statutory levies.
	Overdue liabilities are undisputed amounts, which are due and remain unpaid beyond the normal due date/ stipulated period.
Other Current Liabilities	These would include amounts not covered by the other sub-heads. Any material amount included under this sub-head may be separately shown indicating the nature thereof.
Provisions	
For Taxation	Provision for liability towards outstanding tax liability as the year-end
Gratuity	Provision for accrued liability towards gratuity payable on death/retirement of employees needs to be provided on actuarial basis upto the year-end
Superannuation/Pension	Provision for accrued liability payable towards superannuation of employees needs to be provided on actuarial basis upto the year-end
Accumulated Leave	Provisions for accrued liability towards accumulated leave encashment of employees needs to be provided upto the year-end
Trade Warranties/Claims	Where the entity is manufacturing/processing goods for sale, it may be liable to trade warranty risks, which need to be provided for on a reasonable/rational basis
Others	These need to be specified, and shall not include provision for doubtful debts/advances, which has to be reduced from the relevant asset heads

Fixed Assets	
Land	Includes both Freehold and Leasehold land. Where immovable properties are purchased/acquired by paying a composite cost, a reasonable/reliable estimate should be made of the land cost and shown separately. Leasehold land should be amortised over the period of lease unless the lease is in perpetuity.
Buildings	<p>Includes buildings on freehold land, leasehold land, Ownership flats/premises and Superstructures on land not belonging to the entity.</p> <p>Buildings shall include roads, bridges and culverts. As far as practicable, distinction may be made between factory and office buildings for purposes of provision for depreciation at different rates.</p> <p>Buildings/premises shall be those which are intended to be wholly/partly used for the purposes of the activities of the Entity and would not include 'Investment Properties'.</p>
Plant, Machinery & Equipment	<p>Includes under this Sub-head would be items like Earth moving machinery, Boilers, Furnaces, Generators, Dyes/Mould, Machinery used for specific industry/services, processing units, hydraulic works (including pipelines), Tool rooms and other items used for manufacture/processing etc.</p> <p>Separate Account heads should be maintained in the ledgers and kept reconciled with the Fixed Assets registers.</p>
Vehicles	Included under this sub-head would be items like Tractors/Trailers, Trucks, Jeeps and Vans, Motor Cars, Motor Cycles, Scooters, Three Wheelers and Mopeds etc
Furniture and Fixtures	<p>Included in the above sub-head would be items like Cabinets/Almirahs/Filling Racks, Air-conditioner/Air conditions Plant, Air Coolers, Water Coolers, Tables/Chairs/Sofas/Carpets, Wooden partitions/temporary structures, Voltage Stabilisers, UPS systems and Other items.</p> <p>Separate Account heads should be maintained in the ledgers and kept reconciled with the Fixed Assets registers.</p>
Office Equipment	<p>Included under the above sub-head would be items like Typewriters Photocopies/Duplicators, Fax Machines.</p> <p>Separate Account heads should be maintained in the ledgers and kept reconciled with the Fixed Assets registers.</p>
Computer/Peripherals	<p>Computers, Printers and their peripherals like the Floppies, CDs, Software etc. would be the items under this head.</p> <p>Separate Account heads should be maintained in the ledgers and kept reconciled with the Fixed Assets registers.</p>

Electric Installations	Included under the above sub-head would be items like Electrical Machinery, Electric Lights/Fans, Switch gear instruments, Transformers and Electric Wiring and fittings.
	Separate Account heads should be maintained in respect of the above items and kept reconciled with the Fixed Assets registers.
Library books	In some cases the number of Library Books could be very large or there may be an established Library. In such cases these books may be disclosed as a separate category of assets. Library books will include books/journals/information stored in CD ROMs.
Capital Work-in-Progress	Fixed assets in the course of construction should be shown against this head till they are ready for their intended use. Plant, machinery and equipment acquired and pending installation need to be included here.
Investments From Earmarked/Endowment Funds	Includes Central and State government Securities and Government Treasury Bills, other approved securities (such as Trustee securities), investment in shares of companies and corporations, Debentures, Bonds, Investments in subsidiaries/associate entities and other residual investments, if any, like Commercial Paper, Mutual Funds and other instruments
Current Assets, Loans and Advances	
Inventories	Inventories comprise tangible property held for sale in the ordinary course of business, or in the process of production of such sales, or for consumption in the production of goods or services for sales including maintenance supplies and consumables other than machinery parts. This include stock in trade of raw materials, work-in-progress and finished goods, loose tools, stores and spares.
	Basis of valuation of inventories should be disclosed.
Sundry Debtors	Debtors comprise persons from whom amounts are due for goods sold or services rendered or in respect of contractual obligations. Debtors outstanding for a period exceeding six months and other debts need to be shown separately. Debts considered good for recovery and those considered doubtful shall also be shown separately. Provision for doubtful debts, if made, should be shown as a reduction from the amount of debts considered doubtful.
Cash and Bank balances	This includes cash balances in hand (including cheques, drafts and imprest) and bank balances with scheduled banks and Non-scheduled banks held in savings, current and deposit accounts. This also includes post office savings accounts.

	Amounts held as bank balances against earmarked endowment funds, Deposit accounts pledged or charged as security or are encumbered and Overdue/Matured deposits have to be separately disclosed.
Loans	<p>Includes loans advanced to staff, other entities engaged in activities/ objectives similar to that of the entity and others. Loans and Advances considered good/recoverable and doubtful should be shown separately. Provision, if any, created for loans considered doubtful should be shown as a reduction therefrom.</p> <p>Interest accrued on internal bearing staff loans should be accounted not withholding that actual recoveries of interest might commence after repayment of principal. Irrevocable grants/subsidies/donation to such entities shall not be included here. If interest-bearing, the amount of interest earned up to the year-end should be adjusted.</p>
Advances	<p>Advances to suppliers/contractors for capital works should be shown against this sub-head.</p> <p>This includes prepaid expenses.</p> <p>This would comprise receivables other than the debtors.</p>
Other assets	<p>Income accrued: Both 'Income accrued and due' and 'Income accrued but not due' upto the year-end should be included under this head. Income on Investment from Earmarked/Endowment Funds and that on Other Investment should be shown separately.</p> <p>Claims receivable: Only claims, which are considered good and realizable, should be included</p>
Income and Expenditure Account	
Income from Sales	<p>Sales comprise the aggregate amount for which sales are effected. These would be shown net of trade discounts, rebate and returns.</p> <p>Sales are complete when significant risks and re-wards of ownership get transferred from the seller to the buyer, irrespective of the time of payment or delivery of the goods.</p> <p>Disclosure of export sales should be made separately</p>
Income from Services	<p>Income must be shown at gross figures and Tax Deducted at Source should be indicated separately.</p> <p>Labour and Processing Charges: Labour and processing charges realizable for processing/fabrication of goods/materials of other entities should be disclosed against this sub-head</p>

	<p>Professional/Consultancy services: Consultancy charges and fee for rendition of professional services by the entity should be included under this sub-head</p> <p>Agency Commission and Brokerage: Where the Entity acts as a broker or agent for arranging supply of goods/services of others, i.e. without acting on a principal to principal basis, the commission and brokerage income earned would be shown against this sub-head</p> <p>Maintenance services: Where the Entity undertakes maintenance contracts for equipment or property etc. the income earned up to the year-end from this source should be included under this sub-head</p>
Grants and Subsidies	<p>Grants, Subsidies or other similar assistance received from Central Government, State Governments, Government agencies, Institutional/Welfare Bodies and International Organisations etc for the general purposes and objectives of the Entity, on an irrevocable basis, or to cover expenditure incurred in prior periods, shall be included in this sub head</p>
Fees/Subscriptions	<p>Fees like Entrance Fee, Subscriptions etc. in the nature of capital receipts should form part of the Corpus/Capital Fund. Other fees not in the nature of capital receipts such as Annual fees, Annual subscriptions, Seminar or program fees, consultancy fees and other should only be included in this head.</p> <p>The gross receipts should be shown here. Expenditure incurred on seminar/workshops, consultancy etc. should be shown as 'other administrative expenses'.</p>
Income from Investments	<p>Income from Investments should be shown at gross figures and tax deducted at source is to be stated separately.</p> <p>Interest (on Government Securities, Bonds and Debentures): Interest on Government securities shall comprise Interest earned at coupon rate upto the last applicable date of interest, i.e. interest accrued and due; and Interest accrued thereafter upto the year-end at the coupon rate. Income on bonds and debentures would include discount accrued upto the year-end on bonds issued at a discount, to be redeemed at par or on premium, based on the terms of their issue.</p> <p>Interest on deposits: This includes interest on all deposits with banks and post offices (Term deposits, Savings account).</p> <p>Interest on</p>

	<p>Dividends (on Shares and Mutual fund securities): Dividends should be accrued, based on the dates of declaration thereof i.e. when the entity has a right to receive the same. Interest claimed on overdue/matured investments shall not be recognized unless pre-conditions for such recognition are satisfied.</p> <p>Rents: Distinction should be made in respect of income on Investments: (a) Owned by the Entity; and (b) Those held against earmarked/endowment funds</p> <p>Any other income from investments</p>
Income from Royalty, Publication etc	In case the major activities of the Entity are to be publish Books, Journals, documents etc. such income should form part of this head. The gross receipts should be shown here. Expenditure incurred on publication etc. should be shown as 'other administrative expenses'
Other income	Includes Profit on Sale/disposal of Assets owned assets, Assets acquired out of grants or received free of cost, Export Incentives realized and fees for miscellaneous services Sales proceeds/ realization, net of the book value of the assets needs to be included under this sub-head. Export incentives claimed and not realized upto the year-end shall not be included in Income.
Increase /Decrease in Stock	This includes the net accretion or decretion stock of finished goods, raw materials and work in progress.
Establishment expenses	Includes expenditure on Salaries and Wages, Allowances and Bonus, Contribution to Provident Fund, Contribution to Other Fund (specify), Staff Welfare Expenses, Expenses on Employees Retirement and Terminal Benefits etc. Accrued expenditure on staff on deputation should also be included. Statutory obligations of the Entity towards provident fund, Employees' state insurance, retirement benefits etc. should be disclosed clearly and item-wise. In case of recoveries like fines, penalties etc. the same should not be deducted from the expenses heads buy included under 'Other Income'.
Expenditure on grants and subsidies etc	Expenditure needs to be included at gross expenditure.
Interest expenditure	This includes interest on fixed loans and on other loans
Other Administrative Expenses	This includes expenditure on purchases, labour and processing expenses, cartage and carriage inwards, electricity and power, water charges, insurance, repairs and maintenance, excise duty, Rent, Rates and Taxes, vehicles running and Maintenance, Postage, Telephone and Communication Charges, Printing and Stationery, Travelling and Conveyance Expenses, Expenses on Seminar /Workshops, Subscription Expenses, Expenses on Fees, Auditors Remuneration, Hospitality

	Expenses, Professional Charges, Irrecoverable Balances Written-off, Packing Charges, Freight and Forwarding Expenses, Distribution Expenses, Advertisement and Publicity & others
Contingent liabilities	
Claims against the Entity not acknowledged as debts	
Liability for partly-paid investments	Liability on partly paid shares, debentures etc. is required to be stated
Liability on account of outstanding forward exchange contracts	Amount of outstanding forward exchange contracts at the exchange rates applicable as at the year-end are required to be disclosed
Guarantees and Letters of credit outstanding	Liability towards guarantees given by the entity or on its behalf and Letters of Credit outstanding as at the year-end are required to be disclosed
Bills discounted	Bills discounted outstanding as at the year-end need to be disclosed.
Other items for which the entity is contingently liable	Included here would be disputed statutory and other demands/claims, Bills rediscounted, commitments under underwriting contracts and other items for which the entity is contingently liable.

Annexure II

Guidance on application of audit procedures

Sl no	Item	Essential Records /Information required	Tests of Control	Substantive Procedures
1	Income from Sales /Services	<p>Obtain a list of types of products /services offered.</p> <p>Obtain a list of new product/service line that has been introduced and those that have been discontinued during the year</p> <p>Product/service line wise sales revenue realized (if not available in the schedules)</p> <p>Accounting policy for recognizing income from sales/services</p>	<p>Check whether segregation of duties exists between those authorizing sales orders, raising sales invoices and those authorizing accounting of sales revenue.</p> <p>Check procedure for handling sales returns</p> <p>Test a sample of sale order cases/files specifically including cases involving sales recorded at the beginning and end of the year (both in the sales/marketing wing and the related files in the accounts wing) to verify whether the control procedures are working as envisaged and to identify risk exposures.</p>	<p>Conduct trend analysis of sales revenue vis-à-vis physical sales for the last two years. Obtain an understanding of categories which indicate potential unexplained abnormality in the current year- sudden spike or a dip in sales/services including newly introduced and discontinued products/services</p> <p>Conduct substantive tests over a substantial sample of sale order files/cases of categories (including those selected for test of control), which indicate abnormalities or where risk exposures have been identified to verify:</p> <ul style="list-style-type: none"> • Whether sales have been recognized correctly in accordance with the contractual terms • Whether sales pertain to the financial year under audit • Whether sales are not set up fictitiously (not supported by sale orders, documents and doubtful addresses etc) • Whether appropriate disclosures have been made if the accounting policy (as determined by the specific context) is not consistent with the Accounting Standards issued by Institute of Chartered Accountants of India (ICAI) <p>Simultaneously, verify in the case of credit sales, whether Debtors have been set up accordingly and in case of cash sales whether cash has been realized and accounted for.</p> <p>Similar checks are to be applied to sales returns.</p>

2	Grants/ Subsidies	<p>Obtain a list from the entity of the various types of grants/ subsidies received</p> <p>Obtain a list from the Ministry/Department of grants/subsidies granted to the entity</p> <p>Correspondence with Ministry/Department regarding grants</p> <p>Accounting policy for recognizing grants /subsidies</p>	<p>Check whether procedures are in place to ensure compliance with the terms and conditions of grants and subsidies</p> <p>Check whether procedures are in place for accounting the grants/subsidies received</p> <p>Test a sample of cases to verify whether the controls are functioning as envisaged</p> <p>Cross verify the lists obtained from the Ministry and the Entity and identify control failures, if any</p>	<p>Conduct a trend analysis of grants/subsidies for the last two years. Identify categories of grants/subsidies which indicate an unexplained variance (not substantiated by physical performance) and risk exposures from test of controls. Out of these, select a substantial sample of grants /subsidies for substantive tests.</p> <p>Verify whether the:</p> <ul style="list-style-type: none"> • Terms and conditions attached for receipt of grants or subsidies are complied with, while recognizing grants /subsidies as income • Whether grant in aid has been properly segregated and only grant for revenue purpose is recognized as income in Income and Expenditure Accounts. The grant for capital expenditure should be routed through Balance Sheet. • Grants received before 31st March but the cheques there against received in April or next financial year should be taken in the accounts and equal amounts should be shown as recoverable from the grantor. • Grants in recognition of specific expenses are recognized as income in the same period as the relevant expenses • Grants related to depreciable assets are recognized as income over periods and in proportion in which depreciation expense on those assets are recognized. • Grants related to non-depreciable assets requiring fulfillment of obligations are recognized over periods that bear the cost of meeting obligations • Non-monetary grants/subsidies in the form of assets are accounted at fair value in Balance Sheet and are recognized in Income and Expenditure as deferred income over the useful life of the asset. • Whether appropriate disclosures have been made if the accounting policy (as determined by the specific context) is not consistent with the Accounting Standards issued by ICAI. 	<p>Conduct a trend analysis of income from fees/ subscriptions for the last two years. Identify the categories which indicate potential unexplained</p>
3	Fees/ Subscriptions	Obtain the policy regulating the services/ subjects for	Check whether segregation of duties exists between those		

		which fees and subscriptions are leviable. Obtain the ledger to ascertain the services for which fees and subscriptions were charged	authorizing services, raising invoices/demands and those authorizing accounting of revenue. Test a sample of cases/files specifically including cases involving fees/subscriptions recognized at the beginning and end of the year to verify whether the control procedures are working as envisaged and to identify risk exposures.	abnormality in the current year- increases/decreases in values not substantiated by physical performance including newly introduced/discontinued services. Conduct substantive tests on a substantial sample of files/ cases of categories (including those selected for test of control), which indicate abnormalities/ risk exposures from test of controls to verify: <ul style="list-style-type: none"> • Whether revenue have been recognized correctly in accordance with the contractual/specified terms • Whether the revenue pertains to the financial year under audit • Whether revenue has been recognized fictitiously (not supported by services rendered, documents and doubtful addresses etc) Simultaneously, verify in the case of credit services, whether Debtors have been set up accordingly else whether cash has been realized and accounted for.
4	Royalty/ Publication and other income	As above	As above	As above Whether all items of income such as rent for quarters, office premises, shops, banks and post offices, electricity charges due but not received/recovered have been accounted for Whether loss/profit on sale of fixed assets had been properly accounted for as expenditure/income respectively
5	Interest/ Dividend from Investments	Obtain the list of investments (or the investment ledger) Obtain the rate(s) of interest applicable to the investments Obtain the Bank statement	Check whether segregation of duties exists between those authorizing investments, holding custody of certificates, monitoring of receipts interests/dividends and those authorizing accounting of income.	Verify the investment instruments and ensure their validity. Cross verify current year investments with bank statements Verify investments that have been pledged and mortgaged Identify investments Verify the applicable rates of interest/dividends and the envisaged periodicity of receipt Conduct substantive tests to verify whether

			<p>Test a sample of cases to verify whether the control procedures are working as envisaged and to identify risk exposures</p>	<ul style="list-style-type: none"> • Dividends /interest pertaining to the current year from all investments have been recognised as income. To the extent the dividends/interest have been realized, they should be checked with reference to the Bank statement • Interest/dividend income due but not received are recognized as income on accrual basis and are also shown under current assets • Dividends/interest pertaining to previous year received during the current year are excluded from Income for the current year in the Income and Expenditure Account <p>Separately verify whether provision for bad debts (as per policy on provisioning) has been created for dividends /interest not being received</p>	<ul style="list-style-type: none"> • Dividends /interest pertaining to the current year from all investments have been recognised as income. To the extent the dividends/interest have been realized, they should be checked with reference to the Bank statement • Interest/dividend income due but not received are recognized as income on accrual basis and are also shown under current assets • Dividends/interest pertaining to previous year received during the current year are excluded from Income for the current year in the Income and Expenditure Account <p>Separately verify whether provision for bad debts (as per policy on provisioning) has been created for dividends /interest not being received</p>
6	<p>Increase/ Decrease in stock of finished goods /Work in Progress</p>	<p>Accounting Policy on Inventory valuation</p> <p>Stock ledgers</p> <p>Physical verification reports</p> <p>File/records containing year end evaluation of inventories</p>	<p>Check whether segregation of duties exists between those holding physical inventory /stores, authorizing purchases, raising consumption demands and those vested with accounting function</p> <p>Obtain an understanding of the time lag between posting purchases and issues in the ledger</p> <p>Check whether physical verification of inventories are carried out</p> <p>Identify risk exposures if any</p>	<p>Trend analysis of the relationship between current year closing stock quantity, current year purchases and sales with that of the previous year and obtain an understanding of unexplained variance- not substantiated by physical performance. Any unexplained variance could potentially imply that the year-end inventory quantities are incorrectly determined.</p> <p>Substantive procedures for inventory valuation should include procedures to verify whether the inventory quantities and their value are correctly stated. Conduct substantive tests to verify:</p> <ul style="list-style-type: none"> • Whether the quantity of closing inventory indicated in the ledger reconciles with the physical inventory maintained in stores wing (as indicated in the bin cards) for a sample of inventories (particularly high valued inventory) and cross verify the quantity indicated in the ledger with that indicated in bin card/stores. • Whether the receipt vouchers and issue vouchers (generated towards the close of the year) have been posted in the store ledger • Whether the discrepancies observed in physical verification have been reconciled 	<p>Trend analysis of the relationship between current year closing stock quantity, current year purchases and sales with that of the previous year and obtain an understanding of unexplained variance- not substantiated by physical performance. Any unexplained variance could potentially imply that the year-end inventory quantities are incorrectly determined.</p> <p>Substantive procedures for inventory valuation should include procedures to verify whether the inventory quantities and their value are correctly stated. Conduct substantive tests to verify:</p> <ul style="list-style-type: none"> • Whether the quantity of closing inventory indicated in the ledger reconciles with the physical inventory maintained in stores wing (as indicated in the bin cards) for a sample of inventories (particularly high valued inventory) and cross verify the quantity indicated in the ledger with that indicated in bin card/stores. • Whether the receipt vouchers and issue vouchers (generated towards the close of the year) have been posted in the store ledger • Whether the discrepancies observed in physical verification have been reconciled

			<ul style="list-style-type: none">• Whether the year-end inventories are valued at cost or net realizable value which is less, in accordance with the Accounting Policy.• Whether appropriate disclosures have been made if the accounting policy (as determined by the specific context) is not consistent with the Accounting Standards issued by ICAI• Whether the cost and the net realizable values have been computed correctly	
7	Establishment Expenses	Obtain the list of staff employed Scale of entitlements Payroll Policy and procedure for estimating retirement benefits	<p>Check whether there is segregation of duties between those authorising recruitments, preparing pay bills and those accounting for expenditure</p> <p>Where IT systems are in place check whether the controls regarding pay and scale of entitlements are functioning effectively</p> <p>Test a sample to assess whether the controls are working as intended</p>	<p>Conduct a trend analysis of establishment expenditure and compare results with the corresponding staff strength. Identify abnormality, if any and consider the risk exposure from test of controls to enable appropriate substantive tests.</p> <p>Conduct substantive tests to verify whether:</p> <ul style="list-style-type: none">• Establishment expenditure is accounted in accordance with the governing rules and only for authorized personnel• Expenditure on pay and allowances for the entire year has been recognised in the Income and Expenditure Account• The valuation of retirement benefits is consistent with the policy and has been appropriately accounted for• Expenditure pertaining to previous year has been excluded and unpaid expense of current year has been recognised as Current liability.
8	Other Administrative Expenses	Ledger folio Agreements and policies regulating such expenditure	Check whether procedures are in place to ensure compliance with the policy	<p>Compare current year's expenditure with last year's expenditure and obtain an understanding of unexplained variances. Conduct substantive procedures accordingly primarily to verify that :</p> <ul style="list-style-type: none">• Expenditure is in accordance with the terms of agreement/policy• Expenditure recognized in the Income and Expenditure Account pertains to the current year

				<ul style="list-style-type: none"> Expenditure accrued but not incurred has been recognized and also shown as Current liability. Whether the accrued expenditure for salary/rent/electricity bill etc has been booked for 12 months ending March. Whether prepaid expenses against insurance premium, annual maintenance contracts and any other item of expenditure where the benefits and/or the periods covered by such payments spills over to the next financial year have been recognized as Current Assets in the Balance Sheet.
9	Expenditure on Grants, Subsidies	Obtain a list from the entity of the various types of grants / subsidies received Individual grant files Accounting Policy	<p>Check whether procedures are in place to ensure compliance with the terms and conditions of grants and subsidies</p> <p>Test a sample of cases to verify whether the controls are functioning as envisaged</p>	<p>Conduct a trend analysis of grants/subsidies for the last two years and obtain an understanding of grants/subsidies that indicate any abnormality and consider risk exposures from test of controls for selecting a substantial sample of grants /subsidies for substantive tests.</p> <p>Select a sample of grants /subsidies for substantive tests and verify whether:</p> <ul style="list-style-type: none"> Expenditure recognized is admissible under the grant as per the terms and conditions The provisions of "General Financial Rules 2017" have been complied with Expenditure is not booked under more than one grant. In multi unit entities, the grant transferred to field units should not be treated as expenditure until actual expenditure has been incurred by the unit by the year end. If the grant was not utilized by the field units by year end than the same should be treated as unutilized grant Expenditure booked pertains to the year under audit Expenditure accrued but not paid is also shown under Current liabilities

			<ul style="list-style-type: none">Whether appropriate disclosures have been made if the accounting policy (as determined by the specific context) is not consistent with the Accounting Standards issued by ICAI	
10	Interest	Obtain the list of loans (or the Loans ledger) Obtain the rate(s) of interest applicable Obtain the Bank statement	Check whether segregation of duties exists between those authorizing loans, monitoring payments and those accounting of expenditure Test a sample of cases to verify whether the control procedures are working as envisaged and to identify risk exposures	Conduct an analysis of interest liability of the current year with previous year and with the corresponding loan profile and obtain an understanding of any unexplained variance. Also consider the risk exposures from test of controls for selection of an appropriate sample of agreements of Loans/advances for conducting substantive procedures. Conduct substantive procedures to verify: <ul style="list-style-type: none">Interest has been recognized in the Income and Expenditure Account in accordance with the terms of the corresponding agreements of loans and advancesExpenditure recognized in the Income and Expenditure Account pertains to the current yearExpenditure accrued but not incurred has been recognized and also shown as Current liability
11	Depreciation	List of fixed assets Depreciation policy Depreciation schedules	Check whether there is segregation of duties between those authorising purchase and sale of fixed assets, maintaining record of fixed assets and those accounting for expenditure	Broadly compare the expenditure on depreciation with that of the previous year and identify abnormality, if any to enable appropriate substantive tests. Conduct substantive tests to verify whether: <ul style="list-style-type: none">Depreciation has been calculated for all fixed assetsDepreciation has been calculated as per the accounting policy. Whether the rate of depreciation or accounting policy has undergone any change during the year, if so whether it is appropriately disclosedDepreciation of assets procured/sold during the year has accordingly been provided for the appropriate part of the year

				<ul style="list-style-type: none"> • Depreciation for additions/renovations intrinsic to fixed assets has been provided for co-terminus with the remaining useful life of the fixed asset • Depreciation is consistent with the corresponding Accounting Standard of ICAI and if not, whether appropriate disclosure has been made.
Balance Sheet				
12	Fixed Assets	Assets Register Accounting Policy	<p>Check whether there is segregation of duties between those authorising purchase and sale of fixed assets, maintaining record of fixed assets and those accounting for expenditure</p> <p>Test check a few cases of procurements/disposals during the year to obtain an understanding of the functioning of the control mechanism.</p>	<p>Trend analysis of the current holding of Fixed Assets (Gross Block) with the past two years and obtain an understanding of any unexplained variations. Based on the inputs from the trend analysis and the test of controls, select an appropriate sample of fixed assets files for substantive testing to verify</p> <ul style="list-style-type: none"> • Whether the ownership vests with the entity. Title documents may be verified. • Whether the fixed assets are capitalized at appropriate values (including cost of procurement, cost of civil works, if any and any other cost attributable to the asset) • Whether all additions to assets with account heads have been carried out with proper approvals and no inadmissible expenditure has been capitalized • Whether physical verification of assets were carried out and if so whether the discrepancies have been reconciled or impairment, if any, has been provided for • Whether the sale and disposal records of the assets sold or disposed off during the year and the gain/loss accounted for in the Income and Expenditure Account • Whether subsequent expenditures related to an item of fixed asset are added to its book value only if they increase the future benefits from the existing asset beyond its previously assessed standard of performance in accordance with the accounting standard. • Where the assets are pledged, adequate disclosure has been provided. Also consider obtaining a third party confirmation in this regard

			<ul style="list-style-type: none">List of all works-in-progress as on 31st March with details of expenditure booked during current financial year should be checked. Whether all items have been removed from the work in progress and debited to concerned assets account.Material items retired from active use and held for disposal should be stated at the lower of their net book value and net realizable value and shown separately in the financial statements.The assets acquired from the sponsored projects funds should be included in fixed assets schedule only if the ownership in these assets has been transferred to the entity. If ownership of assets has not been transferred to the entity then the same should be shown in Notes to Accounts with full details.	
13	Investments	Investment register Investment ledger Bank statement	<p>Check whether there is segregation of duties between those authorising investments, maintaining record of investments and those accounting for expenditure</p> <p>Test check a few cases of investments during the year to obtain an understanding of the functioning of the control mechanism as to whether the investments are recorded properly, maturity values and dates are monitored periodically, renewed/ encashed and verified regularly.</p>	<p>Conduct a trend analysis of the investments over the last three years and based the trend analysis and test of controls select an appropriate sample for substantive checking to verify:</p> <ul style="list-style-type: none">Whether the value of investment as shown in investment register tallies with the value of investment depicted in Balance Sheet.The document /certificate conferring ownership of investment to ensure that they are in the name of the entityWhether investments classified as short term investments are carried in the financial statements at lower of cost and fair value determined either on an individual investment basis or by category of investment, but not on an overall basis.Whether investments classified as long term investments are carried in the financial statements at cost. However, provision for diminution shall be made to recognize a decline, other than temporary, in the value of the investments, such reduction being determined and made for each individual investment.Whether any investment is pledged by the entity against a short term/long term loan. If so, the same is disclosed suitably.
14	Current Assets	Details of assets (Comprises Inventories, Debtors, Short term Loans and Advances,	Check whether there is segregation of duties between those authorising	Trend analysis of the current holding of Current Assets with the past two years and identify any unexplained variations- not substantiated by physical performance. Based on the inputs from the trend analysis and the

		<p>Cash and Bank balances Bills Receivable, Prepaid expenses etc) and Fixed Deposits Register Accounting Policy</p>	<p>procurements/investments/ approving credit sales, maintaining record of assets and those accounting for expenditure Test check a few cases of procurements /settlements during the year to obtain an understanding of the functioning of the control mechanism</p>	<p>test of controls, select an appropriate sample of cases relating to each category of current assets (sale order file for Debtors, purchase files for inventories and investment decision files for other categories) to verify:</p> <ul style="list-style-type: none"> • Whether the assets are accounted for at appropriate values • Whether impairment of assets (Bad debts, Provision for doubtful Debtors, Slow/Non-moving Inventories, provisioning for other doubtful assets) have been duly provided for • Whether Debtors have been classified age wise. Outstanding balances of more than five years should be reviewed to assess whether provision for doubtful debts is necessary. If so, whether appropriate provision for doubtful debts have been created. • Whether inventory (Finished Goods, Work In Progress and Raw Materials) has been valued at cost or net realizable value, whichever is less and the values of 'net realizable value' and 'cost' have been computed correctly in accordance with the Accounting Standard on Inventories issued by ICAI (cost needs to include only such of the components required to bring the inventory to its present location and condition. It therefore generally includes procurement and conversion costs and excludes administration storage and selling costs. Similarly the net realisable value is arrived at after deduction of estimated completion costs and costs necessary to make the sale) • Whether the cash in hand as shown in the Balance Sheet tallies with the certificate of physical verification of cash • Whether cash balances have been reconciled with the Bank Statements • Whether Fixed Deposits as per Fixed Deposits Register tally with the confirmation/certificate issued by the Bank • Where Current assets have been pledged, whether adequate disclosure has been provided. Also consider obtaining a confirmation from the other party in this regard
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			<ul style="list-style-type: none"> • Whether all cases of prepaid expenditure and accrued income recognized in the Income and Expenditure Account have been included in current assets.
15	Secured Loans and Borrowings	Loans/Borrowings ledger details of securities provided, if any	<p>Check whether there is segregation of duties between those authorising loans, maintaining record of loan repayments and those accounting for expenditure</p> <p>Test check a few cases of loans obtained/settled during the year to obtain an understanding of the functioning of the control mechanism</p>
			<ul style="list-style-type: none"> • Conduct a trend analysis of Secured Loans/Borrowings and identify any unsubstantiated abnormalities. Based on the outcome of the trend analysis and test of controls, select an appropriate sample of cases of loans and borrowings for substantive testing to verify: <ul style="list-style-type: none"> • Whether the outstanding loans and borrowings are valid • Whether the outstanding loans and borrowings are correctly measured and includes all loans and borrowings • Repayments during the year have been appropriately adjusted against the loans • Whether adequate disclosure has been provided for securities pledged. Also consider obtaining a confirmation from the other party in this regard
16	Unsecured Loans and Borrowings	Same as above	Same as above (except the last check on securities pledged)
17	Current Liabilities and Provisions	Details of assets (Comprises Creditors, Short term Loans and Advances, Bills Payable, Provisions for taxation and accrued liability for expenses etc) Accounting Policy	<p>Check whether procedures are in place to ensure compliance with the policy and regulatory requirements</p> <p>Test check a few cases to assess the functioning of the control mechanism.</p>
			<p>Conduct a trend analysis of Current Liabilities and Provisions and identify any unsubstantiated abnormalities. Based on the outcome of the trend analysis and test of controls, select an appropriate sample of cases relating to each category of Current Liabilities and Provisions for substantive testing to verify:</p> <ul style="list-style-type: none"> • Whether the outstanding liabilities and provisions are correctly measured and includes all forms of liabilities and provisions • Whether the all outstanding liabilities and provisions are valid • Repayments during the year have been appropriately adjusted against the liability accounts • All cases of accrued expenditure and income received in advance recognized in the Income and Expenditure Account have been included

				<ul style="list-style-type: none"> • Whether provisions for retirement benefits had been made in the accounts on actuarial basis. Whether the assumptions made by the actuary were realistic and based on current trends. • Whether suitable provision for salary/allowances for the month of March has been made. It should also be seen whether the expenditure for March of previous year has not been accounted for as expenditure during the current year. • Whether liability for unspent grant has been provided. The advances on capital accounts should not be treated as utilization of grant and should be shown as unutilized grant.
18	Earmarked /Endowment Funds	Ledger Control Register		<p>Conduct a trend analysis over the last three years to obtain an understanding of any unexplained variation. Subsequently substantive checking may be conducted to:</p> <ul style="list-style-type: none"> • Ensure that all transactions (revenue and capital) pertaining to the fund are routed through the fund • Negative balances (overspent amount out of the funds) are authorized and receivable • Profit or loss on sale of investment out of the Earmarked funds are transferred to the fund • Interest earned on Investment made out of the earmarked funds are credited to the fund.
Receipts and Payments Account				
19	All items	Journal Vouchers	<p>Check whether procedures are in place to ensure that transactions occurring during the year have been journalized and recognized into the financial statements. Test check a sample of bank entries and journal vouchers for any risk exposures</p>	<p>The substantive procedures include the following: Verification of opening balances: tallying the opening balances of all ledgers with the previous year's balances according to the Financial Statements of previous year (re groupings would have to be suitably explained) Review of journal vouchers: a substantial sample of journal vouchers would have to be reviewed to ensure that they are properly authorized, pertain to the current year (and if they pertain to previous year ensure its authenticity and check it qualifies as Prior Period Expenditure) and are posted appropriately in the concerned ledgers.</p>

			<p>Review of ledgers: to ensure that the closing balances have been correctly recorded in the financial statements.</p> <ul style="list-style-type: none"> • It should be ensured that only actual cash transactions are depicted in Receipts and Payments Account excluding receivable/payable amounts. • Check that closing balance of cash/bank balances of Receipt and Payment Accounts tally with the closing balance of cash/bank balances of Balance Sheet.
20	General checks		Whether accounts of the entity have been approved by the Competent Authority

Annexure-III

Evaluation of Internal controls

General points

1. Whether the accounts of the entity have been approved by the competent authority
2. Whether the certificate for physical verification of cash was obtained from the entity.
3. Whether confirmation of Bank Balances/Fixed Deposits from the respective Banks have been taken by the Internal Auditor of the entity.
4. Whether confirmation of Debtors/Loans and Advances from respective parties was taken.
5. Whether Significant Accounting Policies are formed in compliance of AS-1, specifically regarding basis of preparation of accounts such as accrual basis, Revenue Recognition, Valuation of Investment, Fixed Assets, Depreciation on Fixed Assets, Accounting of Earmarked funds and Endowment funds, Accounting of grants, Retirement benefits and application of Accounting Standards.
6. Whether bank reconciliation statement is being prepared regularly. If there are very old cases appearing in the bank reconciliation than the same needs to be properly investigated. If required suitable provisions for the same needs to be made in the accounts.
7. Whether contingent losses have been accounted for as per the requirement of AS 4. The Accounting Standards envisages that the amount of a contingent loss should be provided for by a charge in the statement of Income & Expenditure Account if it is probable that an asset has been impaired or a liability has been incurred as at the balance sheet date, and a reasonable estimate of the amount of the resulting loss can be made. The existence of a contingent loss should be disclosed in the financial statements if above conditions are not met. Contingent gains should not be recognized in the financial statements
8. Whether Assets and liabilities are adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date.
9. In multi-unit entities it may be checked that accounts of all units have been merged in the consolidated financial statements. Wherever accounts of all the units have not been merged, impact of the same on the accounts/Statement of Income and Expenditure. Accounts/assets and liabilities should be given and quantified. Further the certificate of physical verification of cash balance, bank balance, fixed deposits, investments, physical verification of fixed assets of field units should be verified.
10. Whether there is change in any accounting policy during the year and if so, the same needs to be disclosed and quantified.

11. Whether autonomous body has drawn its accounts in the uniform format of accounts/new format of accounts prescribed by MHRD in case of educational institutions.

Evaluation of Internal Control System

Evaluation of internal control mechanism is essential as an assurance on internal control system is intended as Annexure to the Separate Audit Report.

The evaluation is aimed at assessing whether internal control system is adequate and commensurate with the size and nature of the Autonomous Body and to identify deficiencies/ weakness in the system and to provide recommendations for improvement /strengthening of internal control system. It is not enough to merely conclude that the internal control system is not adequate, the conclusion should be substantiated by specific deficiencies in internal control which could potentially have a substantial effect on the Accounts. Internal audit is an important tool of internal control system, which should also be evaluated. The areas that would have to be addressed in internal control evaluation would be general evaluation of controls, adequacy of internal audit system, system of physical control over fixed assets and inventories, regularity in payment of statutory dues and control registers.

General evaluation of controls: Some of the illustrative items which can be included are given below:

1. Whether the internal control system is designed to provide a reasonable assurance of fulfilling accountability obligations, complying with laws and rules, orderly conduct of operations in an ethical, economical, efficient and effective manner and safeguarding of assets against losses.
2. Whether the control system ensures flow of essential information and communication within the organization
3. Whether there is Governance Body/Board of Governors/Management Committee/Board of Directors in place in the organization
4. Whether the number of meetings of Board of Governors/different committees were held as per the manual provisions. Deficiencies if any may be suitably pointed out
5. Whether there is clear delegation of powers amongst the various levels of management.
6. Whether there is laid down procedure for the appointment of consultant on contract. Whether there is any system in vogue to assess the performance of the consultant appointed on contract
7. Whether the Autonomous Body has its Accounting Manual and other manuals such as procurement manual etc to regulate major organizational functions
8. Whether Cash Book is being maintained in prescribed form
9. Whether a certificate after physical verification of cash is recorded by the concerned officer.
10. Whether the surprise check of the cash is being carried out periodically.
11. Whether bank reconciliation statement is being prepared regularly.
12. Whether Information Technology Controls are in place for automated systems

13. Whether every transaction is supported by an authentic voucher and vouchers are serially numbered

Adequacy of Internal Audit System: An assessment of internal audit system is aimed at examining whether internal audit system is adequate and commensurate with the size and nature of the Autonomous Body and to identify deficiencies/weakness in the system and provide recommendations for improvement/strengthening of internal audit system. It should, inter alia be seen:

1. Whether internal audit wing is established in the autonomous body.
2. Whether internal audit covered all activities/wings of the autonomous body.
3. Whether internal audit wing is reporting to the head of the autonomous body or not.
4. Whether internal audit findings are promptly issued to the concerned wings and their response received timely. Outstanding internal audit paras should also be reviewed
5. Whether corrective measures are being taken on the findings of Internal Audit by the management.
6. If internal audit is being conducted through Chartered Accountant firms, in that case again the above conditions as well as the appointment letter may be examined to ensure that all the important decisions/activities of the autonomous body were covered in audit.

System of Physical verification of fixed assets: This is aimed at ensuring

1. Whether physical verification of fixed assets have been verified as per a predetermined frequency (annual/biannual). The authority which carried out the physical verification may also be verified from the point of view of independence.
2. Whether any material deficiencies were noticed on physical verification and if so, the same have been properly dealt with in the books of accounts
3. Whether fixed assets register had been maintained in the proper format.

System of Physical verification of inventory: This is aimed at ensuring

1. Whether the physical verification of inventory has been carried out by the management at reasonable intervals.
2. Whether the item wise, highest and lowest levels of consumable stock have been fixed and maintained.
3. Whether inventories were issued based on proper authentication.

Regularity in payment of statutory dues: This is aimed at assessing whether the entity is regular in depositing undisputed statutory dues including Provident Fund, Employees State Insurance, Income Tax, Sales Tax, Service Tax, Custom Duty, Cess and any other statutory dues with the appropriate authorities. The extent of statutory dues at the close of financial year outstanding for more than six months from the date they became payable have to be disclosed.

Control registers: Following is the illustrative list of control registers to be maintained in an Autonomous Body. Any deficiency in maintenance of register should be suitably evaluated.

1. Register of Assets in prescribed format.
2. Expenditure control register.
3. Advance register.
4. TA and LTC bill register.
5. Medical Claim expenditure register.
6. Library accession/issue register.
7. Stationary register.
8. Investment register.
9. Register of contracts.
10. Grants-in-aid register.

1. Region of Asia, to be a part of the
2. Region of Asia, to be a part of the
3. Region of Asia, to be a part of the
4. Region of Asia, to be a part of the
5. Region of Asia, to be a part of the
6. Region of Asia, to be a part of the
7. Region of Asia, to be a part of the
8. Region of Asia, to be a part of the
9. Region of Asia, to be a part of the
10. Region of Asia, to be a part of the