

For internal use in Indian Audit & Accounts Department

**MANUAL OF
RESIDENT AUDIT OFFICE,
KERALA WATER AUTHORITY
(First Edition)**

**ISSUED BY:
THE PRINCIPAL ACCOUNTANT GENERAL (AUDIT), KERALA,
THIRUVANANTHAPURAM**

PREFACE

By virtue of the provision of Article 149 of the Constitution of India and Section 23 of the CAG's (Duties, Powers and Conditions of Service) Act, 1971, the CAG has the power to make regulations for carrying into effect the provisions of the CAG's (DPC) Act, 1971 in so far as they relate to the scope and extent of his audit. This Manual, compiled under this authority is intended to guide in the conduct of audit of the Kerala Water Authority. Apart from incorporating guidelines for conduct of audit for certification of accounts of Kerala Water Authority and review of their performance, this Manual aims at presenting together various instructions issued from time to time for conduct of audit under Section 19(3) of CAG's (DPC) Act, 1971. The instructions in this manual are supplementary to those contained in the C&AG's Manual of Standing Orders (Audit).

Audit procedures and practices cannot remain static and hence it is necessary to keep the contents of this Manual under periodic review so that improvements can be made from time to time. Suggestions are welcome for improvement and will receive careful consideration. Resident Audit Office, Kerala Water Authority is responsible for keeping this Manual up to date.

Sd/-

Thiruvananthapuram,
Dated 9 September 2009

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CHAPTER I

1.1 INTRODUCTORY

Kerala Water Authority, up to 1986, known as Kerala Water & Waste Water Authority, was established by Government of Kerala as a corporate body on 1st April 1984 under the Kerala Water and Waste Water ordinance 1984 to provide for the development and regulation of water supply and waste water collection and disposal in the State of Kerala and for matters connected therewith. The ordinance was replaced by the Kerala Water Supply and Sewerage Act 1986 (Act 14 of 1986).

The Authority was established by vesting the properties and assets of the erst-while Public Health Engineering Department, under Section 16 of the Act, and also by vesting the assets, rights and liabilities of water supply and sewerage scheme which were implemented by the local bodies and the Kerala State Rural Development Board under Section 18 of the Act.

The main functions of the Authority are:-

- (I) Preparation, execution, promotion, maintenance and financing of the schemes for supply of water and for the disposal of waste water.
- (II) Planning of the state's water supply and sewerage requirements.
- (III) Preparation of state plans for water supply and collection and disposal of waste water under the direction of the Government.
- (IV) Establishment of state standards for water supply and waste water services.
- (V) Carrying out applied research for the efficient discharging of functions of the Authority.
- (VI) Making provision for the supply of wholesome water and efficient sewerage services to the people in the state.

1.2 Constitution of the Authority

According to Section 4 of the Kerala Water Supply and Sewerage Act, the Authority shall consist of the following members.

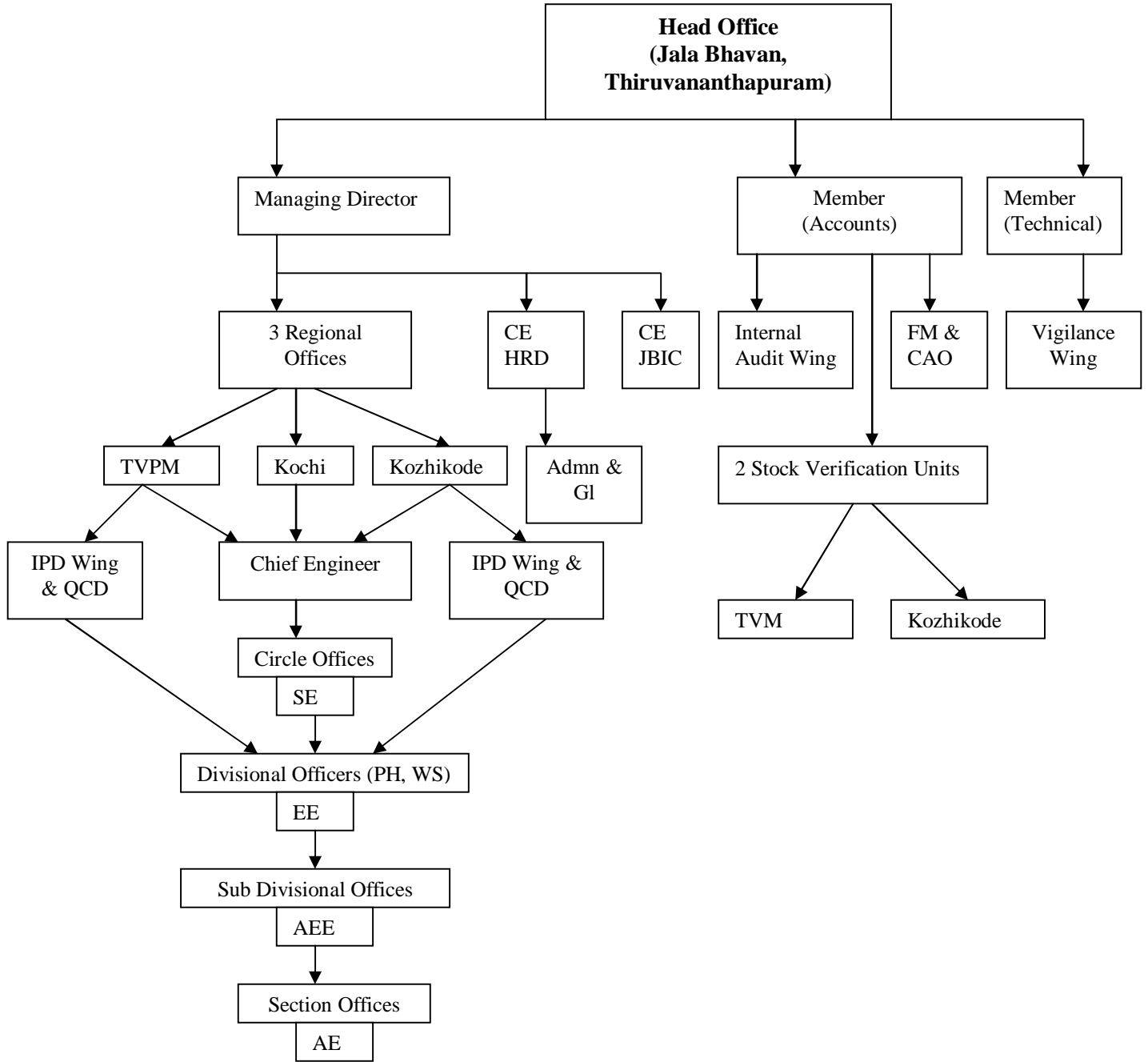
1. Chairman - Appointed by the Government.
2. Managing Director - Appointed by the Government.
3. Secretary to Government - Irrigation and Water Supply Department.
4. Secretary to Government - Finance Department.
5. Secretary to Government - Local Administration Department.
6. Secretary of Government - Rural Development Department.
7. Two members representing the Local Bodies in the State – (Nominated by the Government).
8. Two members, one of whom shall be a member belonging to the Scheduled Caste/Scheduled Tribe. (Nominated by Government).
9. One Member (Technical) - Appointed by Government.
10. One Member (Accounts) - Appointed by Government.

(Sl. Nos. 3 to 6 are Ex-officio Members)

1.3 Organisational Set-up

The Head Office of the Authority at 'Jala Bhavan', Thiruvananthapuram, is headed by the Managing Director. There are three Regional Offices each under a Chief Engineer at Thiruvananthapuram, Kochi and Kozhikode Circle Offices, Divisions, Sub Divisions and Sections are functioning under the three Regional Offices. The Circle Offices are headed by Superintending Engineers, Divisions by Executive Engineers, Sub Divisions by Assistant Executive Engineers and the Sections by Assistant Engineers.

An Investigation Planning and Design (IPD) wing is also functioning with Divisional and Sub-Divisional offices, under the administrative control of Regional Chief Engineers at Thiruvananthapuram and Kozhikode.



The activities of the Authority are centered around the Divisions. There are primarily four types of Divisions with the following functions.

A.	Territorial Divisions	Construction and maintenance of Urban and Rural Water Supply Schemes.
B.	Drainage Divisions	Execution and maintenance of Sewerage Schemes
C.	I. P. D. Divisions	Investigation Planning and feasibility study of various urban and rural water supply schemes and sewerage schemes.
D.	Quality Control Divisions	Monitoring and ensuring the quality of drinking water by analysing samples of water and taking suitable remedial measures.

Two stock verification units, one at Thiruvananthapuram and the other at Kozhikode are functioning under the control of Member (Accounts) of the Authority. A vigilance wing under the charge of the Member (Technical) is also functioning at the Head Office.

A committee consisting of Member (Technical), Chief Engineer (HRD), Member (Accounts) is also functioning for processing of tenders prior to their placing before the Authority.

Two Internal Auditors head the Internal Audit Wing. They report directly to the Member (Accounts).

1.4 Functions and Powers of the Authority

According to Section 14 of the Kerala Water Supply and Sewerage Act, preparation, execution, promotion maintenance and financing of the schemes for the supply of water and for the disposal of waste water are the main functions of the Authority. Under Section 15, powers for sanctioning of schemes costing more than rupees one crore and for entering in to contracts costing more than rupees one crore shall be exercised only with the prior approval of Government.

Revision of tariffs and charges for water supply and sewerage services also require prior approval of the Government.

1.5 Sources of Finance

Apart from its own operating income, grants and loans from the state Government, loans from financial institution like LIC, HUDCO etc., are the main sources of finances of the Authority. The sources of finance of the Authority also

include assistance from the Government of India towards Centrally Sponsored Schemes and from the State Government towards State Plan Schemes.

1.6 Delegation of Powers

The Authority has delegated administrative and financial powers to its officers holding the posts at various levels in the Kerala Water Authority (Powers of Employees) Regulation 1999 notified as per No. KWA/HO/WN/33/97 dated 14.9.1999 (Refer: The Kerala Water Authority (Power of Employees) Regulations, 1999).

1.7 Duties and Responsibilities

The duties and responsibilities of the officers in various cadres of the Authority have also been prescribed in The Kerala Water Authority (Duties of Employees) Regulation, 1999 notified in GO (P) NO. 47/99/Ir.D dated 3.7.1999 in terms of Sub Sections (1) and (2) (a) of Section 65 of Kerala Water Supply and Sewerage Act, 1986 (Refer: The Kerala Water Authority (Duties of Employees), Regulation, 1999).

1.8 Status of computerization in KWA and the audit procedure in the computerized environment

Present status

KWA started computerisation in 1996 by computerizing two Revenue Office at Thiruvananthapuram. With the assistance of GOK the project was to computerize 26 more major Revenue Centres across the state covering 60 *per cent* of KWA's total consumer population. Under the Rajiv Gandhi National Drinking Water Mission (RGNDWM) project of Government of India, computers and accessories were provided to selected offices up to Division level to pave way for the implementation of MIS. In the meantime the hardware installed is being used for Office Automation purpose. With the limited use of resources and the available technology at that time, KWA had achieved significant progress in the area of computerization since 1996. However, the speed of progress was incremental due to lack of a specific IT policy until the formulation of an IT Master Plan for KWA.

Kerala Water Authority formulated and approved an IT Master Plan in February 2005, wherein it has been decided to implement total computerization in KWA in the XI Plan, by using State Information Infrastructure and Communication backbone provided by GOK. This comprehensive proposal

envisages Total Networking (INTRANET) at MIS for KWA. The Authority initiated the implementation of the IT Master Plan by launching the Pilot Network at Thiruvananthapuram. The following packages are implemented through the Pilot Network at Thiruvananthapuram.

Sl. No.	Name of application (area like financial accounts/scheme, etc.)	Web enabled/multi-user stand alone	Place of implementation (like HQ/Regional/Circle/Divisional/Sub Divisional etc.)	Description of the application
1	Advanced Billing and Collection Utility Services	Web enabled	Pilot project in Trivandrum (Capital City of Kerala) connecting Head Office (1), Regional CE's Office (1), Circle Office (1), 3 Division Offices, 5 Sub Division Offices, 8 Section Offices and Helpline (total 19 Offices)	The work flow based Bi-monthly Spot Billing system developed by NIC Kerala, implemented by Kerala Water Authority and inaugurated by the Hon. Chief Minister of Kerala on 16.1.2008 in the presence of representative from NIC Delhi and is on line in all 8 Revenue Offices in Trivandrum. System takes care of Consumer services, Billing and collecting of 175000 consumers in Trivandrum. Migrated 10 years data to new system.
2	Complaint Redressal System (CRS)	Web enabled	Pilot Project in Trivandrum	System takes care of tracking, monitoring and rectification of consumer complaints in Trivandrum
3	Project Monitoring System (PMS)	Web enabled	Tested and implemented at Head Office	System takes care of tracking monitoring of project details of Kerala Water Authority

Sl. No.	Name of application (area like financial accounts/scheme, etc.)	Web enabled/multi-user stand alone	Place of implementation (like HQ/Regional/Circle/Divisional/Sub Divisional etc.)	Description of the application
4	Employee Information System (EIS)	Web enabled	Development and initial testing over. Final changes are being incorporated	Application development by M/s CNC handles personal Information System and Pay roll
5	Financial Information System (FAS)	Web enabled	Development and initial testing over. Final changes are being incorporated	Application development by M/s CMC handles Financial accounting from Voucher to Balance Sheet

KWA also initiated action to develop the following MIS Modules with immediate effect:

- Internet for KWA
- Roll Out the above system to other KWA offices across the State
- Geographical Information System (GIS)
- Material Management System (MMS)
- Software Integration
- MIS
- Website
- Video Conferencing

Major financial assistance for implementation of the projects under the IT Master Plan is expected to be received from GOI. KWA through GOK submitted a Project Proposal estimated to Rs 1,364.90 lakh to RGNDWM, GOI which is under active consideration there. The proposal finally aims for total MIS Networking by computerization up to Sub Division Level. The funds being received from RGNDWM is 100 *per cent* grant. The expenditure required over and above the GOI grant will be met from GOK fund and the loan fund available against the Institutional strengthening provision under JBIC Project. Also GOI

initiated a National E- Governance Project, in which Kerala State forms the part of it.

Spot Billing System

- a. ABACUS with spot billing will be implemented in Kochi and Kozhikode in 2008-09
- b. Action will be initiated to extend Spot Billing System in major Revenue Centres viz., Kollam (2), Alappuzha, Thiruvalla (2), Kottayam, Muvattupuzha, Perumbavoor, Aluva Kalamasserry, Thripunithura, North Parur, Palakkad and Kannur within 2 years.
- c. There are 124 Sub divisions in KWA out of which 93 are handling revenue functions. Computerization has so far been implemented in 28 offices, where the sites are having consumer population above 10,000. The remaining sites apart from (a), (b) above is decided to be computerized with ABACUS within 2 years
- d. Uniform Systems of billing across the state and total data security shall be implemented. The software for the same is developed by National Informatics Centre (NIC)

Audit Procedure

In the ABACUS, all the suggestions relating to Billing and Collection Software put forth by AG during the IT Audit have been incorporated. However the work flow based Audit Procedure is not implemented so far. This will be incorporated while implementing the total MIS covering all the software Modules developed/to be developed in future.

CHAPTER II

SYSTEM OF ACCOUNTING

2.1 Kerala Water Authority introduced accounting system on accrual basis from 1986-87 which was sanctioned by Government in G.O (Rt) No 2401/87/LAD dated 17 August 1987. This was made fully operational with effect from 1 April 1988. The overall responsibility of financial accounting devolves upon the Finance Manager & Chief Accounts Officer on the basis of the original accounting documents rendered by the sub offices which are designated as the Accounts Rendering Units (ARUs).

In accordance with Section 29 of the Kerala Water Supply & Sewerage Act the Authority framed an Accounting Manual to guide, in the maintenance of books of accounts and preparation of annual financial statements. In the Accounting Manual, transactions are classified, according to the nature of transaction, under various heads of accounts which are grouped under different Account Codes as stated below:-

- | | |
|--------------------------|--------------------------|
| 1. Assets | (code Nos. 1011 to 1822) |
| 2. Liabilities | (code Nos. 2011 to 2943) |
| 3. Expenses | (code Nos. 3111 to 3912) |
| 4. Debt Services | (code Nos. 4111 to 4911) |
| 5. Non-Cash Expenses | (code Nos. 5112 to 5911) |
| 6. Operating Income | (code Nos. 6111 to 6829) |
| 7. Non- Operating Income | (code Nos. 7111 to 7899) |
| 8. Control Accounts | (code Nos. 9111 to 9219) |
| 9. Cash & Bank Suspense | (code Nos. 999 A) |

2.2 The accounts Manual is divided into six modules as follows-

Volume I: Chart of Accounts

All heads of account with respective account codes are listed out in this Volume.

Volume II: Material Accounting

(a) Receipts

Materials received in the units, either by purchase or from other units, return from works/ contractors, free receipts etc. are entered in stock receipts register and are classified as per the chart of accounts. After valuing the receipts,

an abstract of receipts Viz. 'the schedule of debits to stock' as classified under relevant inventory account codes is sent to Head Office along with monthly accounts. The receipt of materials in units is accounted by debit to 'Stock of Stores' on the basis of the schedule.

(b) Issues

Issue of materials to contractors on cost recoverable basis (mainly steel and cement) are accounted for in the cash book as advances to contractors in the payment side by credit to relevant inventory heads in the receipt side. When recoveries of cost of materials are made from the contractors bills, such advances are adjusted.

In respect of materials such as pipes and specials issued to work, the value is not accounted for in the cash book of the unit. A statement of issues to works (other than materials issued to contractors on cost recoverable basis) is sent to head office along with monthly account. The head office shall adjust the cost by debit either to 'Consumption of stores' (for the expenditure on works chargeable to revenue heads) or 'control account- capital expenditure ' (for capital works) by credit to the relevant inventory head.

Volume III: Revenue Accounting

The revenue of the Authority consists mainly of water and maintenance charges and sewerage charges collected from domestic, non- domestic and industrial consumers and local bodies. Water, Sewerage and maintenance charge due to the Authority from local bodies in a particular period is considered as 'income of the Authority' for such period.

Revenue Collected in the units on raising of bills are accounted under 'Control account-Collections'. The Head Office on receipt of Demand, Collection and Balance (D.C.B) statements, accounts the demand by debit to 'Sundry debtors' and the actual collections against the demands, by credit to 'Sundry debtors' and debit to 'Control Account –Collections'.

Volume IV : Works and Fixed Assets Accounting

While making payment of contractors' bills in the units, the total of the bills including recoveries of advance payments, materials costs, Security deposits, retentions, hire charges, sales tax, income tax, storage charges, rent, penalty etc. shall be recorded in the payment side of the Cash Book under 'Sunday Creditors –

Contractors'. The recoveries are simultaneously recorded on receipt side of the Cash Book under relevant heads.

On receipt of monthly 'Abstract of Works Register', other than maintenance works, showing the name of work, work order number, cost of materials issued to the work, contract charges paid etc., the Head Office debits the cost to 'Capital Works in Progress, by crediting the contractors charges to 'Sunday Creditors – Contractors' and the material cost to 'Control account – Capital Expenditure – Materials'.

Capitalisation

On receipt of 'Capital Work Cost Analysis' in the prescribed form, showing the name of the work, date of completion, asset classification etc. from the units, the head office, after including project over head charges, transfer this amount to 'Fixed Assets Account' by credit to 'Capital Works In Progress'.

Volume V : Cash and Fund Accounting

Accounting policies relating to collection, disbursement, banking, internal control, reconciliation etc. are dealt with in this volume.

Volume VI : Personal Cost Accounting

Accounting procedures relating to salaries of the employees of the Authority, interest on General Provident Fund, pension, gratuity, medical reimbursement, interest on loans and advances to employees etc. are detailed in this volume.

2.3 Important Books and Records to be maintained by Finance Wing at Head Office

1. Journal vouchers and Journal day book.
2. Separate ledger for each account rendering unit.
3. Deposit Works Reserve Register. (form RA.27)
4. Asset Register. (form FA.15)
5. Investment Register. (form CB.24)
6. Fund Transfer Register. (form CB.30)
7. Budget Control Register. (form CB. 31)
8. Non-Operating Transfer Register. (form CB. 32)
9. Register for Monitoring Monthly Accounts.

2.4 Act, Rules and Manuals applicable to the Authority

1. Kerala Public Works Department Code.
2. Kerala Public Works Account Code.
3. Kerala Financial Code.
4. Kerala Account Code.
5. Kerala Treasury Code.
6. Kerala Public Work Manual.
7. Manual of Office Procedure.
8. Madras Detailed Standard Specifications
9. Standard Data and Schedule of Rates.
10. P.H.E.D Data Book.
11. Store Purchase Manual.
12. Book of Forms.
13. Kerala Services Rules.
14. Kerala Services Manual.
15. Kerala State Public Health Engg. Special Rules.
16. Kerala state public Health Engg. Subordinate Service Rules.
17. Kerala Govt. Servants' Conduct Rules.
18. Kerala Govt. Servants (Classification, Control, and Appeals) Rules.
19. Manual of Disciplinary Proceedings.
20. General Provident Fund. (Kerala) Rules.
21. Pensionable N. M. R Workers' P. F. Rules.
22. Contributory N. M.R Workers' P. F Rules.
23. Kerala State Disciplinary Proceeding Rules.
24. Kerala Water Authority (Water Supplies) Regulations 1991.

CHAPTER III

SCOPE OF AUDIT

The powers and duties of the Comptroller and Auditor General of India for audit of autonomous bodies are derived from Article 149 of the Constitution of India, which *inter alia* provide that the Comptroller & Auditor General shall exercise such powers in relation to the accounts of any Authority or Body as may be prescribed by or under any law made by the Parliament.

General Scope of Audit

Audit, as commonly understood, is an examination of the books of accounts to ensure that the final accounts as drawn up exhibit a true and fair view of working and state of affairs of the organisation, subjected to audit. The examination involves verification of all transactions of the Authority to ascertain the accuracy of the booked figures of those transactions with the help of such evidence as may be available in the form of vouchers, invoices, receipts and the other documents. The auditor is therefore expected to conduct, as far as possible, an independent investigation in to the affairs of the Authority and to satisfy himself that the state of affairs as shown in the final accounts at a given date reflects a true and fair picture of the transactions, on the basis of the facts and explanations made available to him and also the information obtained by him.

Audit in Public Interest

The Authority depends on Government to a considerable extent, for financial assistance for execution of water supply schemes and at times, even to tide over ways and means difficulties. As such, the audit of Kerala Water Authority cannot be considered as complete, in the public interest merely by a certification of its accounts after ensuring that they presented a true and fair picture of the affairs of the Authority on a particular date. But it essential to go beyond the stage of certification of the annual accounts and to probe in to the aspects of efficient, economic performance and compliance of general principles of financial propriety in the utilisation of resources made available to them by Government.

Audit of Kerala Water Authority

Audit of Kerala Water Authority had been entrusted to the Comptroller and Auditor General of India under section 19 (3) of the C & AG's (DPC) Act 1971, initially for a period of five years from 1984-85 as approved by C.A.G in

letter No. 1267/T.A.1) (RGL)/107-84 dated 12.10.1984. Approval for extension of this arrangement is granted from time to time.

The functions of audit of the Authority are bifurcated to cover all transactions including examination of records of water supply schemes implemented by the latter and also to certify its accounts each year and the deficiencies and system lapses in maintenance of accounts shall be qualified in the Separate Audit Report prepared as part of the certification of annual accounts.

It will be advantageous if the audit of transaction and audit of annual accounts are combined. However, audit of transactions for a financial year shall be completed before certification of annual accounts for that year already received. If there is arrears in certification of accounts already received, steps shall be taken to pull up the arrears by deploying special parties for this purpose.

(Authority: - D.O Letter No 364-Audit/ II/ 72-90 dated 17.3.1992 from Principal Director (A.B)).

CHAPTER IV

RESIDENT AUDIT OFFICE

4.1 General

Audit of Kerala Water Authority is conducted in two stages. Central audit is conducted by the audit staff at the Headquarters (R.A.O) on the accounts rendered by the Authority, in the prescribed form, and also with reference to copies of sanctions, orders etc. Major portion of the original records based on which the sanctions etc. are issued and the accounts are compiled are retained in the offices from which they originate. The accuracy and completeness of initial accounting records are verified in the local audit of units of the Authority, as the major portion of the initial accounting records and other basic records relating to execution of works and inventory transactions are maintained by the units.

Central Audit

The Resident Audit Office situated at the Headquarters of Kerala Water Authority at Thiruvananthapuram was set up in July 1986 under the charge of a Resident Audit Officer working under the Deputy Account General (Commercial). Central audit of the accounts of the Authority is conducted by the Resident Audit Sections.

The supervisory charge of RAO in Kerala Water authority hitherto held by the Deputy Accountant General (Commercial) has been entrusted to Deputy Accountant General (AB) as per orders of Principal Accountant General dated 9.2.2007.

4.2 Main duties and responsibilities of the Resident Audit Officer and staff

(a) Resident Audit Officer (R.A.O)

- i.** Co-ordination and general supervision.
- ii.** Framing of audit programmes, deployment of Audit Parties and watching completion of audit Performance.
- iii.** Review of minutes and agenda notes of the Authority.
- iv.** Review of Budget.
- v.** Finalisation of draft para cases.
- vi.** Finalisation of Inspection Reports and closure of Local Audit Reports based on replies received, except those cases which require approval at higher levels.

- vii. Finalisation of comments on annual accounts.
 - viii. Issue of Audit Certificates on Plan Schemes, Projects assisted by external Agencies/Government etc.
 - ix. Scrutiny of materials processed by Asst Audit Officers for Audit Reports and submission of such materials to Group Officer.
 - x. Review of port folio files of Centrally Sponsored and State schemes.
 - xi. Scrutiny of contract agreements executed for purchase of materials/execution of works costing Rs Ten lakh and above.
- (b) Assistant Audit Officers**
- i. Audit of sanctions of expenditure.
 - ii. Disposal of references seeking clarification and allied correspondence.
 - iii. Editing, issue and pursuance of Inspection Reports.
 - iv. Preparation of draft paragraphs for Audit Report (Civil).
 - v. Pursuance of local audit reports of erstwhile P.H.E.D.
 - vi. Editing, finalization and issue of comments on Annual Accounts and their certification.
 - vii. Issue of Audit Certificate in respect of externally aided projects and centrally sponsored Schemes.
 - viii. Scrutiny of the minutes of meetings of the Authority.
 - ix. Scrutiny of Budget estimates.
 - x. Detailed scrutiny of contract/agreements executed for purchase of materials/execution of works costing above Rs One lakh but below Rs Ten lakh .
 - xi. Supervision of audit and review of monthly accounts and works accounts done on the basis of selection at the prescribed quantum and pursuance of settlement of objections raised in audit.
 - xii. Ensuring of timely submission and despatching of all returns by the Auditors /Sr. Auditors on the due dates prescribed in the calendar of returns.
- (c) Auditors / Senior Auditors**
- i. Prompt and timely completion of works in their units.

- ii. Maintenance of Registers and records relating to the unit up-to-date.
- iii. Observance of due dates as per Calendar of Returns of the section.
- iv. Furnishing of statistics or any other data as and when called for.
- v. Issue of audit intimation to institution selected for audit; collection and forwarding of all relevant files of outstanding Inspection Reports and other documents to the Audit Parties and also to feed the parties with office orders and such other information or literature which would be of use in local audit.
- vi. Calculation of Audit fee recoverable from the Authority.
- vii. Audit and Review of Monthly Accounts.
- viii. Audit of vouchers relating to works as per the prescribed quantum.
- ix. Audit of contracts for purchase and audit of sanctions.
- x. Audit of Salary bills, T.A. bills, Medical bills etc. as per the prescribed quantum.
- xi. Detailed scrutiny of purchases up to Rs One lakh.
- xii. Audit of pension vouchers and pension cases as per prescribed quantum.
- xiii. Audit of Provident Fund accounts including audit of vouchers relating to temporary advances, part and final withdrawals etc. and calculation of interest.
- xiv. Audit of bonus payments
- xv. Audit of Loans and Advances to staff.
- xvi. Checking of Pay Fixation
- xvii. Completion of any other items of work entrusted to them by the Asst. Audit Officer/Resident Audit Officer.
- xviii. Preparation of audit plan, Tour Programmes and watching of receipt of tour diaries from the members of field parties.

4.3 Review of Annual Budget Document

The Water Authority compiles an annual budget indicating various sources of income, anticipated income from various sources and expenditure planned to be incurred against different heads of account, both revenue and capital. The budget so prepared, must be approved by the Authority in the annual general meeting.

Copies of the budget would be sent to Government also. In audit, it has to be seen that these requirements are complied with. In addition, it shall be seen that:-

- i.** A proper control record is kept by the Authority to watch the progress of income and expenditure against funds estimated for the purpose.
- ii.** The variation between actual and provisions are examined at appropriate levels, remedial action taken wherever necessary and re-appropriation approved by specified authorities.
- iii.** The final receipts and expenditure under various heads of account at the end of the year are duly examined with reference to final appropriation.
- iv.** The transactions are correctly classified in accounts under appropriate heads of accounts in accordance with the budget provision and also general rules and regulations relating to classification of transactions.

4.4 Scrutiny of Minutes and Agenda notes of the Authority

Resident Audit shall make arrangements with the management for rendering copies of agenda and minutes of meetings of the Authority. The agenda and minutes received are diarised in a separate register. The Asst. Audit Officer dealing with the subject shall put up a consolidated note after examining all the items included in the Agenda notes in detail which shall be submitted to the Group Officer for obtaining instructions on further action, if any to be taken.

The following points should *inter alia*, be kept in mind while examining the resolutions of the Authority.

- i.** Whether the Authority is competent to pass the resolution.
- ii.** Receipt of sanctions of Government shall be watched when the resolutions are passed by the Authority subject to approval of government.
- iii.** Resolutions conveying sanction of leave to officers, officiating arrangements, payment of gratuity etc. shall be scrutinized as regards their admissibility and correctness with reference to the rules and relevant documents.
- iv.** Resolution containing sanction of an unusual nature or recording any important variation in the rules, procedures etc., shall be examined as regards their impact in the finances of the Authority.

- v. It shall be examined whether details of resolutions passed by the Authority to write-off of losses sustained or infructuous expenditure incurred is required to be ascertained in the Audit.
- vi. Major decisions taken for purchases, award of contract for works etc. shall be examined in detail to the extent possible and specific points shall be marked for detailed examination in local audit.

4.5 Scrutiny of Rules and Orders

All financial rules and orders issued by the Authority and Government affecting expenditure and other transactions shall be subjected to audit. It shall be seen in audit that the rules and orders issued are:-

- i. Not inconsistent with any provision of the constitution or of any law made there under.
- ii. Consistent with the essential requirements of audit and accounts as prescribed by the C & A.G.
- iii. Consistent with the orders or rules made by any higher authority that possesses the necessary rule making power.

(Also refer to Para 2.2.5 of M.S.O (A) for detailed instructions.)

4.6 Quantum of Audit

Consequent on the restructuring of cadres in the I.A&A.D with effect from 1.3.1984 the pattern of Central audit has been changed. The staff strength for various branches has also been re-fixed on the basis of the revised quantum of audit.

The works in central audit and the percentage of audit prescribed for each item of work etc., are listed in Annexure I of this Manual.

A register indicating (a) the number of monthly receipt of accounts, Pay and allowances bills, pension bills, work bills, pay fixation cases etc. (b) number selected for detailed audit/review (c) details of arrears if any, shall be maintained by R.A.O. Section. Based on this, the "Annual Statistical Data" shall be prepared and forwarded to Co-ordination Section for assessment of staff requirement. The fact of completion of audit as per the quantum prescribed shall be reported to the Group Officer by recording a certificate in the register by 5th of succeeding month.

Review remarks on the audit of vouchers etc., are finalized and issued to the head of office with in a period of seven days after completion of audit.

Irregularities if any, requiring verification in local audit are entered in the 'Register of points for verification during local audit'

4.7 Audit of Monthly Account

The accounts of a month selected for audit/review shall be made available to Resident audit by the Accounts organization of the Authority by the succeeding month. On receipt of monthly accounts, preliminary checks as detailed below shall be exercised by the auditor concerned.

- i.** See that the monthly accounts are in the prescribed form.
- ii.** Check that the monthly accounts and the list of accounts have been signed by an authorized officer.
- iii.** See that the accounts and supporting schedules and other document as detailed in the list of accounts are complete in all respects and obtain the missing documents, if any.
- iv.** Check that the several schedule dockets, vouchers and forms are in all respect properly prepared in accordance with the Accounting Manual of the Authority.
- v.** See that all the main accounts correctly work up to the monthly account.
- vi.** Check the correction of classification shown in the Cash Abstract and supporting statements of 'Forms'.
- vii.** Trace the entries in the schedule to the Cash Abstract.
- viii.** Check the figures and arithmetical computation of different schedules.
- ix.** See that the revenue and other receipts realized were brought to account and remitted to the bank concerned to the credit of the Finance Manager.
- x.** Check the opening balance of cash, bank accounts, non-operative accounts etc. in the Abstract of Cash Book with the closing balance of previous month.

Points arising in central audit which require further investigation with reference to the original records maintained in the unit offices shall be noted in the "Register of points for local verification."

4.8 Audit of Vouchers

Selection of vouchers for audit is to be made based on the quantum of check prescribed. Selection should be made through the Selection Register maintained for this purpose. General instruction regarding procedure of Audit as contained in Para 3.1.5 to 3.1.9 of MSO (Audit) and the Rules and Regulation

made by the Authority should be kept in view while auditing vouchers. The following points also may be borne in mind while auditing payment vouchers.

- i. Audit of establishment vouchers should be done with reference to the Service Books, leave accounts, salary register, etc.
- ii. Bonus payments should be examined with reference to emoluments after adjusting excess payments, period of leave without allowances, etc.
- iii. Pension payment vouchers should be verified with reference to the noting of sanctions in the pension payment register.
- iv. Vouchers relating to pay and allowances drawn by higher officials based on pay slips may be audited with reference to the initial records authorizing such payments.
- v. Audit of vouchers relating to purchases, works advances, contingencies, etc., may be carried out with reference to purchase orders, agreements and sanctions.

The review remarks on the audit of vouchers should be furnished to the Head of the Authority within 'seven days after completion of audit.'

4.9 Certificates of Payment in lieu of Vouchers

In cases where Certificates of Payment (COP) are accepted in lieu of vouchers, they should be checked in the same way as original vouchers. They should be examined judiciously to see that there were no unusual circumstances or malafides which resulted in non-production of original vouchers. Circumstances under which C.O.Ps were issued may be enquired into, if there are repeated or large scale issue of C.O.Ps, Audit enquiries may be prepared and issued to find out *inter alia* whether there had been any suspected connivance or collusion of the staff of the Authority in non-production of original vouchers. For this purpose, central audit may seek the help of Field Parties also.

4.10 Sanction to Expenditure

One of the important functions of audit in relation to audit of expenditure is to see that each item of expenditure is covered by the sanction of an authority competent to sanction it. Audit has not only to see that the expenditure is covered by a sanction, either general or special, but it has also to satisfy itself that the authority sanctioning it is competent to do so by virtue of powers vested in it, by the rule of delegation of financial authority made by the Government / Authority

and that the sanction is definite and thus needs no reference either to the sanctioning authority itself or to any higher authority.

The scrutiny of sanction should include the following points.

- i. Whether expenditure is a legitimate charge on the provision from which it is proposed to be met.
- ii. Whether the expenditure conforms to the statutory provisions as well as the relevant financial rules regulations and orders.
- iii. Whether it fulfils the standards of financial propriety.
- iv. Whether in the case of sanction of new schemes of expenditure, a satisfactory procedure of accounting has been evolved and the detailed time schedule, physical targets and other objects of expenditure are duly laid down by the sanctioning authority.

Copies of sanctions issued by the Authority Central /State Governments shall be obtained by the RAO and examined. Copies of Technical Sanction issued by the authority in respect of works relating to projects costing Rs 25 lakh and above and non-project works costing more than Rs 5 lakh and copies of all contracts and agreements are required to be sent to R.A.O for central audit. Arrangements for receipt, scrutiny and processing of sanction and maintenance of files in a regular and systematic manner shall be made by the R.A.O. The results of scrutiny of all sanction shall be made readily available to the local audit parties while taking up audit of the institution concerned.

4.11 Audit of Contracts & Agreements, Tenders etc. for purchase

4.11.1 General

Purchase of materials for works and Tools & Plants (T&P) is centralized in the office of the Chief Engineer (HRD) at the Headquarters of the Authority. Copies of sanctions for purchase (for Rs 5 lakh and above) and purchase orders, when received in central audit are noted in the "Register of Purchases" maintained in Resident Audit Office. The purchase files (records containing tender notices, quotations received, tabulated statements, minutes of negotiations, decisions of Purchase Committee etc.) in respect of those purchases are called for and examined in audit. The register is closed on the 5th of the succeeding month. The register should be reviewed by the R.A.O monthly. This item should be noted in the calendar of returns of the section. A list of such files scrutinized in central audit shall be furnished to the local audit party at the time of audit of office of

Chief Engineer (HRD) so that same files need not be examined by the party again. On completion of local audit, the details of purchase file scrutinized by the party should also be noted in the register of purchase.

4.11.2 The following points shall be kept in view in the scrutiny of purchase files.

- i.** It shall be examined whether indents for supply of materials received from the units at a time are clubbed and bulk purchase orders are placed with the suppliers so as to secure the advantage of bulk supply rates.
- ii.** Whether purchase has been effected by single tender or by negotiation and if so whether sanction of competent authority has been obtained for acceptance of such tenders and reasons recorded for resorting to this method of purchase.
- iii.** Whether all tenders have been opened on due dates and numbered and initialled with date by the officer opening the tenders.
- iv.** Whether comparative statement is on record and has been checked with original tenders.
- v.** Whether the lowest offer has been accepted in each case, if not, the difference between the lowest offer and the offer accepted and the reasons recorded for rejecting the lowest offer should be examined. It should also be seen whether the reasons are adequate. When favorable quotations are rejected on the grounds that the firms are untried, it should be seen whether the matter regarding placing of a trial order with a view to secure economy in future purchase has been considered and appropriate action taken.
- vi.** Whether the successful tenderer has indirectly derived an advantage over the other tenderers by the insertion of special conditions which have the effect of raising the rate quoted by him.
- vii.** Whether the contract has been placed on a registered firm and if not, it should be examined whether it is with or without security.
- viii.** Whether the rates accepted have been changed in any case after the conclusion of the contract and whether the reasons justifying such changes are adequate.
- ix.** Whether the prices stipulated are firm. Particulars of contracts providing price variation clauses or provisional rates should be sent to local audit for further verification.

- x.** Where the financial status of the individual or firms tendering has been taken in consideration in addition to all other relevant factors.
- xi.** Whether there is any omission on any important clause eg. Inspection, date and place of delivery, despatch instructions, name of consignee etc.
- xii.** Vague provision such as "VAT will be paid, if legally leviable" etc. should be objected to and the contracting officer asked to state in definite term whether VAT, Excise Duty etc. are payable and if so, at what rate and on what amount
- xiii.** Security Deposit/retention amount has been lodged and that in the event of default, penalties leviable under the conditions of contract have been enforced.
- xiv.** When the officer opening the tender feels that any clarification is necessary from a tenderer, he may seek such clarification. Any clarification so obtained should not be a direct or indirect means of enhancing the rates already quoted in the tender.
- xv.** Normally, there should be no negotiation after tenders are opened. However, it is permissible to negotiate with the lowest tenderer to get high rates if any, reduced to reasonable levels. No negotiation should be carried on, which will be contrary to the principles of tendering by which unfair advantage is gained by a tenderer after opening the tenders through such negotiation.
- xvi.** Splitting of tenders and award of work to different contractors should not be resorted to after tenders are invited, unless it is specifically stated in the tender notification that the department/Authority reserves the right to split the contract in the manner given in the schedule and call for time of completion of individual parts as well as for the whole work.
- xvii.** Whether any delayed/late tender has been included in the comparative statement and considered and whether orders of the competent authority have been obtained in the consideration and acceptance of such late tenders. (Delayed tenders mean tenders despatched sufficiently early but received late due to postal or other delays, while late tenders mean tenders (despatched late ie., after expiry of the time prescribed).

4.11.3 Compliance of the following provisions should also be examined while scrutinising files relating to contracts for supply.

- i.** When a tender has been accepted finally, such acceptance should be communicated to the tenderer in the most expeditious manner, and in any case before the expiry of firm period. A formal supply order should also be placed with the tenderer simultaneously. The supply order should furnish the description, quantity, price, term of delivery and term of payment. Clear despatch instruction should also be given to the supplying firms.
- ii.** Communication of acceptance of tender normally constitutes a concluded contract.
- iii.** The successful tenderer shall deposit a security equivalent to *5 per cent* of the total value of contract, for the due fulfillment of contract and execute an agreement. If he fails to execute the agreement, the Earnest Money Deposit will be forfeited and contract arranged elsewhere at the defaulters risk and cost. In case he fails to fulfill the contract in full, all or any of the materials not supplied may, at the discretion of the Purchasing Officer, be purchased by means of another contract or from the next lowest tenderer and the loss if any be recovered from the defaulting tenderer.
- iv.** In all cases where there are guarantee for the goods supplied, the Security Deposit will be released only after the expiry of guarantee period.
- v.** If the E.M.D/Security Deposit is not realised within the period specified, for no fault of the contractor, the loss sustained by the Authority shall be made good from the officer responsible for belated payment.

4.11.4 Price Preference

The following price preference shall be allowed for products of Small Scale Industries within the state of Kerala as a measure for encouragement to S.S.I Units.

- i.** *15 per cent* over the products of industries outside the state.
- ii.** *5 per cent* over the products of medium and large scale industries in the private sector within the state.

- iii. 2 per cent additional preference shall be given to the products of S.S.I units having I.S.I certification marks over the products of S.S.I units without I.S.I. certification marks.

(Para 38A. of Store Purchase Manual)

4.11.5 Price Variations

Price variation condition need be accepted only in very special cases and under unavoidable circumstances. In the case of articles which are usually subject to price variation necessary conditions should be stipulated in the tender notice itself.

4.11.6 Black-listing and banning of business with firms

In accordance with the provisions in the Standardized Code of Black listing prescribed by Government of India as adopted on a reciprocal basis by the State Government can impose on firm, penalties such as Black-listing, Banning and suspension of business and Removal from the list of approved suppliers, according to the magnitude of the irregular performance of their contracts.

4.12 Audit of Pension cases and Pension Vouchers

Pension rules applicable to the employees of the State Govt. are applicable to the employees and officers of Kerala Water Authority. Kerala Service Rules (Vol. II) Part. III may be referred to for detailed instruction for the grant of pension and other retirement benefits.

Pension cases in their entirety, should be checked in audit, wherever such checks are required to be done, after the issue of authorization by the Authority, with reference to the documents available in the pension files (viz. Service Book, the first page of application form, statement of service, leave statement etc.) The other points to be seen during the audit of pension cases are enumerated below:-

- i. Whether the date of retirement/date of death as shown in the pension papers tallies with the date of retirement/date of death as per the Service Book/death certificate.
- ii. Whether the average emoluments have been worked out correctly on the basis of entries in the Service Book.
- iii. Whether claims for family pension/gratuity have been settled in accordance with the nomination obtained from the official.

- iv. Whether the amount of pension and gratuity has been worked out correctly with reference to the average emoluments/emoluments last drawn, as the case may be.
- v. Whether the authorization of death gratuity, in the absence of valid nomination to the beneficiaries is supported by legally valid documents.
- vi. Whether the pay fixed on promotion, revision of pay scales etc. and the grant of increment are correct.
- vii. Whether the commuted value of pension has been worked out correctly.
- viii. Whether the bills for pension have been drawn in proper form and duly discharged, the entries in the P.P.O tally with payments made and that necessary documents support and justify the change in the pension bill.

Remarks, if any, on checking the pension cases shall be communicated to the Finance Manager and Chief Accounts Officer. The statement of allocation of expenditure on pension, between the Authority and the State Govt. should also be checked in Resident Audit Office.

4.13 Retention in service of officials beyond the normal date of superannuation on the basis of interim orders of court, wrong interpretation of rules or by mistakes committed by the departmental officers

The period of retention beyond the normal date of superannuation in all the above cases will be treated as the period spent on duty for the limited purpose of claiming pay and allowances restricted to what he was entitled on the normal date of his superannuation and his pensionary claims will be settled reckoning service and emoluments up to the normal date of superannuation. Pension will be sanctioned only from the day after the date of final quittance.

The incumbent will not be eligible for further increment, promotions, increase on account of pay revision etc. except when all these are allowed by decree of court or under special orders of government.

If the retention is due to defective interpretation of rules or due to administrative lapses the responsibility should be investigated and fixed on the departmental officers concerned and the excess payment towards pay and allowances etc. should be made good from those responsible.

Whenever a person is allowed to continue in service beyond the age of superannuation by virtue of court orders etc. he will be eligible for commutation of pension without medical examination, provided he applied for it within one

year of final quitting of service and the commuted value is to be calculated with reference to the age at next birthday on the date on which such application become absolute.

(Circular No. 81/88/Fin dated 28.10.1988 of Finance Department, Govt. of Kerala)

4.14 Checking of Fixation of Pay

When there is a general revision of pay the administrative department shall arrange for fixing the initial pay. The calculation of initial pay fixed and the date of next increment for each incumbent should be scrutinized (up to the prescribed percentage) in Resident Audit, either by calling for the service books, pay fixation statements and such other records, or for verification in local audit as is deemed convenient.

4.15 Audit of Grants, Loans and other Assistance

Kerala Water Authority depends on Government to a considerable extent for financial assistance for execution of their schemes and even to tide over ways and means difficulties. Most of the schemes of the Authority on water supply, sewerage, drought relief etc. are implemented with the assistance from Central and State Governments and other financing agencies in the form of loans and grants. Funds received in the office of the FM&CAO are apportioned among all the divisions executing the works, as soon as the list of scheme to be taken up is finalized. The executing divisions shall propose detailed statements for allocating the lump-sum provision to various ongoing and/or new works in consultation with the Chief Engineer and the Planning Section in Head Office.

It is an important function of audit to watch that the executive authorities have adequate machinery to keep a continued watch over the progress of expenditure from the grant/loan and the safety of the funds entrusted to them. It has to be seen in audit that:-

- i.** a proper watch is kept for ensuring that the instalments of principal and interest are paid by the loanee on the due dates and the amount of loan paid and repaid and the interest remitted are properly accounted for.
- ii.** there is adequate basis to show that the loans/grants are utilized for the purpose and on the objects for which they are sanctioned.
- iii.** The registers and Broad sheets maintained by the Finance Manager give the details of loan received, interest accrued from time to time, the

installments of principal and interest repaid and the balance outstanding in respect of each loan.

- iv. the loan is not raised far ahead of the schedule or in excess of needs resulting in diversion of loan for other purpose or investments.
- v. the repayment of loan and interest is not met by obtaining grants for the purpose unless it is specifically authorized by the grant sanctioning authority.
- vi. all matters relating to finalization of terms and conditions of loans/grants position of repayment and its utilization etc. are brought to the notice of the Board from time to time.
- vii. objective of the schemes implemented utilizing the loan are being achieved and a periodical review is being conducted for assessing the progress, future needs and changes and due approval is taken for modification, increase in cost etc.

[Authority: - Chapter 12 MSO (Audit)]

4.16 Efficiency - Cum - Performance Audit

4.16.1 General

Audit of the Authority cannot be considered complete merely by a certification of the accounts on a particular date. Regularity and Propriety audit generally applied to individual transactions also may not be adequate for assessment of the performance of the projects, programmes and schemes implemented by the Authority, in terms of achievement of their goals and objectives. A precise evaluation as to how far the expected results have been achieved, using the available resources of men, material and money is possible only through a comprehensive review of the schemes etc. This method of audit is known as Efficiency - Cum - Performance Audit and this technique is adopted to assess and evaluate the economy, efficiency and effectiveness of the schemes and projects.

A comprehensive review shall cover the following aspects:-

- i. how far the physical and financial targets have been achieved.
- ii. how far the social and economic objectives have been realized.
- iii. whether the operations are conducted economically.
- iv. whether there are any cases of over payments, loss, extravagance, avoidable excess or infructuous expenditure due to improper planning,

delay in completion of projects, over staffing, over capitalisation, unsound pricing policy idling of assets etc. and

- v. whether utilization of the resources is in accordance with the projected out lays and if not, the reasons there for.

The process of Efficiency - Cum - Performance Audit mainly includes the following.

- a) Selection of schemes for review.
- b) Preliminary study of the subjects selected to asses the potential for comments.
- c) The procedure and guide lines to be followed.
- d) Field studies.
- e) Collection of data, their analysis and drafting of the review.

4.16.2 Selection of Schemes for review

For conducting audit investigation the selection of project/schemes shall be done with utmost care after making a preliminary study at the Resident Audit Section, taking in to account of the various factors including the financial out lay involved. This necessitates collection of sufficient background materials in respect of each scheme. In order to facilitate this, the following procedure may be adopted.

- i. As soon as major scheme are sanctioned, detailed programmes and estimates relating to it may be obtained.
- ii. The Authority may be asked to furnish every year till the date of completion of each scheme a review report of the actual working of each scheme, mentioning *inter alia*, any major excess over estimates and any serious delay along with justification for the same, as well as the extent to which the physical targets, financial returns and other objects visualised were achieved.
- iii. A register of scheme shall be maintained with details such as
 - a) Name of scheme and sanction number
 - b) Name of executing divisions.
 - c) Estimated amount.
 - d) Amount of grant/loan allotted and the amount utilised.

A critical review of the working of the selected schemes has to be taken up with the approval of A.G.

4.17 Certificates of Expenditure in regard to Plan Schemes

i. Centrally Sponsored Schemes

The Government of India releases each year, assistance in the form of grants and/or loans to State Government for Accelerated Rural/Urban Water Supply Schemes in accordance with the pattern specified in the sanction relating to the scheme.

According to the procedure prescribed by the Ministry of Finance for finalizing the assistance the final claims are to be prepared by the State on the basis of audited figures of expenditure. After the accounts for the year are closed, the Authority forwards the statement of expenditure to the Resident Audit Officer. The Resident Audit Officer arranges checking of the accounts through local audit with reference to the initial records maintained by the division which execute the work. The accounts so checked are sent to the Authority along with the Audit Certificates in the form given in Annexure II.

While certifying the expenditure, objection of a routine nature such as want of sub vouchers, absence of budget allotment, want of sanction etc. which would not affect central assistance may be ignored. It should however be born in mind that:-

- I.** the conditions attached to the grant before and after the release are duly fulfilled.
- II.** the amounts drawn on abstract bills for which detailed bills have not been submitted are excluded.
- III.** any item of expenditure found clearly ineligible for central assistance with reference to the terms of such assistance or the instruction of Government of India is not included and if the exact amount of these items cannot be determined, a qualification to that effect is given.
- IV.** any point of doubt regarding eligibility for central assistance has been got clarified by reference to the Ministry concerned.

A quarterly progress report indicating the number of schemes for which certificates are to be issued and the progress made in this regard from time to time should be furnished to C&A.G by the first week of the month following the quarter to which the report relates. The information should be furnished year wise and separately for each category viz. Central Plan Schemes, Centrally Sponsored

Scheme and State Plan Schemes. The report for the quarter ending March should be accompanied by a list of schemes for which audit certificate could not be issued.

[Authority: - Para's 3.16.17 to 3.16.21 of M.S.O (Audit)]

ii. Externally Aided Projects

The Water Authority implements Rural and Urban Water Supply Schemes with the assistance from World Bank and certain foreign nations like Netherlands. The agreement for loans/development credit entered in to by these agencies with Govt. of India includes specific covenants for proper maintenance of accounts and for audit. The statements of expenditure of such schemes/projects implemented by the Authority are audited by the Resident Audit Office, in accordance with the regulation and standards of audit of the C&A.G. of India to confirm that:-

- I.** the resources were utilized for the purpose of the project.
- II.** the expenditure statements are correct, and
- III.** the terms of loans, agreement or conditions of grant are not violated.

The Audit Certificate is to be issued to the Authority with in nine months of the close of the financial year, for onward transmission to World Bank/ other External Agency, under intimation to Ministry of Finance, Department of External Affairs, Government of India. As the Audit Certificate is not to be published and is in the nature of a document exchanged between the Authority and External Agency, the certificate should indicate in brief, the amount held under objection in relation to wanting vouchers, D.C. Bills, sanction etc. that come to notice. To facilitate the timely issue of Audit Certificate, the irregularities noticed in central audit as well as in local audit, in relation to these projects should be distinctly recorded and separate files for certification and issue of audit certificate in respect of each project should be maintained.

For monitoring the certification of accounts of externally aided projects, an "Externally Aided Project Cell" has been set up in Co-ordination Section. All correspondence with H.Q. Office on the subject should be routed through the 'E.A.P. Cell'. The receipt of 'Statement of Expenditure' should be reported to E.A.P. Cell within 5 days from the receipt of the same by the concerned Audit Section and a copy of the Audit Certificate is to be marked to this cell also. Since submission of audit certificate on the due dates is to be adhered to for re-

imbursement of claims, the section should give top priority to issue the audit certificate in time. Section should take action sufficiently early, preferably in May and June by requesting the implementing authorities to forward the 'Statement of Expenditure' in time.

This item should be noted in the calendar of Returns of the section and the matter pursued through this.

(Authority: - Para 3.16.12 of MSO (Audit) and circular No CO.Ordn/Audit/11-147/319 dated 7.12.1995)

4.18 Objection Book

The objections and observations arising out of audit should be communicated at the earliest opportunity. The objection should first be registered in detail in an Objection Book in form MSO (Audit) 9 in the case of objection raised in central audit and MSO (Audit) 10 in respect of objection raised in local audit. Mere instructions to departmental officers for future guidance need not be registered in the Objection book. In the case of objections which have arisen out of local audit, only those which can be expressed in money value need be registered in Objection Book.

All records of audit objection maintained in the Audit Office should be written up with care and watched closely by the Assistant Audit Officer and the Audit Officer. Even where the objections have not been communicated, an objection once raised can be removed from the records of objection only after an A.O or A.A.O has examined that due authority exists for the removal of the objection and puts his initials against the item concerned in token of his having done so.

As and when an item entered in the Objection Book is adjusted, the adjustment should be posted in an Adjustment Register in form MSO (Audit) 11 and the amount adjusted should be noted in the Objection Book also. The mode of adjustment adopted with reference to each item will be shown in the column "How adjusted" and entries in both the Objection Book and Adjustment Register should be initialed by A.A.O in proof of his having examined the correction there of in every particular.

After despatch of the objection statements for the month, the money column in the Objection Book should be totaled, the balance of the past month should be added and the balance after adjustment struck. The Objection Book and

Adjustment Register for the month should then be closed on the 8th of the second succeeding month. The outstanding balances in the Objection Book should be carried forward from month to month and from year to year.

[Authority Part II of Chapter 1 in Section VII of M.S.O (Audit)]

4.19 Auditor's Note Book

A note book in suitable form should be maintained by each Auditor/Sr.Auditor for noting all points which have to be kept in mind as requiring action, but which could not be noted in any part of the Works Register. Each entry in the register should be concise, but in full details so that action to be taken is easily understood. A note with necessary references should be made against each entry in due course to indicate the action taken so that all points still requiring attention may be known at any time. The Note Book should be reviewed by the A.A.O monthly.

[Para 4.2.12 of M.S.O (Audit)]

4.20 Register of Potential Draft Paragraph Cases

All important cases which are likely to develop into draft paragraphs are required to be noted in the Register of Potential Draft Para's (PDP) prescribed for this purpose and maintained by the Resident Audit Office. Cases likely to be developed in to draft paras noticed at the time of vetting the Inspection Report are included in this register after obtaining orders of the Deputy Accountant General.

If the information available with regard to any potential Para marked for inclusion in the register is found inadequate to warrant the finalization of the case in to a draft Para, the section should take up the matter with the Authority/ Government for eliciting further particulars so that the Para can be finalized in time. Cases once entered in the register should not be dropped from the register except under orders of Deputy Accountant General. The register should be closed on the first of each month and submitted to the Deputy Accountant General for review. It should also be submitted to Accountant General quarterly on the 5th of April, July, October and January every year.

(Circular No. ITA/27-1/2002-03 dated. 29.10.2002)

4.21 Realisation of Audit Fee

One of the terms and conditions under which audit under Section 19(3) and 20(1) of Comptroller & Auditor General's (DPC) Act is taken up is that the C & A.G may suggest the appointment of a primary auditor to conduct audit on

his behalf on the basis of directions/guidelines issued by him. Wherever such an auditor is not appointed, expenditure incurred by the C.A.G in connection with the audit will be payable to him by the auditee institution.

Amount recoverable by way of cost of audit shall be worked out based on 'average cost' calculated in accordance with Govt. of India's Order No.3 below FR.9 (31) as reproduced below.

$$\text{Average Cost} = \text{Minimum} + (\text{Maximum} - \text{Minimum}) \times (3/4 - x/60)$$

Where 'x' is the length of time scale minus 5

Minimum means – minimum of the scale

Maximum means – maximum of the scale.

Audit Fee payable by Kerala Water Authority in respect of officers and staff of Resident Audit Office is computed on the basis of average cost of pay, Dearness Allowance, Additional Dearness Allowance and other allowances appropriate to such cost, actual expenditure on allowances such as T.A, Medical re-imburement etc., plus proportionate charges in respect of Supervisory Officers and their staff. In the case of contingent expenditure, the actual are to be demanded. In addition, claims for Pension Contribution and leave salary contribution at prescribed rates should also be included.

In so far as members of Field Parties attached to R.A.O are concerned, demand is to be raised at the daily rates fixed in term of instruction contained in HQrs. Circular No. 417 – Audit I / 23-85(50) dated 04.06.1985. No separate claim towards supervision by Sr. A.Os/A.Os is to be preferred as the indirect charges in arriving at the daily rates also include cost of supervision.

Note: Formula for calculating audit fee is being revised (HQrs Lr. 468/Audit (AB)/25-2007 dated 20.8.2009)

Accountant General has fixed the following time schedule for raising demands for audit fee.

1. Due date for raising demand for each year - 30th of June next year.
2. Due date for reporting to Cass (Co-ordn.)/
Administration the serving of demand notice] - 15th of July
3. Due date for reporting collection against demand - 15th of September

(Sectional Order NO. 6 – Cass (Co-Ordn.) II/ 15-266/89-90 dated 23.1.1990)

To ensure timely recovery of the audit fee, a register in form SY. 338 should be maintained and this register may be put up to Branch Officer every month and to the Group Officer quarterly. This may be watched through the Calendar of Returns.

(Circular No. 510 – TAI (RGL)/ 7-81/Vol. II dated 17.5.1983 from HQ.)

4.22 Annual Report

As per Section 56 of Kerala Water Supply and Sewerage Act, the Authority shall, after the end of each financial year, prepare and submit to Government, a report giving an account of the activities during the previous financial year and such report shall be placed before the State Legislature as soon as possible. Compliance in this regard should be watched in audit.

4.23 Internal Audit

The internal audit wing of the Authority was headed by an Asst. Accounts Officer when it started functioning from August 1984. This wing was brought under the supervision of an Internal Auditor from 1988 onwards.

The internal check is meant, the checks on day to day transactions, which operates continuously as part of the routine system, with the objective of prevention or early detection of errors, fraud etc. The checks prescribed in the Internal Audit Manual prepared by the consultants of the Authority, M/s Price Water House, Madras is being followed by the Internal Audit Wing. The internal audit section shall be responsible for test checking the Unit Offices and other sections of the Authority to see how far they have prescribed following procedure, viz., rules and regulation, mainly for maintenance of various registers, submission of returns on the due dates and general efficient functioning of the Authority. They shall also be responsible for checking the quality of works done and for making comments specifically on this aspect in their reports, with a view to take suitable corrective measures to improve the quality of works, wherever needed. As far as practicable the report of the Internal Auditor shall be submitted to the head of the organization for internal evaluation of efficiency of each units/section and to take corrective measures where there are system failure and lack of efficiency in general functioning.

As for Audit, it is the responsibility of the R.A.O to examine the adequacy of the system of internal audit in order to assess its efficiency before determining the extent or quantum of checks for planning the audit by the Accountant General.

CHAPTER V

AUDIT OF ANNUAL ACCOUNTS

5.1 GENERAL

Under Sub Section (L) of Section 29 of Kerala Water Supply and Sewerage Act 1986, the Authority shall cause to be maintained such books of accounts and other books in relation to accounts and prepare an annual statement of accounts and Balance Sheet in such form and in such manner as may be prescribed. Sub Section (2) stipulates that the accounts of the Authority shall be audited by such Auditor, in such manner and at such time as the Government may by general or special order direct. As per Sub Sections (3) and (4) *ibid*, the accounts of Authority as certified by the Auditor, together with the audit report thereon shall be forwarded annually to Government and the Government shall in turn cause the accounts of the Authority together with the audit report there on to be laid annually before the State Legislature. Till 1986-87 there was only a Receipt and Payment Account. The Authority switched over to the commercial system of accounting from 1987-88 onwards.

The Accounts Rendering Units (ARUs) forward the monthly accounts along with supporting schedules, vouchers etc. to the Finance manager & Chief Accounts Officer (FM & CAO). All the transaction of the units is then posted in respective Unit Ledger Accounts maintained by the FM&CAO and then transferred to the Consolidated Ledger Accounts in the appropriate heads of account through Journals. The ledger balance including Cash and Bank balance are extracted in the Trial Balance in Form CA.25. The Income and Expenditure Accounts prepared in Form CA.7 after making all necessary adjustments in respect of outstanding liabilities for expenses, depreciation, write off, bad and doubtful debts, interest on loans etc. and the accounts are closed by transferring the surplus to 'Reserve' and the deficit against adjustment in 'Free Reserve', if any, with the approval of the Board. The balance now left and remain open in the Ledger represents either 'Assets' or 'Liability'. All such assets and liabilities are set out in the Balance Sheet in Form CA.6

The accounting period for which the annual accounts are to be compiled by the Authority shall be for a period of twelve calendar months ending on 31st day of March every year.

The annual accounts shall comprise of the following:-

1. Balance Sheet.
2. Income and Expenditure Account.
3. Schedules forming part of Balance Sheet and Income & Expenditure Account.
4. Notes to Accounts.

5.2 Accounting policies of the Authority

All the transactions ultimately get reflected in the form of cash out flow or cash inflow. Cash Book constitutes the most important book of original entry. Journal is used for effecting various adjusting entries in the accounts. While Cash Book serves both as a book of original entry and also a ledger, ledger accounts are maintained for consolidating transactions under appropriate classifications. The ledger balances are then listed in a trial balance from which items of revenue expenditure or income are transferred to Income & Expenditure Account. The remaining items are transferred to the Balance Sheet.

The accounting policies of the Authority are briefed as follows.

1. Classification of Expenditure

All expenses shall be reflected in the Revenue Account, ie., Income & Expenditure Account under natural basis.

2. Interest on borrowings

Provision shall be made every year for interest accrued on all borrowings.

3. Cost relating to borrowings

Guarantee charges, commitment charges for loan agreements, debentures, trust deeds, bonds etc. shall be charged to revenue in the year in which the cost is incurred. Provision shall be made at the year end, for the above costs for the year, which have accrued but not paid.

4. Discount on Bonds etc.

Discount on issue on Bonds, Debentures and other securities offered by the Authority shall be charged to revenue in the year in which Bonds, Debentures etc. are issued.

- 5. Redemptions premium on Bonds etc.**

Premium, if any, payable on redemption of bonds, debentures or other securities shall also be charged to revenue in the year in which premium become payable.
- 6. Income from Investments.**

Income from investments, gain on sale of investments / redemption premium on maturity shall be credited to Income & Expenditure Account in the year in which such income, gain etc. have accrued. Provision shall be made for the income from investment which have accrued but not received.
- 7. Cost of investment**

Investment shall be recorded in the books of account at actual cost of acquisitions including transfer charges, stamp duty, etc.
- 8. Loss due to fire, flood etc.**

All loss on account of fire, flood etc. shall be treated as loss for the year in which it has occurred, reduced by insurance claim granted, reserve created if any, subsidy, if any, received from Government etc.
- 9. Provision for income tax**

Provision for income tax shall be made every year by the Authority on its income in accordance with provisions of the Income Tax Act 1961.
- 10. Prior period items**

All prior period expenses or income below Rs one lakh individually shall be charged off, or credited to current year's expenses or income.
- 11. Consistency Concept**

Uniform accounting policies shall be applied from year to year.
- 12. Accrual Concept**

Financial Statements of the Authority shall recognise its income only when accrued.
- 13. Conservation Concept**

Financial Statements shall take in to account all prospective losses, but leave out all prospective gains unless they are realised.
- 14. True and Fair View**

The account shall present a true and fair view of the financial position and results of operation of the Authority.

Apart from adopting the above general principles of accrual based commercial accounting system, the Authority has also spelt out its policies with regard to accounting of Materials, Revenue, Works and Fixed assets, Cash and Funds, Personal cost etc. in the Accounts Manual, under the respective Chapters.

In respect of transaction for which no specific policy is prescribed else where, general principles of accrual accounting system shall be adopted.

5.3 Time Schedule for Audit of Annual Accounts and Finalization of Report

The following time schedule has been fixed by HQrs Office for various audit activities.

- 1) Availability of annual accounts by the autonomous body, latest by 30th June.
- 2) Commencement of audit of accounts of the autonomous body, some time in June itself, by internal arrangement if possible. In any case, audit should be completed by the end of August.
- 3) Consolidated draft Separate Audit Report (S.A.R) including important and interesting points/comments on branch unit, as reported in sub audit offices, to be issued to the Chief Executive of the body with in 15 days from the completion of audit (ie.15th September)

Only two weeks time (ie. up to 30th September) shall be given to the autonomous body to furnish their response to the draft S.A.R and the organizations shall be informed while forwarding the draft S.A.R that they have to furnish replies with in two weeks time. If no reply is received with in the stipulated time, it would be presumed that the organization has no remarks to offer and that the fact, figures and comments mentioned in the draft S.A.R would be taken as having been verified and accepted by the organization and further action would be initiated for processing of the draft S.A.R accordingly.

- 4) The draft S.A.R with or without response of the autonomous body shall be sent to Headquarters for approval with in a week's time (ie.7th October). If replies have been received from the autonomous body, draft S.A.R should accompany an 'aide-memoir' showing objection raised, reply of management comments framed and also the remarks of A.G. indicating the reason for retention/deletion of comments.

5) The approved S.A.R will be sent by Headquarters Office to the Field Officer normally within two weeks from the receipts (ie. 21st October).

6) The final S.A.R in English version with the Audit Certificate shall be issued to the organization/government latest by 31st October.

7) A copy of the final S.A.R and Audit Certificate as issued to the autonomous body / Government shall be endorsed to Headquarters simultaneously.

The dates given in the above time schedule indicate only the outer limits and there shall not be any objection to take up and accomplish the tasks earlier. If the accounts of the organization are not received within the stipulated time, Accountant General should specifically bring out the delay to the notice of the Chief Executive of the organization through a D.O. letter, so that the delay is not attributed to audit. If however the accounts are received late, every effort shall be made by the Audit Office to take up the audit as expeditiously as possible. The time frames prescribed for each activity shall be strictly adhered to and the final despatch of the approved S.A.R shall not be delayed but for the delay due to belated submission of accounts.

Since the work of certification of annual accounts and issue of S.A.R is to be completed in time bound manner, it shall be ensured that the documents to be sent along with the draft S.A.R are complete in every respect and the following documents are invariably sent.

- a) Two copies of draft S.A.R along with 'aide-memoirs' and keys linking the figures.
- b) Two copies of draft Audit Certificate prepared to be issued.
- c) One copy of the annual accounts to be certified by the Accountant General.
- d) Pro-forma in the prescribed format, showing progress of audit.

In order to enable Headquarters Office to know the time taken in various activities in audit, the requisite information is to be furnished to Headquarters Office, in the revised format (Annexure III) along with the S.A.R.

(Authority:- Circular letter No. 173 – Rep (AB) 27-84 (1) dated 19.9.1999 from HQ Office)

5.4 Separate Audit Reports

The audit report prepared on Kerala Water Authority is required to be placed before the State Legislature under Section 29 (4) of Kerala Water Supply and Sewerage Act 1986. To distinguish this from the conventional Audit Report on the account of the State/Central Government presented by the Comptroller & Auditor General under Article 151 of the constitution of India, this report is called "Separate Audit Report". As per instructions contained in circular D.O letter No. 364 – Audit II / 72-90 dated 17.3.1992 from Shri S. Lakshminarayanan, Principal Director (Audit) "Separate Audit Reports" are to contain only 'comments on accounts'

5.4.1 Points to be kept in view while preparing draft S.A.R

The following aspects may be specifically kept in view at the time of preparation of Separate Audit Reports in respect of Autonomous Bodies.

1) Accounting Policies :- Organizations may be advised to append to annual accounts 'Significant Accounting Policies' and 'Notes to Accounts'. The former can indicate 'significant accounting policies' eg. Items if any accounted for on cash basis, fixed assets and inventory valuation, etc. In the Notes to Accounts non-applicability of Income Tax on the surplus of the organization, exemption from statutory enactments, treatment of contingent liabilities, etc. may have to be indicated. Such disclosure by the autonomous bodies will introduce transparency in accounts. The Accounts are read and certified only on the basis and parameters of such disclosure and they form part of the accounts certified by us. Therefore, any shortcoming in these aspect may however be commented in the S.A.R.

2) Transactions under Plan and Non-Plan:- Transactions need to be examined to ensure that there is no mixing up of 'Plan' and 'Non-Plan' in any inflow or out flow and if there be suitable comments should be made in SAR. If 'plan' and 'non-plan' are not separately depicted in the accounts, a separate schedule for the bifurcation for revenue and capital and 'plan' and 'non-plan' items may be insisted upon. If the organization is not able to exhibit such important data distinctly under major activities heads, it should be commented upon in the S.A.R.

3) Minus balances shown in the accounts require careful probe in audit: They sometimes foretell serious irregularities. Reasons for each minus balance should be examined and commented upon

4) Suspense heads:- The extent of amount in suspense heads and their relevance to the accuracy in accounts in as much as Suspense Accounts dilute the accuracy may be examined and commented in the S.A.Rs.

5) Fund Accounts:- If fund accounts for different purposes are found in the autonomous body, then the relevant transactions of each fund being accounted for in the respective fund should be checked in audit. Mixing up of funds should be commented upon in the S.A.R and audit of each fund account should be done specifically to assess the accuracy of each fund account.

6) Depreciation on Capital Assets:- Even though in autonomous bodies there is no concept of 'profit', it is the duty of audit while certifying the accounts, which includes the balance sheet, to mention the status of the assets in the context of depreciation due to usage, obsolescence etc. Depreciation is not necessarily a charge on profits. They can be provided for either actually out of surplus generated by the autonomous bodies, as in the case of revenue earning Port Trusts, or be deducted from the value of assets of non-revenue earning organizations so as to provide a true and fair view of the assets of the autonomous bodies. Continued exhibition of assets at book value despite obsolescence, reduced value with corresponding capital entry gives a totally wrong picture about the assets of the organization. It is, therefore, essential and desirable that supersession of instructions issued in 1982, in all such cases where the accounts indicate value on original cost, suitable comments should be made in the S.A.R wherever applicable on the following lines:

"The asset accounts depict book value of acquisition and do not exclude obsolescent, unusable, irreparable and condemned assets and also do not take into account depreciation with corresponding reduction of capital account. The capital and asset accounts are overstated accordingly thereby not giving the correct picture"

If, however, the organization indicates in the "Notes to Accounts" that depreciation for the assets has not been provided for and quantifies the amount, no comment need be made by Audit on this point. It may, however, be ensured that the condition of the assets vis-à-vis the valuation is verified and a specific certificate from the organizations should be obtained that they are not holding any obsolete or unusable assets which should be cross checked with reference to corroborating records during the audit and comments included where necessary.

7) System of accounting of transactions on accrual/cash basis for exhibition in Balance Sheet : The system of accounting is required to be on accrual basis, so that Income and Expenditure Account and Balance Sheet make a meaningful depiction of the true and fair view of financial position of the organization. If any deviation is made from this basic principle, unless it is properly spelt out in the 'Accounting Policies' or 'Notes to Accounts', S.A.R should always have clear comment of this aspect in respect of all such items. The Autonomous Bodies should be advised to adhere to accrual principle for all transactions with only rare justified exceptions clearly revealed.

8) Cross checking of accounts with schedules: It has to be ensured in audit that all the schedules referred to in the accounts are correctly drawn up and figures shown therein tally with the accounts figures, as the schedules form part of the accounts certified by the audit.

9) Bank reconciliation: As also required in HQ office circular No. 52 Rep (AB)/20-86 dated 25.2.1993, it has to be ensured that comments about arrears in bank reconciliation highlighting possibilities of misappropriation and frauds and the risks involved due to non-reconciliation/delays in reconciliation and the procedural deficiencies and lapses are highlighted in the S.A.Rs. Wherever warranted S.A.R should contain a clear comment that the bank/ cash balances as revealed in the books of account could not be verified in Audit due to such non-reconciliation.

10) Revision of accounts: In all cases where accounts are revised at the instance of audit, suitable comments as required in HQ office circular dated 16.1.1998 provided the substantial revision was effected due to our audit scrutiny.

11) Register of assets: these should be carefully checked in the context of earlier comments on this subject and certification on physical verification of assets insisted upon so that non-availability of such certificates is commented upon in SAR.

12) Concise and brief comments:- As the S.A.Rs are required to contain only "Comments on Accounts", it should be ensured that the comments to be included in the S.A.Rs are concise and brief with a clear statement about impact on accounts of each comment as a result of deficient procedure/accounting followed. The SAR should convey only final comment and should not read like as an Inspection Report or draft Para. The SAR should always say the resultant under/

over statement of head concerned and the impact on surplus/deficit/assets/liabilities in exact amounts.

13) Unspent Grants:- it is necessary that the organizations draw a distinction between annual maintenance/revenue grants and grants for specific capital purposes. The unspent grants refundable /repayable to Government/other agencies, as may be required under the conditions stipulated in the grants, are in fact distinctly shown as "returnable" in the liability side of the Balance Sheet of the autonomous bodies. Non-depiction of such unspent balances in the Balance Sheet should be commented in the S.A.R.

14) Realization of income due to the organization:- It is necessary that income realized by an organization is accounted for as income in the Receipt and Payment Account/Income and Expenditure Account, and is not allowed to be kept in a separate fund/account.

15) Completeness in accounts:- It should be ensured in audit that the accounts to be certified are complete in every respect and in cases where the accounts are voluminous, the organizations should be asked to suitably consolidate and index the annual accounts so that possibility of any accounts remaining out of the purview of audit is avoided. In order to ensure completeness and meaningful exhibition, all the three accounts, namely 'Receipts & Payment Account' 'Income & Expenditure Account' and 'Balance Sheet' with supporting schedules, 'Significant Accounting Policies' and 'Notes to Accounts' should come as a set to the audit to enable the auditor to check and certify these accounts. Incidentally figures should be reduced to maximum of five digits for easy comprehension.

16) One of the main shortfalls in ensuring utilization of grants/ loans for such purposes for which the grants/loans are given to Autonomous Bodies is non-production of such certificates to the Ministry/Dept./Govt. While on one hand, the accounts are purported to have accommodated such expenditure on revenue and capital heads and are certified by Audit, on the other hand Audit also list out that such certificates are yet to be received. This is like absence of physical verification certificate for assets exhibited in Accounts certified. Therefore in future, a distinct comment should be made in S.A.Rs that the assets/expenditure as exhibited in the current and previous year(s) accounts are not supported by utilization certificates for the specific amounts for which certificates are yet to be furnished to Government.

It may please be ensured that these aspects are kept in view during the certification of accounts of autonomous bodies.

(Circular Letter No. 111 – Rep (AB)/49-99 dated 31.5.1999 from Headquarters Office)

5.5 Adoption of Accounts

Annual Accounts of the Authority shall initially be adopted by the Board before their submission to audit. After completion of audit and incorporation of any changes necessitated as a result of audit, the accounts should be considered again and finally adopted by the Board.

(Circular letter No. 814/ Rep (c)/100-82 dated 25.2.1982 from Headquarters office).

5.6 Revision of Accounts

In all cases where the accounts are revised as a result of audit, there should be an indication to this effect, either in the Audit Report or in the accounts itself by way of a 'Note' by the Authority. Further, if the impact of the revision is substantial, a suitable mention thereof should be made in the Separate Audit Report, accompanying the Audit Certificate, as otherwise the contribution of Audit is not highlighted.

(Circular letter No. 66-106 – Rep (AB) 26-92 dated 24.2.1992)

5.7 Cases of inability to certify the Accounts

It may not be advisable to take a stand that audit certificate would not be issued if the Govt. or the autonomous body insist on such a certificate. In cases where the audit observation are of such a nature as would not warrant certification of accounts as exhibiting a true and fair picture, it may be necessary if so insisted upon by the autonomous body, to issue an audit certificate, making it abundantly clear in the audit certificate that in view of the observations in the Separate Audit Report, the accounts cannot be said to exhibit a true and fair picture.

(C.A.G's No. 491 – Rep (AB)/ 173 – 87 dated 6.11.1987)

5.8 Comments on Accounts

The procedure of including all the audit points in the Separate Audit Report has been discontinued as instructed in D.O letter No. 364. Audit. 11/72-90 dated 17.3.1992 of Shri S. Lakshminarayanan, Principal Director of Audit, addressed to A.G (Audit). By de-linking the audit comments from the S.A.R, more emphasis was given on the "comments on account" which will be more on

the Commercial Pattern. The Comments on accounts will be brief, concise and more effective. Important irregularities, points of interest and importance etc. noticed during the audit of the organization should be highlighted through the Conventional Audit Report, while the other irregularities will be pursued through the Inspection Reports like in the cases of other audits.

5.9 The Concept of True and Fair View

The primary duty of the Auditor is to determine whether the Balance Sheet shows a true and fair picture of the state of affairs of Body audited, as at the end of the financial year and whether the Profit and Loss Account (wherever prepared) shows a true and fair view of the working results of the Body. What constitutes a true and fair picture is a matter of judgment in the particular circumstances of a case.

The following guidelines are generally followed in judging whether the Balance Sheet shows the true and fair view of the affairs of the auditee organization.

- i.** Balance Sheet and Profit and Loss Account should be drawn in conformity with the accounting policy of the organization.
- ii.** Financial statements should disclose all material items so as to give a true and fair view of the actual state of affairs. There should not be neither an overstatement nor an understatement of the financial position and working results shown in the Balance Sheet and Income & Expenditure Accounts respectively.
- iii.** All material facts regarding expenses, revenues, assets and liabilities should be disclosed and there should be no misstatements. The assets and liabilities should be valued properly on the principles of "anticipate no profit and provide for all losses".
- iv.** The generally accepted principle of accounting should be consistently applied in bringing out the Balance Sheet and Income & Expenditure Account.
- v.** The financial statements should convey the required information clearly.

5.10 Trial Balance

Agreement of the Trial Balance provides a very useful check upon ledger postings.

It proves that the books are arithmetically correct. The following errors however remain undetected and will not affect the agreement of the trial balance.

- i. Errors of omission.
- ii. Wrong entries in the original records.
- iii. Errors of principle.
- iv. Compensating errors.
- v. Posting under wrong head of account.

5.11 Other checks to be applied during audit of Annual Accounts

- i. Scrutinize the journal entries for the month of March, particularly the annual adjusting entries. For this the Cash Book for the months of April to June are to be examined intelligently to see that all the provision for outstanding liabilities and accrued income have been made.
- ii. Check the depreciation worked out with reference to asset register. It may also be ensured that no further depreciation is charged on assets fully depreciated already.
- iii. Check whether the physical balance of stock has been verified by the organization and certified. Check the correctness of valuation of closing stock.
- iv. See whether provision has been made for guarantee commission, if any payable for loans guaranteed by Government.
- v. See that interest and penal interest, if any have been paid/provision has been made, on loans received from government and other sources, at the rate prescribed. The correctness of interest/penal interest worked out should also be checked.
- vi. Check the bank reconciliation statement.
- vii. Check the interest earned on securities and deposits.
- viii. Scrutinize the supporting documents of various account balance such as Sundry debtors, advances etc. and analyse their pendency to ensure that their recovery is enforced and that none represents fictitious balance.
- ix. Examine classification as between Capital and revenue.
- x. Check the entries in the revenue accounts and the balance sheet along with schedules accompanying them.
- xi. Look for exceptional transactions which have resulted in change or credits of a substantial amount to the accounting periods.

- xii.** Make sure that all income has been brought to account.
- xiii.** Ensure the adequacy or otherwise of provision for outstanding liabilities, bad debts, damage or deterioration.

5.12 Analysis of Accounts

A critical analysis of the accounts / records relating to the following aspects may be conducted for suitable comments.

5.12.1 Cash & Bank Balance

The cash and bank balance of the Head Office Accounts and those as per the individual unit accounts will normally agree. The difference if any stands included in the accounts under "Other Current Assets – Inter Office and Suspense Account Balances". A scrutiny of Cash Book and other records should indicate how these differences arose and it is advisable for the Authority to give a suitable foot-note as part of the accounts explaining the difference. It is necessary for audit to analyze the difference critically and to make specific comments in case the differences are pending for long, giving year-wise break-up. A scrutiny of the system in vogue should also be conducted to ensure that these differences do not hide cases of embezzlement. The difference in Bank balance with those as per Pass Book should also be analyzed. It is necessary to examine in audit whether periodical reconciliation of balance is being conducted and in particular, whether it was done as on the last working day of the year. Procedural deficiencies and lapses should also be high lighted in all cases.

In case substantial amount remains in Current Account and the balance are far in excess of the immediate requirement of the Organization over short periods, the necessity and justification for retaining heavy balance in the bank under Current Account, which does not carry any interest, should be examined and comments of the Organization obtained.

5.12.2 Advances

A system of payment of advances for the day to day administration and management of the organization is in vogue. In respect of advances to be adjusted from salary, the recovery should be more or less regular. In respect of advances to suppliers, it should be seen that the adjustment bill are presented with unutilized balance promptly. The inordinate delay in adjustment of advances indicates lack of financial discipline. In several cases, the materials would have been received, but adjustment bills might not have been examined and advances adjusted in the

accounts. A critical scrutiny of advances that are pending for a considerable period is necessary. In respect of all types of advances, year-wise analysis of outstanding should be given and the circumstances that led to the non-recovery or adjustment of the advances should be commented upon.

5.12.3 Provident fund

The Authority maintains the Provident Fund accounts of their employees. The State Government vide a notification dated 26.5.1987 have made Provident fund Act 1925 applicable to Kerala Water Authority, and as such the investment of accumulation in P.F accounts is not mandatory.

Scrutiny of P.F accounts and comments there on should cover the following points.

- i.** Whether the accounts of the subscribers have been duly closed after providing for interest up to the year of interest and in case the work is in arrears, the extent of arrears
- ii.** Whether balance as per individual accounts have been duly conveyed to the subscribers for acceptance annually and if in arrears, for how long.
- iii.** Whether interest has been correctly charged as seen from a test check of a reasonable number of accounts and in case some major mistakes in charging interest has taken place, it may be suitably commented.
- iv.** Whether the balance as per individual accounts of the subscribers have been detailed in a separate schedule and the total thereof has been agreed with balance as per the annual accounts. If this work is in arrears, the extent of arrears should be commented upon.

5.12.4 Assets

The Authority shall maintain Asset Register for asset, the value of which exceeds Rs 1,000 for each of the Divisional Offices, Circle Offices, Regional Offices and Head Offices in Form F.A.15. The compliance in this regard should be got watched as a part of our audit. If proper accounts of the assets and the annual value of assets as per these records are not duly reconciled with the book balance as reflected in the annual accounts, it is necessary to be commented upon in the S.A.R. The period from which this reconciliation is in arrears should also be specified.

The important points to be seen in respect of assets are:-

- i. Physical balance is tallied with the book balance and a certificate to this effect is recorded in the Asset Register. Non-availability of such certificates should be commented upon in the Separate Audit Report.
- ii. Whether book value of the assets as per records is duly agreed with accounts figure.
- iii. Old and obsolete assets are identified and disposed of in time and its value adjusted according to prescribed procedure.
- iv. Record of depreciation in value accounts is properly kept and rates charged are adequate.

5.12.5 Depreciation

Section 26 of Kerala Water Authority and Sewerage Act 1986 lays down that the Authority shall create a Depreciation Reserve and make annual provision therefore in accordance with such principles as may be prescribed. Clause (C) of sub Section (2) of Section 64 of the Act empowers Government to make rules prescribing the manner for making provision for Depreciation Reserve and for its utilization. Accordingly, Government vide Notification dated 21.8.1993 made rules for charging depreciation on the cost of assets. As per this notification, 90 *per cent* of the cost of assets shall be depreciated on an annual basis at equal instalments over the estimated life of the assets. 10 *per cent* of the original cost is retained in the Books. For example, the life fixed for a Borewell with hand pump is 15 years. If the cost of the equipments is Rs 1,50,000 the annual depreciation will be Rs 9, 000 as worked out below.

Cost of the asset		Rs 1, 50,000
10% of the original cost		Rs 15, 000
Balance cost to be written off as depreciation		Rs 1, 35,000
Life time of the asset.	15 years	
Annual depreciation	$Rs\ 1,35,000 \div 15 =$	Rs 9, 000

The annual depreciation is charged on straight line method till the end of the life of the asset.

100 *per cent* of the costs of lease hold assets should be depreciated over the lease period (excluding any future renewal period) or estimated useful life adopted, which ever is less.

In respect of assets added during the year/ disposed off during the year, proportionate depreciation shall be charged.

5.12.6 Depreciation Reserve Account

The depreciation charged should be deducted from the value of each asset annually and the amount so deducted shall be transferred every year to a depreciation reserve account.

When an asset is sold, the extent of depreciation reserve charged on the asset will be reversed by transferring the amount to the cost of the asset.

When an asset has become defunct or destroyed and cannot be of any use to the Authority and it is decided to discard the same, the extent of depreciation reserve charged till that year on that asset shall be reversed by charging the amount to the cost of such asset.

The capital profit earned on the disposal of an asset shall be transferred to capital reserve or the loss on realization of an asset shall be charged off to Reserve.

The true and fair position regarding the profitability of the organization will be reflected in the accounts only when depreciation is charged correctly in the accounts. Audit should see that depreciation has been charged correctly so as to depict a true and fair position.

5.12.7 Bad and Doubtful Debts

Each individual debtor or creditor has his account in separate ledgers. At the end of each financial period, all the outstanding balance of debtors and creditors are taken over from the ledger and separate lists are prepared. The total of balance in the Sundry Debtors/sundry creditors is included in the Trial Balance under those Heads.

There may be debts which are doubtful. In order to arrive at the accurate figure of net profit, in any particular accounting period, it is necessary to provide on the basis of an estimate of loss that are likely to be sustained, by debiting to Income & Expenditure Account and crediting reserve for doubtful debts account, under instruction of proper authority as prescribed by the Board.

The debts which are found to be irrecoverable are bad debts and will have to be written off. The write off instructions (Form R.A.26) shall be issued only by a person/ official authorized by the Board and shall be as per the norms prescribed by the Authority.

5.12.8 Sundry Debtors

The main source of income of the Authority is the water, sewerage and maintenance charges collected from consumers and local bodies.

All the revenue collected by the units is transferred to HQrs. Account through banks. The amount due to the Authority in a particular accounting period is considered as income for that period. The uncollected amount is shown in the Balance Sheet as Current Assets – Sundry Debtors".

Normally there should be arrears in collection. If arrears are accumulated, it would indicate a specific lacuna in the observance of prescribed procedure. In the audit of annual accounts, it is necessary to analyze the debtors, especially debtors outstanding for a period exceeding 6 month.

It is to be seen that:-

- i.** The amount due had been assessed correctly.
- ii.** Periodical review of old arrears is being conducted and action taken.
- iii.** Debts considered doubtful or bad is shown separately.
- iv.** Classification of account is correct.

5.13 Inter Office Accounts

Inter Office Account (IOA) is a suspense head operated for all receipts and payments between Divisions and Head Office. Any receipts and payments relating to transfer of materials, fixed assets, liability, expenditure or income between Divisions shall be accounted in the cash book of the respective divisions as receipt/payment under the appropriate "Inter Office Account"(Account Codes Nos. 9111 to 9113, 9121 to 9123 and 9141 to 9143 etc. as the case may be). The Division shall submit details of cash and other transaction so transferred or received, to the Finance Wing of the Head Office along with the monthly accounts. The Head Office shall ultimately remove the transaction under this head of account by credit or debit to the final head of account, through journals and intimate the Division concerned. The unadjusted balances under this head of account represent bonafide assets or liabilities.

The balance and IOA. must be reviewed in audit so as to ensure that no item remains unadjusted longer than is reasonably necessary to bring about its clearance in the ordinary course with due regard to rules. Audit has also to see that

the unadjusted balance represent bonafide assets or liabilities capable of being realized or settled as the case may be, and that appropriate action towards such realization or settlement is being taken by officers responsible.

CHAPTER VI

LOCAL AUDIT

6.1 GENERAL

Central audit conducted by the audit staff at Headquarters (Resident Audit Office) is based on the accounts rendered by the Authority in the prescribed form and copies of sanctions, orders etc. received in the Resident Audit Office. Major portion of the original records based on which the accounts are compiled and sanctions etc. are issued, are retained in the office in which they originate. The purpose of local audit is to scrutinize those initial accounts on the spot and to see whether these accounts are maintained in the proper form and to verify the accuracy and completeness of such accounts. At the same time a test audit of such records which are not available for Central Audit may be conducted during Local Audit.

As the objective of the accounts is to present a true and fair financial picture, an intelligent and proper audit requires visualization of all financial transactions in their proper perspective as a whole and not merely the examination of details of the transactions which work to the final results. The Inspecting staff should therefore, prior to taking up the audit, make themselves conversant with the objectives of the organization, the nature of transactions, the system of accounts, the account books prescribed, the budget, the accounting/auditing manuals and the Administrative/Annual Reports of the organization etc, in order to obtain a correct perspective of the institution. A general review of the agenda papers and minutes of the Board Meetings, Previous Inspection Reports, News paper and journal clippings etc. would be informative. They should make audit both intelligent and useful, instead of allowing it to become merely a process of checking registers in a mechanical way. In the case of reviews, clear cut guide lines/instructions in writing shall be issued to the Audit Parties, before they proceed on local audit. The guide line should cover *inter alia* the following points.

- a) Objective of the Review.
- b) Areas to be covered.
- c) Points to be seen
- d) Back ground materials already available.
- e) Additional information to be collected.
- f) Methods of analysis of information.

- g) Objections likely to be noticed.
- h) Time frame for completion of the Review.

6.2 Procedure for Local Audit

The procedure regarding issue of notice intimating the programme of audit, commencement of audit, control over the progress of works of the Audit Party, issue of Audit Memos and receipt of their replies, discussion of the findings of audit, drafting of Inspection Reports and despatch of the same to HQrs. etc. as followed in the local audit of Government offices should be followed, mutatis mutandis, for the audit for the audit of Kerala Water Authority as well.

(Para. 4.02 of the Manual of Instructions for audit of Autonomous Bodies)

6.3 Local Audit Parties

The local audit of units of Kerala Water Authority is undertaken by Civil Audit Parties, diverted for this purpose by OA (HQ) Section, in accordance with the instructions issued and programme drawn up by the Resident Audit Officer from time to time. An audit plan for the local audit for the ensuing financial year is prepared early in January each year. This is based on the availability of parties for the year. The annual programme, as approved by A.G.(Audit), shall be split up in to quarterly programmes for the Inspection Parties. Copies of local audit programme shall be sent to the Authority. The heads of units proposed to be audited shall also be informed of the programme sufficiently early.

6.4 Time required for Local Audit

Formerly, the party days required for yearly local audit of each unit was fixed on the basis of the days allowed for the inspection of that unit in the previous year(s) subject to changes in party days that were allowed during the previous year(s) considering the volume of transactions

As per C&A.G's circular letter No. 565/Rep/(S) 25-2001 dated 16.05.2005 number of party days for local audit shall be determined on the basis of the matrices for financial (transaction) audit after conducting analysis of risk areas of auditee units by sampling method for financial (transaction) audit (refer to Annexure V) and the audit plan thus prepared shall be got approved by the Accountant General.

6.5 Register of Local Audit

Resident Audit Office shall maintain a register of Local Audit which should contain name of institution to be audited, Annual expenditure of the

division, periodicity of audit, number of days allotted, date of last audit and the current date of audit. The list of offices to be audited shall be reviewed and kept up to date. The duration of audit for various types of offices as indicated in the programme register shall also be reviewed every third year to ensure that the time allowed is adequate. The programme should be drawn up in such a way that every office may come under local audit.

6.6 Audit Memos

The objections noticed as a result of audit should be recorded in the form of an Audit Enquiry and the same issued to the head of Office for obtaining their remarks. Full particulars should be gathered before the issue of preliminary audit memos so that there may not be much difference between the preliminary audit memos and the final paragraphs in the Inspection Reports. The replies received for the institution should always be examined by the highest official in charge of the party so that the final objection are properly drafted and incorporated in the draft IR.

6.7 Replies to Audit Memos

Every effort should be made to get the replies of the Head of Office inspected. The draft Inspection Report in no case be delayed due to non receipt of replies to the A.Es. The preliminary audit observations issued to the Departmental officers are mainly intended to convey the defects/irregularities etc. observed by the local audit party and to give an opportunity for the head of office to offer reasonable explanation for the omissions and lapses. There is no point in the audit party waiting for the reply from the management for drafting the report as it is primarily the responsibility of the management to satisfy audit by furnishing replies. If the replies are not received promptly the fact should be brought to the notice of the Head of the institution and the result reported to the Group Officer/Headquarters in a separate note. The Headquarters will then report the matter to the Secretary/Managing Director of the institution and the secretary to Govt. Finance Department if considered necessary.

6.8 Inspection Report and Test Audit Notes

After examining the replies received and after such verification as is considered necessary, the Inspecting Officer would decide the matters that would be included in the Inspection Report and Test Audit Notes.

The draft Inspection Report will be finalized and discussed with the Head of office, and for this purpose, it is desirable that the Head of office should be present at the time of finalisation unless his presence is urgently required elsewhere.

[Para. 4.3.1 of K.P.W.A. code]

The Inspection Report should be set forth in the following parts.

- Part I
- (a) Introductory
 - (b) Outstanding Objection from previous reports in brief.
 - (c) Schedule of persisting Irregularities

Part II Section A: - Major Irregularities which are likely to be developed in to draft paragraphs of the Audit Report.

Section B:- Irregularities which though not major are to be brought to the notice of higher authorities

Part III Test Audit Note

[Authority: Para. 6.1.16 of MSO (Audit)]

The party should forward to Headquarters all documents such as Title Sheet, Draft IR, Test Audit Notes (2 Copies), rough notes, review notes on various points outstanding in the previous Inspection Reports, Audit Enquiries, etc., with a covering list, immediately after the audit is over, but in any case not later than three days after completion of audit.

6.8.1 Processing of Inspecting Report in RAO

According to Para 8.09 of the Manual of OAD the scrutiny, editing and issue of Inspection Reports should not take more than 21 days. In any case the Inspection Report should be issued within one month from the date of completion of inspection. The following programme for submission and issue of Inspection Reports has been prescribed in the Manual.

- | | |
|-----------------------------------------------------|-------------------------------------------|
| i) Submission of the report by the inspection party | Within 3 days from the last date of audit |
| ii) Review and scrutiny in HQrs Section | 4 days |
| iii) Review and approval by Group Officer | 7 days |
| iv) Typing, comparing and issue of report | 7 days |

6.8.2 Procedure for dropping paras and closing of Inspection Reports

As per provision contained in Para 6.1.24 of MSO (Audit), the Inspection Report forwarded by the Inspecting Officer is to be scrutinized and edited in HQrs. After approval by the Group Officer, the edited Inspection Report is to be issued to the Head of the Office concerned with a copy to the next higher authority. Further replies to the objections contained in the Inspection Reports and their settlements are to be watched by the Headquarters sections concerned. Accordingly the objections are settled and finally the Inspection Report is closed by the RAO of Kerala Water Authority.

6.9 Allocation of duties in the field Parties

Based on the mode of allocation of duties prescribed by the HQrs in letter No. CA IV Teh. 4/84/ No. 545CA/IV/ 87-81/Vol VI dated 11.9.1984 A.G (Audit) has revised the allocation of duties to be performed by AOs,AAOs and Sr.Auditors/ Auditors of the field parties who audit transactions of Government Companies/departmental undertakings, Kerala State Electricity Board and Kerala State Road Transport Corporation. The revised allocation of duties are given in Annexure to Para 9.10 of Commercial Audit Manual (Part -1) of A.G.(Audit). Based on the above, the allocation of duties shall be made among party personnel inspecting the various office of Kerala Water Authority as detailed below.

6.10. 1 Audit of Annual Accounts

a) Audit Officer

- i.** Co-ordination and supervision of the work of the audit team
- ii.** Review of the minutes and Agenda papers of the meetings of the Board of Directors and committees there of regarding resolution concerning annual accounts.
- iii.** Review of the system of internal Control and internal audit and their effectiveness to determine the extent of audit.
- iv.** Review of Balance Sheet and Income and Expenditure Account to see that they meet the requirements of the relevant statute and the generally accepted accounting principles.
- v.** Review of Accounting Policies.
- vi.** Giving guidance to other members about the points/areas to be test checked.
- vii.** Critical analysis of the annual accounts.

viii. Review of large and unusual items in Sundry Creditors, Sundry Debtors, and Payments etc.

ix. Finalization of draft Audit Report and comments on the accounts.

Asst. Audit Officer

(i) Examination of the various items in the schedule forming part of the Income and Expenditure Account and the Balance sheet to see that these are correct and meet the requirements of the relevant statute and accepted accounting principles.

(ii) Examination of the basis of valuation of inventory and adequacy of provisions.

(iii) Detailed check of Journal Vouchers for the month of March relating to adjustments of entries in connection with the annual closing of accounts.

(iv) Review of Journal Vouchers.

(v) Check the adequacy of provisions for depreciation, bonus, outstanding expenses etc.

(vi) Allocation of expenditure between capital and Revenue.

(vii) Raising of loan/grants from govt. and other agencies, their repayments, utilization etc. with connected files.

(viii) Payment of guarantee commission and connected matters.

(ix) Any other items of work entrusted by AO.

b) Senior Auditor/ Auditor

i. Checking of accuracy of Cash and Bank Balance with reference to statement of Balance reported by the account rendering units and the Bank Reconciliation statements.

ii. Checking of book balance in the physical inventory sheets with reference to the stores ledgers.

iii. Reconciliation of the value of inventories as per Priced Stores Ledger and Ledger Accounts.

iv. Checking of Debtors and Creditors Ledger and Fixed Asset Register.

v. Checking of previous years figures.

vi. Physical Verification of report of assets.

vii. Checking of valuation of inventories etc.

viii. Adequacy of provisions for bad and doubtful debts and advances.

- ix. Prior period adjustments.
- x. Verification of the figures in the Income and Expenditure Account and Balance Sheet with reference to schedules.
- xi. Checking of posting from cash book abstract Journal to Ledgers, Ledgers to Income and Expenditure Account and Balance Sheet.
- xii. Any other item of work entrusted by AO/RAO.

6.10.2 Headquarters office of the Authority (Office of M.D, CE (H.R.D), FM&CAO)

a) Audit Officer

- i. Scrutiny of minutes and Agenda papers of Board of Directors meeting and Committees thereof.
- ii. Scrutiny of Contracts/Agreements of all types (Purchase of stores, Capital items, awarding of works etc.) above Rs 15 lakh in each case.
- iii. Examination of systems of internal check/ control measures in actual operation against the prescribed systems.
- iv. Scrutiny Investment of Authority's funds.
- v. Finalization of Inspection reports and discussion with the Management.
- vi. Co-ordination and over all supervision of the work of the Audit Party.

b) Asst. Audit Officer

- i. Scrutiny of contracts/agreements of all types (Purchase of stores, Capital items, Construction works etc.) up to Rs 15 lakh.
- ii. Tariff Structure.
- iii. Utilization of grants/loans received for centrally Sponsored schemes and externally aided projects.
- iv. Utilization of loans received by the Authority.
- v. Transfer of Funds to units and remittance of collections by units to H.O.
- vi. Inventory Control, Credit control and Purchase procedure.
- vii. Examination of records relating to opening of Letter of Credit relating to payments of foreign exchange in relation to import and other purchase cases.
- viii. Review of vigilance and legal cases.
- ix. Any other items of work entrusted by AO.

- c. Sr. Auditor/Auditors**
- i.** Scrutiny of Cash Book/Bank Pass Book with reference to all connected records.
 - ii.** Log book of vehicles.
 - iii.** Pay /TA/Petty cash book with reference to connected records.
 - iv.** Bank reconciliation statement.
 - v.** P.F Accounts and other services records (including service books) relating to establishment.
 - vi.** Payments of Bonus under the provisions of Bonus Act.
 - vii.** Sanctions
 - viii.** Review of budget provisions and actual expenditure there against.
 - ix.** Registers of advances to suppliers/staff etc.
 - x.** Any other items of work entrusted by AO/AAO.

6.10.3 Audit in Circles, Divisions, and other offices of the Authority

a) Audit Officer

- i.** Co-ordination and over all supervision of the work of the Audit Party.
- ii.** Scrutiny of major contracts/agreements of all types and above Rs 10lakh.
- iii.** Analysis of major works.
- iv.** Review of expenditure on Investigation, Planning and Design (IPD) with reference to IPD Register (FA20) and other connected records.
- v.** Hiring of Tools and Plant, Movement register of T&P, Repairs to T&P etc.
- vi.** Review of the system of internal control in billing and collection of revenue.
- vii.** Finalization of IR and discussion with the Head of office.

c) Asst. Audit officer

- i.** Scrutiny of contract/agreements of all types up to Rs 10 lakh.
- ii.** Analysis of Minor Works.
- iii.** Review of cash book.
- iv.** Examination of deposit works.
- v.** Scrutiny of Bills of Domestic, non-domestic consumers and Local bodies with reference to tariff.
- vi.** Reconciliation of collections with Consumers Ledger (RA24),details of unbilled income (RA 37)

- vii. Age analysis of Sundry Debtors (RA 32) and Bad & Doubtful Report (RA 33)
- viii. Physical Verification of Securities received from contractors, subordinates and customers.
- ix. Review of Deposit Works Register (RA 7)
- x. Review of Local Purchase.
- xi. Any other item of work entrusted by AO.

d) Sr. Auditor/Auditor

- i. Review of cash book with reference to receipt and all connected records as the review of cash book abstract for the month selected for detailed Audit.
- ii. Pay /TA/Petty cash book/Interest/Temporary advance etc. with reference to connected records.
- iii. Checking of Bill Collectors Revenue Collection Scroll (CB 5) with reference to chalan for remittance to non-operative account in the Bank.
- iv. Check the monthly statement of remittance to Bank and its reconciliation with the bank.
- v. Bill of local bodies, delay in remittance/ non-remittance of dues.
- vi. DCB statement with reference to connected records.
- vii. Register of advances to supplies, (Register of supply order MA 9) contractors (contractor's contract register FA 8) and their adjustments.
- viii. Register of EMD, Security deposit, sale of tender forms, Retention money recovered etc.
- ix. Receipt and issue of stock transactions with reference to connected stores.
- x. Demurrage/wharfage payments and claims for mining wagons etc.
- xi. Departmental vehicles.
- xii. Scrutiny of service records.
- xiii. Any other items of work entrusted by AO/AAO.

6.11 In addition to the specific items of duties allocated as above, the Inspecting Officer should keep in mind the following also.

- i. On the first day of audit itself the Party members shall have an 'entry meeting' with the Head of Office to inform him the audit plan and to request him to ensure production of all records called for and to ensure

availability of staff who are the custodians of the records through out the period of audit. Minutes of entry meeting should be documented and should form Part of LAR.

(Circular No.PAG(Au) IV/Secy/IR. Review dated 15/3/2004)

- ii. If the test check reveals any serious irregularity that could be considered for further processing as draft paragraphs, he should draft a self contained paragraph separately with all relevant key documents and forward to the Group Officer.

iii. Exit Meeting

On completion of audit, the Inspection party should conduct an exit meeting with the Head of Office and discuss the draft Inspection Report with the head of office or in his absence with the person in charge and the fact of the discussion should be recorded in the Inspection Report under the dated signature of the person with whom discussed. It should be recorded in the Inspection Report by the Inspecting Officer that all observations pointing out lapses in the implementation of system and procedure and all weaknesses in responsibility centres have been discussed with the head of the office and assurance obtained in writing in regard to corrective measures for arresting potential risks. If they are unable to give such an assurance, the minutes of the meeting should be drawn up and attached with the Inspection Report.

- iv. The work should be completed within the time allowed in the programme approved by the Group Officer. Extension of time if required should be applied for specifically early with sufficient justification to enable the Headquarters Section to obtain the sanction of Group Officer.
- v. The points marked by Headquarters Section for local verification including those relating to Agenda notes and minutes and previous Inspection Reports should be examined.
- vi. The work diaries are written up daily and promptly despatched to Resident Audit Office at the end of every week.
- vii. The attendance register of the Party is sent in the personal address of the R.A.O after completion of the calendar year.
- viii. As per Para 2.9 of the Manual of Instructions on Restructuring and Para 2.5 of Manual of Instruction on Central Audit, the Auditors are expected

to be able to finalise audit memos and put up notes on their own. However, the head of the Party remains responsible for the audit as a whole. While allocating the works and over seeing the work of the members of the Party, the AO/A.A.O in charge of the Party should keep in mind the level of experience, caliber and efficiency of each and ensure that the general quality of audit is the best possible.

- ix. When no supervision by an Inspecting Officer has been provided, all the responsibilities of Inspecting Officer, in respect of audit of the institution would devolve on the A.A.O.

6.12 Audit of Transactions

The point to be looked in to at the time of local audit of various records and documents are detailed below.

Cash Book

Cash Book is the most fundamental record and audit commences with the check of the book and where circumstances warrant, check of the entire postings in the cash book, is carried out. The main purpose of auditing cash book is to ensure that all receipts are taken in to account in full, no improper or fraudulent payments are made, and the balances reflected in it are worked out correctly from time to time. The accounting procedure relating to receipts, payments, banking, transfer of funds etc. to be followed are given in Vol.V of the Accounts Manual of the Authority.

All revenue and other receipts of the Division/ Sub Division shall be accounted in the Cash Book under "I.O.A. Banks – Non-operative Account" (Account Code. 9134) for subsequent transfer to Head Office Account. The funds required by the Divisions/ Sub. Divisions are allotted by the Head Office through "Fund Transfer Advice". The funds received are accounted by the units under "Drawing Accounts" in the cash book.

The auditor has to see that:-

- i. The total and balances are computed correctly.
- ii. Balances are correctly carried forwarded from day to day and from month to month.
- iii. The balance in the cash book are checked periodically with physical balance and tallied.

- iv. The receipts are correctly posted in chronological order from all receipt books.
- v. The payments are duly supported by paid vouchers which can be accepted as solid legal discharge.
- vi. Withdrawals from and remittance to bank are traced in the respective pass books and from counterfoils of cheque books/remittance chalans.
- vii. Cash realisation are remitted in to bank with in the prescribed time.
- viii. Cash receipts are not diverted to meet expenditure.
- ix. The funds transferred from Head Office are correctly accounted in the cash book and the amount tally with the amount as per the "Fund Transfer Advice".
- x. Bank accounts are regularly reconciled with the pass book and bank statements.
- xi. The "Monthly Abstracts of Cash book" is prepared as per procedure prescribed in Chapter IV of Accounts Manual, Vol. V.

6.13 Establishment Audit

6.13.1 General

Establishment Section shall be responsible for all personal related activities such as maintenance of all personal records, preparation of pay bills and checking of claims made by officials with reference to their personal records, Authority's guide lines and rules applicable from time to time. The main records maintained are Increment Control Register (PA. 1), Pay bill register (PA.3), Unpaid salaries Register (PA.10), Bonus calculation sheet (PA. 15), Acquittance Register (PA.27), Casual Labour Rolls (PA.29), Service Books, etc.

The system of establishment audit consists essentially of the following functions.

- a. Audit of sanctions to establishment, check of classification of expenditure, and audit of general or specific sanction to pay and allowances.
- b. Audit against sanctioned strength of the establishment with reference to 'Sanctioned Strength Register'.
- c. Check of correctness of pay and allowance drawn on bills, with reference to service rules, general and special orders issued by

Government/Authority, governing appointment, transfers, suspension, retirement, leave etc.

- d. Check of initial records such as cash book, establishment bills, acquittance rolls, service books etc.
- e. Check of accounting of unpaid wages (net amount) in the cash book under the head of account 2814 at the end of the appointed day of disbursement.

6.13.2 Service Books

Service Books are the only documents for verification of service for pension and hence adequate attention should be given during local audit for verification of service books to the extent of the prescribed quantum. Service Books of persons due to retire with in five years should invariably be checked even if the number of service books checked exceeds the prescribed quantum.

Points requiring specific attention are given below.

- i. The Service Books are complete in every respect. The events affecting pension have been clearly spelt out along with the remarks of competent authority as to whether the period involved will or will not count for pension. It is to be ensured that there are no missing links.
- ii. Nomination in respect of Death-Cum- Retirement Gratuity, Provident Fund etc. have been made by the employees who are due to retire and that suitable noting to this effect have been made in the Service Books.
- iii. No alteration of date of birth is made without sanction of competent authority.
- iv. Entries on the first page of the Service Books are attested by the head of office and the entries in the other pages are verified and attested by the official concerned every five years.
- v. Entries in the pay columns of the Service Books are verified with reference to the office copies of pay bills for the months selected for detailed audit.
- vi. Entries of all events in the official career of the employee are made in the Service Book and attested by competent authority.

The following information should also be given along with the draft Inspection Report of local audit.

- i. Total number of service books maintained in the office inspected.

- ii. Number of Service Books Checked.
- iii. List of persons due to retire with in the next five years.

6.13.3 Medical Re-imburement Claims

The Kerala Water and Waste Water Authority Employees (Re-imburement of Medical Expenditure) Rules 1985 framed by the State Government (Notification No:50329/F2/84 dated 27.12.1985) regulate the claim in respect of re-imburement of medical expenditure of the employees of the Authority.

As per the above rules, an employee, including members of his family can seek medical attendance and claim re-imburement of cost of medicine and consultation fees subject to the following condition.

- i. Re-imburement of medical expenditure can be claimed for treatment under any approved system of medicine, but no one shall be entitled to re-imburement under more than one system simultaneously.
- ii. The claims are reimbursable based on a certificate of the head office in which the employee is working, to the effect that the charges are reasonable and genuine.
- iii. The claims shall be preferred in the prescribed forms accompanied by vouchers countersigned by the Authorized Medical Attendant.
- iv. Cost of food in the case of hospital treatment is not reimbursable.
- v. Room rent for hospital treatment is reimbursable.
- vi. The claim shall be preferred with in one month from the date of treatment. If the treatment exceeds one month, the claim for reimbursement for each month shall be preferred at the close of the month, except in the case of hospitalization.
- vii. The total amount that can be reimbursed to an employee during a calendar year shall not exceed one month's salary of the employee as on 1st day of January of that year.

Provided the Authority may sanction an amount not exceeding Rs 10,000 in a calendar year to an employee for prolonged treatment of diseases like cancer, cardiac ailment, injuries in accidents, T.B or similar other diseases involving hospitalization. For the purpose of these rule, Authorized Medical Attendant is any Medical Officer serving under the State or Central Govt. or any Registered Medical Practitioner of any system of medicine, registered as 'A' Class.

Approved system of medicines for this purpose are, Indian System (Ayurveda), Allopathy, Homoeo, Unani, etc.

6.13.4 Travelling Allowance.

The fundamental requirements which Audit must find satisfied in respect of travelling allowance bills are

- i.** that the journey was actually performed
- ii.** that it was necessary and authorized by general or special orders of the competent authority.
- iii.** that it was performed as expeditiously as possible.
- iv.** that no bill has been submitted for it before.
- v.** that the amount drawn is correct with reference to rate and general conditions.
- vi.** that the pay shown in the bill is correct with reference to the pay bill.
- vii.** that the adjustment bill are obtained immediately after the tour is over.

6.13.5 Advances to Employees

The advances to employees are in the nature of advance for festival, tour, purchase of conveyance, construction of house, pay advance etc. Procedure prescribed in Kerala Finance Code (Article 238 to 254) is generally followed by the authority for ascertaining the amount of advance entitled, amount payable and the amount recoverable for each type of advances. It has to be ensured in audit that the system prescribed is duly observed. Special watch is required to be kept in audit to see that the Internal Check and control over them are quite adequate.

It should be seen *inter alia* that:-

- i.** the advance was duly authorized by the competent authority.
- ii.** the register for watching recovery (PA 19) is maintained for each type of advance.
- iii.** the advance has been utilized for the purpose for which it had been paid
- iv.** conditions governing grant of advances have been complied with
- v.** GPF Pass books are maintained in respect of individual employees and the correctness of its posting is ensured.
- vi.** recovery of advances are duly remitted to Head Office through non-operative account as required in para 6 Chapter III (C) of Accounts Manual Vol. VI.

6.14 Revenue Receipts

6.14.1 General

Revenue of the Authority consists mainly of water and Sewerage charges collected from consumers categorized as follows.

- i. Domestic Consumers
- ii. Non- Domestic Consumers
- iii. Industrial Consumers
- iv. Local bodies such as Panchayats, Municipality, Corporation etc.

Supply of water to household consumers, where the end use is for the purpose of construction of houses etc. is also treated as non-domestic.

Recovery of water/sewerage charges is made on the basis of tariff notified by the Authority from time to time, with the prior approval of government, and other conditions of supply as specified by the Authority and incorporated in the agreement with the consumers.

Detailed procedure relating to water supply connections, disconnection of supply, assessment of water charges, fine on default of payment of bills etc. are contained in Kerala Water Authority (Water Supply) Regulations 1991.

Billing and collection of revenue are made by the collection centers (section/Sub Division) of the Authority. Bills are made out based on the quantity of water consumed as per the meter reading taken on specified regular intervals from the meter fixed to connection at the premises of the consumer. In the case of Residential Flats/Colonies having bulk supply of water billing is done by dividing the supply to the common sump (as recorded in the mass meter installed at the sump) by the number of house holds(Circular No: KWA/HO/AO (F)/F6/35/93-94 dated 26.1.1994)

Revenue shall be collected only at the authorized collection centres, by persons authorized to collect (viz cashier, bill collector).

All the revenue collected on a day shall be forwarded to the sub- divisions for the purpose of banking along with a collection summary in Form.RA.34 of Accounts Manual. The sub-division shall remit the amount on the next working day in the "Non Operative Account" opened in the name of FM & CAO at the respective branches of State Bank of Travancore. During the first week of every month an "Abstract of remittances to the non-operative account" along with copies

of remittance slips issued by the bank should be forwarded to the FM & CAO in the prescribed form.

The above procedure is to be followed in the cases of other receipts such as recoveries on account of sewerage charges, deposits from contractors, rent collected for buildings, sale proceeds of tender forms, GPF recoveries, recoveries of loans and advances given to employees etc.

(Circular No: KWA/F1 2715/84 dated 29.9.1984 of FM & CAO)

6.14.2 Points to be looked in to while auditing revenue and other receipts

The following points may be looked into while auditing accounts and records relating to revenue collection.

- i.** that the demands are raised promptly
- ii.** regular and correct accounting of demand collection, refunds etc. are being made
- iii.** proper safeguards exist to ensure that there is no omission or negligence in collection.
- iv.** demands are pursued with due diligence and not abandoned or reduced without adequate justification and proper authority.
- v.** there is no delay in remittance of collections in the bank account as prescribed.
- vi.** balance in the consumer's personal ledger are reconciled periodically with Head Office Account.
- vii.** adequate provision has been made for doubtful debtors.
- viii.** losses of revenue as a result of fraud, default or mistakes are promptly brought to light and investigated.
- ix.** where remittances are not made on due dates, penal interest has been included in the subsequent bills.
- x.** Demand, Collection, Balance Statement had been prepared for every month and the unit had sufficient details of year-wise and consumer-wise amounts due, agreed with the out standings as per D.C.B. statement.
- xi.** action has been taken to disconnect service in case of non-payment of due and when re-connection are made, the entire amount due as per the demand has been realized.
- xii.** provision contained in Clause 5(a) and 10 of Water Supply Regulation 1991 are strictly followed while providing casual connection and

converting casual connection to temporary domestic/ non-domestic connection.

- xiii. The internal control measures as laid down in Para 5&6 of Chapter VI in Volume III of the Accounts Manual have been enforced effectively and efficiently.

6.15 Audit of Expenditure on Works

6.15.1 General

It is most important that every work is properly investigated and all relevant data collected and correlated before finalizing the design and estimate of the work. Wrong choice of site or preparation of design based on incorrect or insufficient data can result in considerable extra expenditure and avoidable delay in completion of the work. The Investigation Planning & Design (I.P.D) wing of the Authority is conducting such investigation on various urban and rural Water Supply Schemes.

6.15.2 Detailed Estimate

This is prepared based on detailed designs and specification for the work, study of site conditions source of supply and cost of different materials, cost of labour, hire charges of Tools and Plant etc. Normally every items included in the estimate should conform to the standard specification for that class of work. If the work is to be done through contract agency, the data should make a provision for contractors profit at 10 *per cent* of the net cost of the item, less cost of departmental materials, if any, supplied.

6.15.3 Administrative Sanction

This is the sanction accorded by the competent authority authorizing the executing department to take up a particular work of a particular cost and in a particular location on the basis of a project report and a project estimate. The project estimate includes cost of investigation also.

6.15.4 Technical Sanction

This is accorded by the competent authority only based on the Administrative Sanction. It implies that the competent technical authority is satisfied about the suitability of the work to meet the requirement, its structural soundness and about the quantities, specification and rates of the different items of work which will be involved in completing the work.

The work/schemes are executed by the Division concerned on the basis of administrative sanction and technical sanction issued. Funds required for each specific work are allotted from Head office and the expenditure on each work should be limited to the budget provision.

6.15.5 Tenders and Arrangement of Contract

The works are generally arranged through contract agencies and the award of contract should normally be made through tenders.

The following points should be kept in view while reviewing tenders and award of contracts.

- i. The period allowed between the date of advertisement of tender call and the last date fixed for the receipt of tenders should afford ample time and opportunity to the tenderers for full investigation and study before making offers. The time limits allowed are:-
 - a) Work costing up to Rs 40,000 - 7days
 - b) Work costing above Rs 40,000 up to Rs 4 lakh - 10 days
 - c) Work costing above Rs 4 lakh but below Rs 10 lakh - 14 days
 - d) Work costing above Rs 10 lakh but not requiring pre-qualification} - 3 weeks
 - e) Work requiring pre-qualification - 4 weeks

(Vide resolution No.3572 of Board Meeting dated 28.10.1995)

- ii. Normally there shall be no negotiation after tenders are opened. However, it is permissible to negotiate with the lowest tenderer to get high rates reduced to reasonable levels. In all cases where the officer opening the tender feels that negotiation with one or more tenders will be advantageous, he must get concurrence of next higher authority before entering into such negotiation. As a rule no negotiation shall be carried on which will be contrary to the principles of tendering by which unfair advantage is gained by a tenderer after opening of tenders, through such negotiations
- iii. The consideration of tenders and decision there on should be completed well before the date of expiry of the firm period noted in the tender so that the selection notice is sent on or before the expiry of the firm period. The officer receiving the tender, if he is not competent to settle the contract, should send the tender with his recommendation and tabulation

statement to the next higher officer with in $\frac{1}{3}$ of the firm period. In case special orders of government are also necessary, at least one months time should be provided for consideration by Govt. and the balance period should be distributed between concerned officer

(Para 15.7.13 of K.P.W.D. Manual)

- iv. Splitting should not be resorted to unless it is specified in the tender notification that the Authority deserves the right to split the contract in the manner given in the schedule and call for time for completion of individual parts as well as the whole works
- v. In case it is decided not to call for tenders, the work may be got down either departmentally or through negotiated contract, provided the rate offered is not in excess over the estimate rate. If however, rates higher than the estimate rate have to be given, the reasons should be properly explained and sanction of next higher authority obtained.
- vi. After the decision on contract is made the selection notice should be sent to the contractor before the expiry of the firm period and a formal agreement should be executed after depositing the required security. In the case of contracts exceeding Rs Two lakh, copies of agreements should be sent to R.A.O also

6.15.6 Contract Documents

The following should be the contract documents for a work.

- a) Agreement with schedule, conditions of contract, both general and special etc.
- b) Original tender with all accompaniments thereof.
- c) Attested copies of interim correspondence between the Authority and the tenderer which have a bearing on the tender.
- d) Selection notice
- e) M.D.S.S or K.S.S

If the selected contractor fails to deposit the required security or fails to sign the agreement after the selection notice has been issued, action should be taken against the contractor as provided in the tender notice as well as in the rules regarding registration of contractors.

Detailed procedure with regard to investigation, preparation of estimates, tendering of works etc. as laid down in Chapters VIII, X and XV of Kerala Public

Works Department Manual are applicable to Kerala Water Authority. Strict adherence of these provisions should be examined in audit.

The following guiding principles have been laid down for authorities authorized to enter in to contracts and agreements.

- 1) The terms of contract must be precise and definite and there must be no room for ambiguity or misconstruction there in.
- 2) As far as possible legal and financial advice should be taken in the drafting of contracts, before they are entered in to.
- 3) Standard forms of contract should be adopted wherever possible, the terms should be subjected to adequate prior scrutiny.
- 4) The terms of contract once entered into should not be materially varied without the prior consent of competent financial authority.
- 5) Even in cases where a formal written contract is not made, no order for supplies etc. should be placed without at least a written agreement as to price.
- 6) Provision must be made in contracts for safeguarding govt. property entrusted to a contractor.
- 7) When a contract is likely to endure for a period of more than five years, it should include wherever feasible, a provision for unconditional power of revocation or cancellation at any time after the expiry of six months notice to that effect.
- 8) Standing contracts should be reviewed occasionally and if audit has reasons to believe that the rates accepted in those contracts are considerably higher than the rates prevailing at the time of review, such variation shall be brought to the notice of competent authority for such action as it may deem necessary.
- 9) Wherever practicable and advantageous, contracts should be placed only after tenders have been invited openly.

Compliance of the above guiding principles should be watched in local audit. Further, instruction contained in Chapter 7 of M.S.O (Audit) should also be borne in mind while auditing contract documents.

6.15.7 Delegation powers to various officers in Sanctioning works

Powers delegated to various officers' and the High Level Committee, in the Authority in sanctioning works are given in Appendix II to Kerala Water

Authority (Powers of Employees) Regulation 1999. The power of sanctioning scheme costing more than Rs.1crore shall be exercised by the Authority only with the approval of the Board.

6.15.8 Execution of Works

The works on Water Supply installation involve location of water sources; intake works (storage tanks etc.) pumps and pumping mains, purification, distribution system and metering.

Certain important aspects to be covered during examination of works are given below.

- i.** Defective investigation and planning
- ii.** Defective preparation of estimates.
- iii.** Wasteful expenditure due to lack of co-ordination amongst the several aspects of the work. For example, abandonment of work partially completed owing to the failure of the Authority to ensure the availability of land, adequate supply of department materials in time.
- iv.** Completed schemes remaining unutilized due to inadequacy of sources of water for pumping and distribution or the quality of water available not being fit for human consumption even after the usual treatment/filtration followed by chlorination.
- v.** Departmental delay in handing over the site or working drawings after the contract is awarded.
- vi.** Major structural alteration during the course of execution.
- vii.** Excavating trenches for laying pipes for distribution, in excess of actual requirement.
- viii.** Extra claim for "earth work excavation" and classification of earth work for measurement.
- ix.** Re-arrangement of balance work due to backing out of the first contractor and resultant loss/extra expenditure.
- x.** Availability of departmental rubbles etc at site while making payment for using contractors own rubble.
- xi.** Delay exceeding one year in fixing liability of contractors whose contracts were terminated at their risk and cost.
- xii.** Excess over estimate caused due to conditions unforeseen or overlooked at the time of preparing estimate or due to other reasons.

xiii. Repeated extension of time for completion of works without adequate justification or without imposition of penalty.

xiv. Delay in making final payments to contractor.

6.15.9 Payments for Work done

The procedure prescribed in Accounts Manual (Vol. IV) should be followed for accounting the expenditure on schemes/works/acquisition/creation of fixed assets etc. Payments for all works done are made on the basis of measurements recorded in Measurement Books. The Measurement Books should therefore be considered as very important account record. All the Measurement Books belonging to a division should be numbered serially and the pages of each book should be machine numbered and a register of Measurement Books should be maintained. No entry in the Book may be erased. Whenever any measurement recorded is cancelled, the cancellation must be supported by the dated initials of the officer ordering the cancellation.

Payments to work should ordinarily be made monthly. Both quantities and amount of each item should be shown separately in the Running Account Bill (Form. FA.9) except in the case of completed items of sub-work, the full details of which were included in previous bills.

As per the accounting system of the Authority, all payments to contractors for work done are initially debited by the Divisional Office, to "Sundry Creditors Contractors"(Account Code 2811) and the advance payments, if any, to the head "Advance to Contractors" (Account Code 1661). An account of the transaction relating to a work, including cost of materials used directly to work during a month should be prepared by the division in Form FA.11. (Abstract of Work Register) and forwarded to the head office along with Monthly Accounts. On receipt of the same, the Head Office shall debit the expenditure under "Capital Work in Progress"(Account Code 1111 to 1189 as the case may be)by corresponding credit to unit accounts. The amount so booked including the project over heads/interest allocated etc. is finally transferred to the capital head of account, "Fixed Assets Account" (Account codes 1011 to 1089) as and when completion report of the project (Capital Work Cost Analysis – Form 13) is received from the Division concerned.

(Account manual; - Vol. IV of the Authority may be referred to for detailed instructions in this regard).

6.15.10 Recovery of KVAT on works contract

As per Section 10 of the Kerala Value Added Tax Act 2003, every awarder shall deduct from every payment, including advance payments made by him to any works contractor liable to pay tax under Section 6, in relation to any works contract awarded, the tax, payable by the contractor in respect of such contract under that section, whether the transfer of goods involved in the execution of works contract is in the form of goods or not and remit it to Government, in the prescribed manner (within five days from the date of deduction). Every such awarder shall also file such return as may be prescribed.

Recovery and remittance of KVAT, if any, as per Rules shall be examined in audit.

6.15.11 System of Preliminary Agreement

The Authority, in its 199th meeting held on 30.9.1999 decided (Resolution No: 5278) to introduce the system of preliminary agreement for works in the Authority, so as to prevent backing out of tenderers, after the work had been awarded/selection notice issued in his favour. Instruction in these regards had been issued Vide Order No:KWA/HQ/WS.2/TD.24/1270/97 dated 29.10.1999 of the M.D.

6.15.12 Bank Guarantee

In view of the increasing tendency among firms/contractors not to complete the supply/works as contemplated in the agreements, the Authority has decided (Resolution No.5744 in the 216th meeting held on 22.02.2001) that N.I.T for future contracts for supply/work should contain a provision to the effect that the firms/contractors shall remit a Bank Guarantee equivalent to 10 *per cent* of the total value of works/contracts to cover the risk and cost in cases alternate supply/work has to be arranged by the Authority .

6.15.13 Schedule of Rates

A schedule of rates prepared on the basis of rates prevailing in each locality for each kind of work commonly executed is required to be kept in each Divisional Office. Detailed estimates have to be framed based on the schedule of rates. The schedule of rates reflects the current market as faithfully as possible. This schedule will also have to be referred to for working out rates for extra items etc. in contracts. If the items not included in the departmental schedule of rates are included in an estimate, the data for unit rate should be worked out based on the

market rate for the item or its components. The data should indicate the source from which the rate for the items of work is derived. The schedule of rates should also be revised once in a year, so that fluctuations in the market rates are taken note of.

The schedule of rates consists of three parts Viz.

Part – I - The schedule of basic rates for labour and materials.

Part - II – The data book detailing the quantities of materials and labor required for different items of work and process of working out the rates for works from basic rates and

Part- III – Schedule of rates of various items of work. Part II Viz. the data book bill remain unchanged by fluctuation in market rates while Part – I and Part – III are subject to such changes. Regarding rates for finished work to be included in Part - III, these may be worked out from basic rates in Part-I in the manner prescribed in Part-II (data book)

(Para 10.4 of K.P.W.D Manual)

6.15.14 Security Deposits

Security should in all cases be taken for the due fulfillment of a contract. Security deposits of contractors, whether made in cash or other interest bearing Securities such as deposits in recognized banks, National saving certificates, Treasury saving certificates, Government promissory notes etc. are covered by a bond or agreement setting forth the conditions under which the security is held and may be ultimately refunded or appropriated. Reference to such bond or agreement should be recorded in the "Register of Securities"(form FA 6) or in the "Register of Security Deposit "(form FA 5)as the case may be of Accounts Manual Vol. IV. Divisional officers should, at least once a year see that the market value of government papers which have been furnished as security is sufficient to cover the amount of security required. The valuation should be made with reference to prices prevailing on the 1st April last.

Without the special orders of the competent authority, no security deposit should be repaid or retransferred to the depositor or other wise disposed of except in accordance with the terms of his agreement or bond.

The maximum period of retention of security deposit will be six month from the date of completion of work and the security amount shall if necessary be released earlier at the discretion of the Executive Engineer concerned, provided

he is convinced that the amount as per the final bill cover all liabilities of the contractor and record a certificate to that effect and provided also that the contractor has produced the latest clearance certificate of Income tax and Agricultural Income tax and sale tax. The depositor's acknowledgement should be obtained in all cases of security returned.

Transaction connected with interest bearing securities do not pass through the cash book and the regular accounts of the Divisions. The register of receipts and disposal of these securities kept in form. FA 6 may therefore be scrutinized in detail during local audit.

(Paragraph 15.2 and 15.6 of K.P.W.A Code and Chapter IV of Accounts Manual Vol. IV may also be referred to.)

6.15.15 Imprest and Temporary Advances

An imprest is a standing advance of a fixed sum of money given to an individual to enable him to make certain class of disbursements. The officer shall prefer the claim in form CB12 of the Accounts Manual with the Divisional officer/Sub-Divisional officer authorized to make such payments. Whenever the imprest holder finds it necessary to have the amount recouped or it is proposed to increase or decrease the amount of the imprest or to close the account although shall forward the "claim settlement form" in CB12 supported by necessary vouchers to the Divisional Officer. The Divisional Officer shall record the details of imprest payments and its subsequent adjustment/settlement in the "Imprest Register "(form CB.13). The account must in any case be closed at the end of each month. The imprest holder is responsible for the safe custody of imprest money and he must at all times be ready to produce the total amount of the imprest in vouchers or in cash.

Temporary advance may also be treated for in the same way as an imprest.
(Chapter II (D) and III (D) of Accounts Manual vol. V and paragraph 6.6.9 to 6.6.14 of K.P.W.A. Code.)

The imprest and temporary advance accounts should be examined in audit to see that:

- i.** They are regularly closed.
- ii.** They are properly examined by the recouping officer before recoupment.
- iii.** There is no avoidable delay in adjustment of long standing temporary advances

- iv. Receipts from the imprest holders have been obtained and filed for imprest outstanding on 31st March.
- v. The entries in the "Imprest claim Settlement "(CB 12) and "imprest Register" (CB 13) agrees with the entries in the cash book.

6.15.16 Muster Rolls

All persons engaged departmentally (other than Permanent and temporary employees of the Division whose pay is charged to the head "establishment") for execution of works are considered as daily labourers and their wages should be drawn in Muster Rolls (PA 29) and charged to the estimates of the works in which they are employed .

A few muster rolls paid during the month of test audit should be selected at random by the Inspecting officer and checked with the attendance.

A majority of N.M.R workers of the Authority were absorbed in to the regular establishment as per Govt. Orders No. GO(MS) 166/81/LA & SWD dated 12.10.1981 and GO(MS) 2012/85/ LA & SWD dated 26.6.1985. A general decision was also taken in 1983 that all NMR workers would be brought to regular establishment as and when they complete five years of service. According to the revised pay structure applicable to NMR workers they are eligible for risk allowances, night shift allowances, sick leave, holiday Wages and other benefits contemplated in GO(MS) 254/87 dated 19.11.1987. The age of retirement of NMR workers who were appointed before 7.4.1970 is 58 years and of those appointed after 7.4.1970 is 55 years.

6.15.17 Employer's Contribution to the Kerala Construction Workers Welfare Fund Board

The Kerala Construction Workers Welfare Fund Act 1989 and Scheme 1990 came in to force with effect from 1.1.1990. According to the Act, a contractor who is undertaking construction works under the State Government, Corporations, Boards, Companies, Water Authority, etc. have to remit one percent of total cost of the construction as employer's contribution to Kerala State Construction Workers Welfare Fund Board. As per Section 8(3) of the Act Drawing officers are bound to deduct the employer's contribution from the bills of the contractors and remit the amount within 15 days from the date of such deductions. Section 12 envisages that the drawing officer who fails to deduct and

remit the contribution will be liable to pay 9 *per cent* interest to the Board for the default of remittance.

(Circular No: KWA/HQ/TA/838/94 dated 6.1.1995 of Kerala Water Authority)

Adherence of the provision of K.C.W.W.F. Act and loss if any on account of payment of interest due to non-deduction/remittance of contribution should be watched in Audit.

6.16 Audit of Stores and Stock

6.16.1 General

A large majority of works are carried out through contract agencies and the selected contractor is expected to supply all the materials required for the completion of works. The procurement and stocking of materials involve locking up of capital and also expenditure on storage, watching, handling etc. Hence the number of articles and quantities to be stocked should be limited to the minimum consistent with the requirement for the progress of work. All proposals for purchase which do not fall within the powers of the Chief Engineer (HRD) (ie., exceeding Rs 10 lakh) will be considered by the Purchase Committee. The Committee will scrutinize the proposals and make appropriate decision/recommendation to the Board. Purchases involving more than Rs one crore shall be made only with the previous approval of Government.

The general checks to be exercised in contracts or agreement, tenders etc. are detailed in paragraph 6.15.05 of this Manual.

The procedure and policies prescribed in the Accounts Manual of the Authority and those specified in the Stores Purchase Rules of State Government shall be followed unless specific exemption is other wise granted by the Authority.

Materials required for the Division are received from the suppliers on the basis of supply orders placed with them by the authority. On receipt of the materials, the Asst. Engineer who is the custodian of the stores, shall verify the articles with the supply order and the quantity accepted is entered in Goods Received Sheets (Form MA.1), Bin Cards (MA.2), Measurement Book and Priced Stores Ledger (MA. 12) and payment made. The issue of materials to work, other divisions etc. are made only on the basis of 'Stores Indent' (MA.3)

(Accounts Manual - Vol. -II-Chapter III)

6.16.2 Bin Cards

A Chronological record of receipt, issues and running balance of each article of stock will be kept in the Bin Card (Form MA.2). These cards are posted from the Goods Received Sheets (GRS) in the order of occurrence. All the Bin Cards are serially numbered and a register of the cards is maintained in Form MA.24. The balance as per Bin Cards shall be verified periodically with the Priced Stores Ledger.

6.16.3 Priced Stores Ledger

This account is maintained in Form MA.12. All items of receipt and issues are entered in this ledger from the copies of GRS and the Stores Indents. The ledger is closed for both quantities and value at the end of each month and the quantity reconciled with the Bin Card. A certificate to that effect should be recorded in the Priced Stores Ledger after each such reconciliation.

6.16.4 Issue Rate

Materials issued from stores shall be valued at relevant pre-determined rates that may be prescribed by the Executive Engineer of the Division. The rates shall be reviewed from time to time, especially in cases where prices vary by more than 20 *per cent*. However in cases where capital equipments/spares are purchased for a particular capital work/scheme and routed through stores, such issues shall be at the actual cost.

(Para5 Chapter II – Accounts Manual – Vol. III)

6.16.5 Valuation of Closing Stock

At the year end, closing stock is valued on "First In First Out"(FIFO) basis.

6.16.6 Physical Verification of Stock

The objective of verification of stock is not only to ensure that the book balances and the balances in stores agree, but also to see that all the stores accounts, prescribed in the Accounts Manual, P.W. Departmental Codes and P.W. Account Code and Manuals are maintained strictly in accordance with the rules. Physical verification shall also be aimed at in ensuring that the stocks of various items at various sites are in accordance with the stock limits prescribed by the Authority from time to time.

6.16.7 Tools and Plant

Tools and Plant include all appliances which are necessary for carrying out various works of the department, but not consumed in the course of execution. Every item of T & P acquired by purchase, transfer or any other way should be included in the Register of T & P kept in the concerned division. All movement of T & P which are given separate identification marks should be watched through movement register, so that at any time the location of any of the items is easily known. Detailed instruction on use and operation of T&P, its repairs, maintenance etc. are given in Chapter XIII of P.W.D. Manual.

When T & P are hired out to contractors or other the general rules contained in Article 316 of K.P.W.D Code should be followed regarding condition of hire, rate of hire etc. the hire charges do not include operating cost and also cost of conveyance of the plant to the required place and back. Both these charges are payable by the hirer. If the plant has an operating crew then the crew should move with the plant and should be employed for its operation. The pay and allowances of the crew will be paid by the department in the first instance based on attendance certificate of the hirer and later recovered from the hirer. In addition to such pay and allowances a further sum of 20 *per cent* to represent leave salary/pension contribution should also be recovered from the hirer. The hire charges of heavy plant and machinery lent to contractors/local bodies for use in Authorities' works shall be fixed to cover interest, depreciation, repairs or return, overhauling and storage. The hire charges should be recovered monthly.

6.16.8 Accounting Procedure of the value of Stores

As per the accounting system of the Authority, all transaction relating to purchase and issue of stores are initially booked under intermediate account heads by the Division where the transactions originate. The amounts so booked are transferred to final heads of account by the Finance Wing in the Headquarters on the basis of "information" received from the divisions monthly/annually as indicated below:-

(a) **Accounting in the Divisions**

Sl. No.	Particulars of Transaction	A/C Code	Head of Account
1.	Advance payments if paid to the suppliers as per purchase order	Dr. 1662	Advance to Suppliers
2.	Final payments to suppliers after adjusting the advance.	Dr. 2812	Sundry Creditors – Suppliers
3.	Materials issued to Contractors on cost recoverable basis.	Dr. 1661	Advance to contractors
4.	Materials issued Capital Works/return of materials from Capital Work.	Dr/Cr 9212	Control A/C Capital expenditure Materials.
5.	Materials issued to revenue work/materials returned from work.	Dr/Cr 3111 to 3139	Consumption of materials.
6.	Inter divisional transfer of materials.	Dr/Cr 9111 to 9113	I.O.A. Materials.

(b) **Accounting in Head Office**

The receipt and issue transaction of the entire Division should be abstracted in the "Schedule of debit to stock" (Form MA. 11) and the "Detailed account of materials issued" (Form MA. 15) and forwarded to Head Office along with the monthly accounts. The total value of receipt, and issues as brought out in these summaries should be reconciled with the corresponding monthly totals of 'Priced Stores Ledger'. On receipt of the above statements the head office shall debit or credit the final head of account 'Stock' (A/C Codes 1311 to 1339) for receipt or issue as the case may be and corresponding credit or debit to unit accounts.

6.16.9 Audit of Stores and Stock

The following points should be covered while reviewing the initial and subsidiary accounts of stores and stock of the Divisions.

- i. All receipts and issues of materials are covered by proper authority and there is a proper acknowledgement for every issues accounted for.
- ii. There are no fictitious adjustments in the accounts.
- iii. The custody of Tools & Plants, their use and operation and recovery of hire charges are as prescribed in the relevant rules.
- iv. The value accounts are maintained and issue rates fixed have been revised from time to time in accordance with the instruction.

- v. Certificate of verification of store is recorded periodically by the Authority and that the system of verification is adequate and proper. The discrepancies noticed on stock taking are properly investigated and action taken.
- vi. Measures are taken to survey, segregate and consider the disposal of unserviceable, surplus and obsolete stores in accordance with the procedure prescribed in Paragraph 12.13 of K.P.W.D. Manual.
- vii. The accounts are kept in the form prescribed in the Account Manual and the entries are made as and when the transactions occur and the balances have been attested by the responsible officers.

Forms Prescribed	Description
M.A. 6	Register of materials at site Account (RMASA)
M.A. 9	Register of Supply Order (SOR)
M.A. 10	Stock Receipt Register
M.A. 12	Priced Stores Ledger
M.A. 14	Register of Issue to site
M.A. 16	Register of materials issued to other Divisions
M.A. 18	M.A.S.A. Consumption Register
M.A. 21	Register of Scrap Sold
M.A. 22	Claim Register
M.A. 24	Register of Bin Cards

(Detailed instruction with regard to audit of accounts of Stores and Stock given in Para 2.5.4 of M.S.O (Audit) may also be referred to)

6.16.10 Payment of Bills of Suppliers

As regards payment of Bills of suppliers it had to be seen that:-

- i. The purchase has been sanctioned by competent authority.
- ii. All purchases of stores are made in accordance with the instruction laid down in Store Purchase Manual/ Kerala Financial Code and similar rules applicable to Water Authority.
- iii. The rates charged for in the bills agree with those in the agreements.
- iv. When the contract stipulates inspection in stages at the time of manufacture or after erection at site, the necessary inspection certificates are furnished with the bills

- v. A claim for railway freight, insurance charges etc. when the order is FOR place of despatch, is duly supported by cash receipt, irrespective of their amounts.
- vi. When a contract is placed on the basis of rates prevailing in the market on the date of receipt of the order by the firm, or on the day of supply, such rates are verified with the intimation of market rate received from the suppliers. When the contract stipulates different prices for different periods, the date of despatch/delivery of stores should be checked independently.
- vii. The supply of materials is made as per delivery schedule stipulated in the agreement/ purchase order.
- viii. For delayed supplies, penalty has been levied at the rate prescribed in the purchase order.
- ix. Advances if any given to suppliers has been adjusted in the final bills.

(Annexure I to Para. 3.7.9 of M.S.O (Audit))

CHAPTER VII

REVISED AUDITING STANDARDS

CAG of India derives his duties and powers mainly from Article 149 to 151 of the Constitution and the CAG's (DPC) Act, 1971. CAG of India is the sole auditor of the accounts of the Central and State Governments. He is also responsible for audit of the accounts of local bodies. Under the specific provisions of some State Acts CAG provides technical and administrative guidance for accounting and auditing matters. Report of CAG relating to the accounts of state and Union Government is submitted to the Parliament/ Legislature concerned. The Act authorizes CAG to lay down general principles of Government audit and accounting in Government Departments.

Audit mandate

The audit mandate of CAG is as follows:

- i.** Audit of receipt and expenditure from Consolidated Fund of India, Contingency Fund and Public Account of India.
- ii.** Trading, manufacturing, profit and loss account, Balance Sheet and other subsidiary accounts kept in any Government Departments.
- iii.** Accounts of stores and stock of Government Departments.
- iv.** Accounts of Government Companies coming under Companies Act, 1956.
- v.** Accounts of corporations formed under laws enacted by Parliament.
- vi.** Accounts of Authorities substantially financed by Government.
- vii.** Accounts of any body though not substantially financed by Government, the audit of which is entrusted with CAG.
- viii.** Audit of the accounts of Panchayat institutions and urban bodies.

(Para 2 of Chapter I of Auditing Standards)

The audit mandate provides for periodical inspection of records and accounts of Government Departments.

(Para 1 of Chapter I of Auditing Standards)

Standards of Government Auditing

The norms prescribed for the Government auditing standards consist of 4 components such as basic postulates, general standards, field standards and reporting standards.

Basic postulate covers the following aspects.

- i. The Supreme Audit Institution (SAI) should comply with the auditing standards of International organization for Supreme Audit Institution (INTOSAI).
- ii. The SAI shall apply its own judgment to the diverse situation.
- iii. Public accountability of persons or entities engaging public resources is to be ensured.
- iv. Development of adequate information, internal control, evaluation and reporting system within the auditee is to be ensured. The presence of acceptable accounting standards for financial reporting is necessary. Effective internal control system is a must. There shall be provision for access to account books to SAI. Conflict between auditee and SAI may be avoided.

(Para 2.1, 2.3, 3.1 and 3.2 of Auditing Standards)

General Standards of Government Audit

General auditing standards means the standard of the auditor and audit institution. The standards common to the auditor and audit institution are:

The auditor and audit institution must be independent and duly qualified. They may exercise due care in complying with audit standards, such as audit planning, area specifying, gathering and evaluation of evidence, reporting, findings and conclusions and recommendations. Proper competency in audit is essential to ensure quality of the report.*

(Authority: Auditing Standards (2nd edition 2002 Chapter 1))

**The guidelines prescribing the auditing standards for Government auditing are generally applicable to audit of KWA units also.*

CHAPTER VIII

STYLE OF DRAFTING REPORTS AND REPORTING PROCEDURE

The primary objective of audit reporting, is providing the Parliament / State Legislature with independent information and assurance. The report need to get essential message across clearly and simply to an audience.

In order to meet the objective, every report shall put premium on:

- i.** A strong clear report structure.
- ii.** Avoiding a temptation to include as much as possible of information and analysis gathered during the investigation to support our findings and conclusions.
- iii.** Concentrating less on narrative description of how things are done why they are done etc.
- iv.** Using hard evidence and example to reinforce the message in the report.

The main message across the report shall be clear to the reader by first reading for which simple language is to be used. It shall be short and concentrate on the main issue highlighted. Facts and figures shall be limited to essential. The information gathered shall be supported by clear evidence and report shall be free from errors in grammar, spelling and punctuation. Completeness of the information is to be ensured Arguments for and against the issue raised in the report shall be brought out, analyzing the views of the body corporate.

(Authority: Style Guide Para 2.1 and 2.2)

Length of Report / Paragraph / Reviews / Appendix

Transaction audit reports shall be short as far as possible and shall not exceed 2 pages. Overviews shall not exceed 8 to 10 type script pages. Length of appendix shall be limited to 30 pages.

(Authority: Style Guide Para 2.5)

Structure of Review Report

There is no ideal drafting model for review report. The main consideration is how facts and figures, conclusions on a particular subject can be effectively presented. There are two structures adopted. They are:

- i.** a straight through review incorporating recommendation in the main text.

- ii. a review preceded by highlights and ending with conclusions containing recommendations. Long reviews of about 15 pages shall normally be preceded by highlights on the findings. The revised report shall have a free standing, enabling the reader to get the point without referring to other source materials.

(Authority: Style Guide Para 2.6)

Use of abbreviations

Keep the use of abbreviations to the minimum, where abbreviations are used, the word in full shall be given on their first appearance in the paragraph. In reviews and highlights, abbreviations may be avoided.

(Authority: Style Guide Para 3.1)

Use of active verbs

As far as possible, active verbs shall be used in reporting. Statement in active voice, help quick understanding.

(Authority: Style Guide Para 3.2)

CHAPTER IX

INTERNAL CONTROL STANDARDS FOR PUBLIC SECTOR (INTOSAI)

9.1 Internal control in public sector undertakings/ bodies is an integral process. It is designed to provide reasonable assurance in attaining their objective as detailed below.

- i.** Fulfilling accountability obligation.
- ii.** Complying with laws and regulations applicable.
- iii.** Economical, efficient and effective operations.
- iv.** Safeguarding resources against loss.

9.2 Internal control is a dynamic process continuously adopting to the changes, an organization is facing. It is geared to the achievement of the four objectives – accountability, complying with laws and regulations, orderly execution of operations which are ethical, economical, effective and efficient. Accountability is the process by which public service bodies and individuals within them are held to account for their decisions and actions. In order to comply with various laws and regulations such as Budget Act, International Treaties, laws on administrative and accounting environmental protection, civil rights, Income Tax Act, Anticorruption Act, the management personnel shall be aware of. Thirdly, the operations executed shall be ethical, economical, efficient and effective. At the same time, these operations must be safeguarding the resources, avoiding loss or wastage of resources.

Internal control system consists of the 5 components. They are:

- (i)** Control environment.
- (ii)** Risk assessment.
- (iii)** Control activities
- (iv)** Information and communication.
- (v)** Monitoring.

9.3 Control environment is the foundation of internal control system. It provides the discipline and structure for the achievement of the objectives of the institution. The 5 elements of control environment are:

- (i)** Professional and personal integrity and ethical values of the management and staff.
- (ii)** Competency and skill of the staff of management.

- (iii) “tone at the top” (Management’s philosophy)
- (iv) Organizational structure.
- (v) Human Resource policy and practice.

9.4 A fair combination of these parameters leads to an effective internal control system. Risk assessment is the process of identifying and analyzing the risks to the achievement of the desired objectives. It shall be identified and evaluated. After assessing the risk appetite of the organization, necessary treatment to prevent / transfer / terminate it is required. Control activities relate to policies and procedures adopted against risks in achieving the objectives. Control activity consists of detective and preventive devices such as authorization and approval procedure, segregation of duties, control over access to records, verification, reconciliation, review of performance and supervision. “Information Technology control activity”, includes two types of control as below.

1. General control and
2. Application control.

9.5 General control relates to structure / policy / procedure controls to the entire entity whereas application control is for the individual application system.

Information and communication are essential to the realization of the objective. Prompt recording of reliable information is essential for the achievement of the objective. Timely communication of all information across the organization is also important in internal control system. Monitoring of the internal control system is required for ensuring the effectiveness of the system. It may be ongoing or separate monitoring. The management is responsible for the design, implementation and functioning of the internal control system.

A model questionnaire to assess the effectiveness of internal control system is enclosed in Annexure IV.

(Authority: INTOSAI guidelines for internal control standards for public sector undertakings).

CHAPTER X
AUDIT PLANNING BASED ON STATISTICAL SAMPLING

10.1 The revised guideline for audit planning communicated in DO letter No. 1127-Rep(S) 01-02/ dated 4.10.2002 were subsequently modified in CAG's Circular Letter No. 565-Rep(S) 250-2001 dated 16.5.2005 wherein matrices for financial (transaction) audit had been prescribed for risk analysis by statistical sampling of audit unit vide Annexure V. Auditee units have to be categorized and classified on the basis of expenditure incurred, number and amount of previous audit observation under Part II A, internal control and internal audit system prevalent and performance evaluation etc., of the auditee organization. Scrutiny of the above parameters shall reveal the risk area to be covered by audit. A model questionnaire for evaluation of the parameters is enclosed in Annexure IV which will help audit to judge the extent of internal control system in the institution.

10.2 Headquarters Section shall analyze the matrices prescribed and categorize the auditee units under 'high risk', 'medium risk, and 'low risk' prevalent. Periodicity of audit is fixed giving more emphasis to audit of units having 'high risk' and 'medium risk'.

(Authority: CAG's Circular letter No. 565- Rep(S) 250-2001 dated 16.5.05)

ANNEXURE I
(Referred to in Para 4.6)
Quantum of Audit

Sl. No.	Item of Work	Standard rate Minutes / item	Quantum %
1.	Pay Bills	4	8 1/3 %
2.	T.A. Bills	10	8 1/3 %
3.	Vouchers relating to advances to employees. (i) Rs 5,000 and less (ii) Rs 5,000 (iii) Check of Broad Sheet of long term advances	5 1 day/Register	8 1/3 % 100%
4.	Gratuity payments	2	8 1/3 %
5.	Commutation payments	2	8 1/3 %
6.	Family Pension Bills	3	25%
7.	Pension cases	60	2%
	Provident Fund		
8.	Final payment vouchers	5	100%
9.	Part Final payments	5	100%
10.	Temporary Advances	5	100%
11.	Check of prescribed quantum of final payments including tracing of payments.	60/case	25%
12.	General review of Ledger Cards unposted items/missing credits, Broad Sheet and its closings.	10/ a/c	3%
13.	Pay Fixation cases.	15 per case	8 1/3 %
14.	Medical re-imburement bills	14 per bill	8 1/3 %
15.	Miscellaneous Vouchers	5 per bill	8 1/3 %
16.	Refund bills		
17.	Contingent Bills & D.C. Bills Rs 1,000 and less Rs 1,001 to Rs 5,000 Rs 5,001 to Rs 10,000 Rs 10,001 to Rs 50,000		8 1/3 % 25% 50% 100%
18.	Vouchers selected for audit: a) Running account Bills including first and final bills not involving check with agreement.	13	
	i. First and final bill.		25%
	ii. Running a/c bill up to Rs 10,000		10%
	iii. Running a/c bill for Rs 10,000 and above but less than Rs 1 lakh		25%
	iv. Running a/c bill above Rs 1 lakh		100%

Sl. No.	Item of Work	Standard rate Minutes / item	Quantum %
v.	Final Account bills up to Rs 10,000		50%
vi.	Final Account bills above Rs 10,000		100%
	b) Running a/c Bills including first and final bills involving check with agreement.		
i.	First and final bill.		25%
ii.	Running a/c bill up to Rs 10,000		10%
iii.	Running a/c bill for Rs 10,000 and above but less than Rs 1 lakh		25%
iv.	Running a/c bill for Rs 1lakh and above.		100%
	c) Other vouchers up to Rs 5,000	7	25%
	Rs 5001 to Rs 25000		50%
	Above Rs 25,000		100%
19.	Hand Receipts i. Up to Rs 20,000 ii. Above Rs 20,000 and up to Rs 50,000 iii. Above Rs 50,000		25% 50% 100%
20.	Transfer Entries		100%
21.	Detailed check of Monthly Account	360 per Division	
22.	Diarising of letters	288 letters per day	
23.	Typing	808 lines per day	

Note:

- (1) 50 names or fraction thereof comprises one voucher in the case of pay bills.
- (2) Two sheets or fraction thereof comprises one voucher in the case of T.A. Bills.
- (3) First 50 sub vouchers comprises one voucher and thereafter 75 sub vouchers comprises an additional voucher in the case of fully vouched contingent and detailed contingent bill.
- (4) Claim in respect of each employee may be treated as one bill in respect of Medical re-imbusement bills

(C& AG's Circular No. 6-BR5/85 No.2705 BR5/368-85-I dated 14.6.1985 and letter No. 1007/27.6.86 – File Co-Ordn. /18.3/General)

ANNEXURE II

(Referred to in Para 4.17)

(To be in the proper letter head and to be signed by an officer not below the rank of DAG/Dy. Director (Audit))

OFFICE OF THE

No

AUDIT CERTIFICATE

The Expenditure Statements/Financial Statement relating to the Project (Loan/Credit No.....) for the year.....attached hereto have been audited in accordance with the regulations and standards of audit of the Comptroller & Auditor General of India and accordingly included such tests of accounting records, internal checks and controls, and other auditing procedures necessary to confirm.

- (a) that the resources were used for the purposes of the Project; and
- (b) that the expenditure statement /financial statements are correct.

During the course of the audit referred to above, Statement of Expenditure (Each Application No..... and amount to be indicated) and the connected documents were examined and these can be relied upon to support reimbursement under the aforesaid loan/credit agreement.

On the basis of the information and explanations that have been obtained as required and according to the best of our information as a result of the test audit, it is certified that the Expenditure Statements/Financial Statements read with the observation set out below represent a true and fair view of the implementation (and operations) of the Project for the year.....

This certificate is issued without prejudice to the C.A.G's right to incorporate any further detailed audit observation, if and when made in the Report of the C.A.G. of India for being laid before the Parliament/State Legislatives.

Signed

.....

(NAME &DESIGNATION)

ANNEXURE III
(Referred to in Para 5.3)

PROFORMA

Proforma on progress of audit to be sent to the Office of the Comptroller and Auditor General along with the audited accounts and Audit Reports:-

Name of the Autonomous Body

1. Date of submission of the accounts to the Audit by the Autonomous Body.
2. Where applicable, reasons for returning the accounts for revision indicating why the accounts could not be certified with qualifications.
3. Date of submission of revised accounts to Audit where revision was considered essential.
4. Dates on which audit was taken up and completed.
5. Date of issue of draft SAR to Autonomous Body for replies/comments.
6. Date of receipt of replies/comments from Autonomous Body (if received).
7. Date of issue of draft SAR including replies/comments of Autonomous Body along with an Aide-memoirs to CAG's office for approval.
8. (a) Date of CAG'S office letter communicating approved SAR.
(b) Date of receipt of letter and approval at 8 (a).
9. Date of issue of final Audit Report to Govt. of India/State Govt./CAG's office. English version –Hindi version (if required) –
10. Reasons for delay, if any, at various stages.
11. Date of presentation of the previous Audit Report before Parliament/ Legislature.

(Where the Audit Report for previous years have not been placed, years to which these pertain, may also be indicated.)

Director General/
Pr. Accountant General/
Accountant General/
Pr. Director of Audit.

Note: This proforma is to be enclosed along with the draft/final Separate Audit Report to be sent to CAG's office as per Para 2 (4) and also Para 2 (8) of Circular Ir. No. 173-Rep(AB)/27-84 (I) dated 10.9.1999

Annexure IV

(Referred to in Para 9.5 and 10.1)

Name of Institution :
Audit Party Number :
Period of Audit :
Dates of Audit :

INTERNAL CONTROL MECHANISM

Note: This form is to be filled by the Supervisory Officer, if present. Otherwise it should be filled up by the senior most member of the party. Give specific reply to each question. Don't leave any question unanswered or answered with dashes/dots. If any question is not relevant for an auditee institution answer it as Not applicable. On the basis of the questionnaire an evaluation of the internal control mechanism should be included as a paragraph in the Draft Inspection Report

Budgetary Control	
Whether	
1.	The budget of the Organisation is prepared with due diligence and care?
2	Expenditure conforms to the budget?
3	There was excess/savings
4	Excess/savings is persistent?
5	Allotment is as per requirement?
6	Allotment is received in time to enable fruitful expenditure?
7	There was rush of expenditure in March?
Expenditure Control	
Whether	
1	The cashbook is standard one with machine numbered pages?
2	Transactions are recorded in the cashbook as and when they occur?
3	There is a system of daily closing of Cash book?
4	The head of office verify cash balance periodically?
5	The custodian of money is the writer of cash book?
6	System of reconciliation is effective?

7	Recoveries remittable to other heads are remitted in time?
8	Advances are adjusted in time?
9	More than one advance for the same purpose is pending adjustment against same officer?
10	Money is kept in the office in any forms for long period?
11	There is unnecessary draws of funds?
12	Purchases are made as per approved rules and procedures?
13	Purchases are as per requirements?
14	Rules regarding approval of estimates/acceptance of tenders/issuing purchase orders etc. strictly followed?
15	System of stock taking custody and issue of store are as per rules?
16	Stores ledger and Accounts are properly kept?
17	Assets are safeguarded against fraud/error?
18	Physical balance and book balance are compared and tallied?
Operational control	
Whether	
1	There is delegation of powers and division of responsibilities and they are documented and followed?
2	There is a proper system to watch the receipt processing and disposal of correspondence?
3	The arrears in the disposal of correspondence is brought to the notice of the Head of the office at fixed intervals?
4	The system of opening new files, their movement and upkeep is satisfactory?
5	Implementation of schemes/projects are monitored satisfactorily?
6	The registers/records etc., to be maintained are prescribed?
7	Various registers/records are kept up to date?
8	Returns/reports due from lower formation are received in time?
9	They are compiled and analyzed and used as monitoring tools?
10	Returns due to controlling officers are sent in time?
11	Such returns conform to the actual performance of the Organisation?
Inspections/conferences	
Whether	
1	The office is inspected at prescribed intervals by the controlling officers?
2	The lapses pointed out are rectified in time?
3	Lower formations are inspected by the office as prescribe?
4	The lapses pointed out are followed up to the logical conclusions?
5	Decisions of conferences/meetings are minuted?

6	The decisions are implemented in time?
Computerisation	
Whether	
1	The organization has a policy of computerization?
2	The policy conforms to the objectives of the Organisations?
3	The requirement of hardware/software are properly assessed and documented?
4	Purchases of hardware/software are a per requirement?
5	Trained personnel are available?
6	The systems are installed and put to use?
7	The systems are properly safeguarded against fraud/error?
8	The proper controls have been defined and put in place?
9	There was any improvement in quality of service/expenditure as a result of computerization?
If the auditee institution is a Directorate under the Government it may be stated whether	
1	Proposals for financial assistances from lower formations/other client organizations to Government are routed through the Directorate?
2	The views of the Director are taken by the Government of the schemes and proposals before ordering the Director to draw and disburse amounts to clients?
3	There is a mechanism in the directorate to ensure proper utilization of the amount drawn and disbursed by the Director at the instance of Government?
4	The terms and conditions regarding utilization, rate of interest and repayment are fixed before the disbursement of loan/subsidy etc.?
5	Amounts due to Government are adjusted from the assistance sanctioned to the client organizations?
6	Share certificates are received in all cases where share capital contribution is paid by Government?
7	Guarantee commission is received/recovered in all cases wherever required?
8	There are instances of the financial institutions invoking Government guarantee for non fulfillment of the conditions by client organizations?
Internal Audit	
Whether	
1	There is an internal audit organization in the department
2	There are codes/manuals etc., defining and supporting audit function?
3	Such manuals are reviewed and updated?
4	Any standards set by the top management?
5	The duties and responsibilities are clearly defined?
6	The audit staff is properly trained?

7	Any separate cadre of auditing staff exist? Or deployed from line staff for a specific period?
8	Any audit plan is prepared and approved by the top executive?
9	There are any criteria for selecting field units for audit?
10	The periodicity of audit is uniformly followed?
11	The extent of coverage is satisfactory?
12	There is any abnormal delay in issuing Audit Report?
13	The volume of pendency of audit is justifiable?
14	The quality of checks is satisfactory?
15	Replies to audit reports are received in time?
16	Reports and objection are pending settlement for long?
17	Any persistent irregularities reported?
18	Any departmental action for non-compliance to audit observation?
19	The cost effect analysis justify the system?
20	Internal audit makes contribution for the speedy settlement of objections raised by Accountant General
Response to audit	
Whether	
1	All the required files/documents made available to audit?
2	From the files/documents made available a reasonable opinion as to the functioning of the organization is possible?
3	The audit slips were properly accepted and answered?
4	Replies were furnished to all previous Inspection Reports

Signature:

Name:

Designation

Annexure V

(Referred to in Para 6.4 and Para 10.1)

Risk analysis by statistical sampling of auditee units for financial audit

Objective: Classification of the audit units as High Risk (H), Medium risk (M) and Low risk (L)

Principal indicators

- I. Expenditure (annual expenditure of second preceding year)
- II. Previous Audit observations (Total amount involved during last three years)
- III. Internal control and internal audit system (whether functioning satisfactorily)
- IV. Performance Report (Evaluation of performance by internal and external agencies)

I. EXPENDITURE

Weightage	H(6)	M(4)	L(2)
a) Expenditure on works/projects/programmes and other developmental expenditure	Above Rs 2 crore	Rs 50 lakh to Rs 2 crore	Less than Rs 50 lakh
b) Salaries and other establishment expenditure	Above Rs 50 lakh	Rs 20 lakh to Rs 50 lakh	Less than Rs 20 lakh
c) Deposit in PD Account and PL Account	Above Rs 20 lakh	Rs 10 lakh	Less than Rs 10 lakh
d) Percentage increase of total expenditure over previous year	Above 50 per cent	30 to 50 per cent	Less than 30 per cent

II. Previous Audit Observations

Weightage	H(6)	M(4)	L(2)
a) Money value of part II A paragraphs in IRs compared to total money value of IRs of last three years	More than 60 per cent	30 to 60 per cent	Less than 30 per cent
b) Outstanding IR paras	Significant number of IR paras pending for more than five years	Significant number of IR paras pending for three to five years	Significant number of IR paras pending for less than three years

III. Internal control and internal audit system

Weightage	H(6)	M(4)	L(2)
a) Budgetary procedure and expenditure control	Poor	Improvement necessary	Satisfactory control
b) Maintenance of records and accounts	Poor	Improvement necessary	Satisfactory maintenance
c) Internal audit	No internal audit conducted	Large arrears in conducting internal audit and issue of reports and / or no follow up of internal audit reports	Satisfactory

IV. Performance valuation

Weightage	H(6)	M(4)	L(2)
Performance of units as per Administrative Report of the department/compliance to PAC's recommendations/Evaluation report on projects/works/department etc. if any/HQrs reports/complaints	Poor	Improvement necessary	satisfactory

Total score: [I(a+b+c+d) + II(a+b) + II(a+b+c) + IV] ÷ 10 = X

Categorisation of units :

Low risk: when X is >2<4; Medium risk: >4<5; High risk: >5≤6

For classification of the units as H, M and L, amount of expenditure may be modified depending on total expenditure of the State and total number of auditee units. However, justification for the modification may be certified and intimated to this office.