



**MANUAL OF OUTSIDE
AUDIT DEPARTMENT
(INSPECTION CIVIL)**

General, Social & Economic Sector

2016

**OFFICE OF THE
ACCOUNTANT GENERAL (AUDIT)**

BIHAR, PATNA

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Preface

1. The Outside Audit Department (OAD) Manual was compiled in 1958 and updated in 1982, 1999 and 2008 considering the numbers of changes taken place which effected the scopes and functions of the outside audit department. Some of the significant changes were restructuring of the Indian Audit and Accounts Department and separation of the office into Accountant General (Audit), Principal Accountant General (A&E) in Bihar and after bifurcation of state of Bihar and Jharkhand constitution of the offices of the Principal Accountant General (Audit) Bihar, Accountant General (Audit) Jharkhand and Accountant General (A & E) Bihar and Jharkhand and transfer of works accordingly. Sectoral restructuring of works in IA&AD in year 2012 is also a significant change.
2. This manual is intended to provide guidance to members of the General, Social and Economic Sector for Civil Audit. It embodies a general direction and detailed instructions for efficient performance of audit. The instructions contained in this manual are supplementary to Codes and Manuals issued by the office of Comptroller and Auditor General (C&AG) of India and other authorities. Besides chapters, with guidelines of Integrated/CCO based audit of department, AQMF, detection of fraud and corruption and forensic audit thereafter, especially at the time of scrutiny of work of contract and their reporting as well as effectiveness of internal control in the system, have also been included.
3. An attempt has been made in this manual to cover a wide ground and periodical revisions based upon actual experience gained in field audit to keep a pace with audit procedures considering the expanding activities of the government departments. Audit parties are required to bring to the notice of Headquarters regardsto any changes or additions to be made as felt.
4. Headquarter will be responsible for keeping the manual updated by periodical issue of correction slips so that it may serve the intended purpose.
5. The efforts of Sri S P Tiwari, Sr.AO to update and revise the OAD Manual in year 2013 under direction of Sri Atul Prakash, DAG (Social Sector-II) were praiseworthy.

6. The editing and updating of manual has been carried out by Sri Ram Naresh Thakur, Sr. A.O under close Supervision of Sri. Sohan Lal Sahu, DAG (Social Sector- II)

7. Any omission or inaccuracy noticed in the manual may be brought to the notice of the Deputy Accountant General (Social Sector -II) for further improvement.

Dated

**Accountant General (Audit) Bihar,
Patna**

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Outside Audit Department (OAD) Manual

Chapter-1

1.1 Constitution and functions of Outside Audit Department (OAD): Outside Audit Department was constituted with effect from 11th March 1952 for the purposes of conducting audit inspection of (i) Government Accounts (ii) Trading, Manufacturing, Profit & Loss Accounts and Balance Sheets of Public Sector Undertakings (PSUs) (iii) The accounts of stores and stock of government offices (iv) The central government local funds and other non government institutions on consent basis (v) The accounts of statutory/autonomous bodies (vi) The accounts relating to grants-in-aid to private institutions in excess of monetary limits prescribed by the state and the central government (vii) The initial and subsidiary accounts of treasuries and other offices except Public Works Divisions (PWD) (viii) The accounts of societies with the financial commitment of central and state government by way of loans and grants-in-aid exceeding Rs 25lakhs and 75 percent expenditure thereof in a year. The OAD was renamed as Input Civil and after sectoral restructuring of works in IA&AD in the year of 2012, the civil audit was further bifurcated in General, Social and Economic Sector.

1.2 CAG (DPC) Act: After enactment of Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act 1971, the audit is being conducted under different sections of the Act with effect from 15.12.1971 as mentioned as here: (i) All expenditure from the Consolidated Fund of India and State under section 13 of the Act, (ii) Stores and stock accounts under section 17 of the Act, (iii) Audit of receipts and expenditure of bodies/authorities including societies receiving substantial grants or loans from the Consolidated fund of India and State under section 14 of the Act provided conditions laid down therein are fulfilled, (iv) Scrutiny of the procedure by which the sanctioning authority satisfies itself to fulfil the condition of grants and loans given to bodies/authorities for specific purposes under section 15 provided that such bodies do not attract the provisions of section 14 of the Act and the restrictive provisions of sub-section (2) of section 15 do not prevent the CAG to undertake the audit except he is authorized so to do by the President or Governor under law made for bodies/authorities, (v) Audit of Statutory Corporations established by law of parliament and state legislation and the Government Companies under section 19 and the audit of Bodies and Authorities which has not been entrusted to CAG can be conducted under section 20 of the Act subject to the provisions contained therein.

Note: (i) Work of conducting audit of state commercial undertaking, government companies and statutory corporations by the Accountant General, Bihar, Ranchi had been entrusted to the Accountant General (Audit) Bihar, Patna from year 1972 onwards, (ii) Audit of public works offices/forest offices are conducted by separate inspection parties under Works Audit Divisions (WAD) Section/Forest Audit Section. The audit of revenue earning departments of Central and State Government are conducted by Revenue Audit Parties as Income Tax (ITRA), Central Excise and Custom (CERA), and Sale Tax, Land Revenue, State Excise, Motor Vehicle Transport, State Mining Department by State Revenue Audit (SRA) Wing. (iii) The Outside Audit Department was combined with Local Audit before 11th March 1952.

1.3 Local Audit: The general principle as issued by the office of CAG regarding frequency of local audit is that the amount of expenditure of office to be audited may not be less than the cost of inspection and the aim of the audit inspection of the unit should be in rotation to check the misappropriations and other serious irregularities to evoke unwarranted criticism against audit. It has, therefore, been decided by the CAG that a comprehensive list of auditee units should be drawn up and maintained in audit office to be locally audited. The list should be reviewed every year to gate it updated. Annual Audit may be necessary for offices in which huge amounts of expenditure are involved while intervals between two successive audits in other offices may be longer than one year according to the importance of office. Units (Category A) having more than Rs one crore expenditure excluding establishment expenditure will be audited annually. Units (Category B) having expenditure above Rs 25 lakh to one crore will be audited biannually. Units (Category C) having expenditure less than Rs 25 lakh will be audited once in three or four years. (Authority-CAG Letter No-974/O&M/7-81/Vol-V dated 30.11.1982)

1.4 Preparation of list of auditee office and intimation before audit: The programme of local audit for a financial year should, however, be drawn up after due consideration of the availability of required human resources for the purpose. The programme so drawn up should be communicated to the Finance Department of the state Government asking to suggest any other offices to be included in the list for any special reason for the year and due consideration may be given to the suggestions of the State Government. If the suggestions of the state government cannot be implemented within the resources at our disposal, it may be necessary to postpone the audit of some less important office for subsequent year. The copy of the programme thus finalized for local audit, both of the preliminary and final stage,

should simultaneously be sent to the ministry wise Administrative Department of the state Government.(CAG's Circular No-571 Admn-I/158-57-II dated 14-3-58 & No-975-T/AI/191-69 dated 02.07.1969)

1.5 List of local audits to be conducted: A list of outside audit department offices and institutions to be locally inspected by the office is available in the Permanent Programme Register (PPR) maintained in all Headquarter sections presently segregated as general, economic, social-I and social-II sectors.

1.6 Receipt audit: Section 16 of the CAG (DPC) Act 1971 authorizes to audit of all receipts payable into the consolidated Fund of India and State under procedure contained in CAG Manual of Standing Order (Audit). There is a separate Revenue Audit wing for such audit.

1.7 Consent Audit: After enactment of CAG (DPC) Act, 1971 the audit on consent basis has been almost abolished and it is undertaken under different sections of the CAG (DPC) Act. (Authority C & AG's office letter No- 854-TA-37-74-II dated 10.10.1974.)

1.8 Special Audit: The special audit of an office or institution may be undertaken on the request of the State Government when a report of fraud, misappropriation or any other serious financial irregularities is noticed or suspected. Such audit usually requires more time than the ordinary test audit because detailed checks have to be exercised. Special measures to meet the demands for special audits will have to be taken as and when they are made. The Accountant General will, however, personally decide on the merits and seriousness of each case whether such an audit would be taken up or not. (Para 3 of Auditor General's letter No-10 Admn-I/167/34 dated 3rd January 1935)

1.9 Concurrent Audits: Under the order of the Accountant General, the control and management of the concurrent audit of the Relief Camps etc. are entrusted to OAD wing.

1.10 Audit of Grants-in-aid/Loan: Audit of receipt and payment of bodies/authorities receiving substantial amount of grants/loan from the consolidated Fund of India or State is conducted under Section 14 of CAG (DPC) Act 1971. Scrutiny of the procedure by which the sanctioning authority satisfies itself to fulfil the condition of grants and loans given to bodies/authorities for specific purposes from the consolidated Fund of India or State is conducted under Section 15 of the Act. Audit of institution covered under Section 14, 15, 19 and 20 of the Act is conducted by Central Audit Wing.

1.11 Audit of commercial units under department: Audit of commercial units of the department where Proforma Accounts on commercial lines are being maintained, is under the control of outside audit department and the points should be especially required to be observed in their audit like (i) whether the true financial picture of the institution is shown by the undertakings (ii) the debtors and creditors should not be outstanding for long period (iii) entries of substantial amounts in journal and ledger should be test checked (iv) proper arrangement of purchased raw materials and sale of finished items should be watched (v) wastages, if any, should be examined properly with reference to normal percentage fixed and any unusual variations beyond prescribed limit should be pointed out.

1.12. Composition and sanctioned strength of the OAD sections: The OAD works has been presently divided sector wise as (i) General Sector (GS) (ii) Economic Sector (ES) (iii) Social Sector-I (SS-I) and (iv) Social Sector-II (SS-II) vide CAG Office Order Number 110 SMU/PP/Restructuring/5-2011 dated 27th March 2012 and Pr AG (Audit) Bihar Patna Office Order Number/Estt.(Audit)/Restructuring/B-30 dated 08.06.2013. Details of sector wise sections; sanctioned strength of field parties and Headquarters as well as department wise numbers of units to be audited are mentioned as under in table (A) and (B).

(A) Statement showing details of sectors and their sections and sanctioned strength of Headquarter and field Audit Parties.

Name of Sector and sections attached	Sanctioned strength of Headquarter			Sanctioned strength of Field Audit Party		
	Sr.AO/AO	AAO	Sr. Ar/Ar	Sr.AO/AO	AAO	Sr. Ar/Ar
General: Headquarter, DP Cell, Vetting-I & II	01	03	06	06	11	23
Economy: Headquarter, DP Cell, Vetting-I, II & III	03	04	31	05	16	29
SS-I: Headquarter, DP Cell, Vetting-I, II, III & IV	10	31	48	38	124	190
SS-II: Headquarter, DP Cell, Vetting-I, II, III & IV	05	10	21	21	42	84

(B) Statement showing details of OAD units to be audited sector wise.

Secto	Sl. No	Departments// State Autonomous Body (SAB)	High Risk Items of ten Party days	Medium Risk Items of eight Party days	Low Risk Items of six Party days	Total
General	1	Cabinet Secretariat	1	-	18	19
	2	Election	1	-	39	40
	3	Finance	2	-	147	149
	4	General Administration	2	39	122	163

	5	Home	5	80	186	271	
	6	Law	1	-	67	68	
	7	Parliamentary Affairs	2	-	1	3	
	8	Vigilance	1	-	3	4	
	9	Planning & Development	34	24	116	174	
	10	Information & Public Relation	1	-	46	47	
	11	Law (SAB)	1	-	30	31	
	Total						969
Economic	01	Agriculture including State Autonomous Bodies	20+2	56+0	238+0	316	
	02	Animal & Fisheries Resource	1	32	186	219	
	03	Co-operative	1	0	158	159	
	04	Energy (Power)+ SAB (BREDA)	1+1	1+0	0+0	3	
	05	Industry +SAB	1+1	1+2	128+0	133	
	06	Information & Technology	01	0	0	01	
	07	Science & Technology	1	08	30	39	
	08	Sugar can Industry	1	15	16	32	
	09	Tourism	1	1	0	2	
	10	Building Construction Deptt.	21	26	32	79	
	11	Enviroment& Forest	10	21	19	50	
	12	Road Construction/ NH	33	30	57	120	
	13	WRD+ SAB	35+1	32+3	338+0	409	
	14	Minor Water Resource Deptt.	4	13	40	57	
	Total						1619
Social Sector	01	Urban Development & Housing Department	15	21	4	40	
	02	Panchyati Raj Department	0	0	55	55	
	03	Rural Development Department	38	528	2	568	
	4	Rural Works Department	31	33	81	145	
	Total						808
Social Sector II	01	Art, Culture & Youth	1	0	109	110	
	02	Disaster Management	1	0	2	03	
	03	Health	62	136	614	812	
	04	Human Resources	51	32	207	290	
	05	Food & Consumer Protection	1	38	49	88	
	06	Labor Resources	01	0	210	211	
	07	Welfare BC-EBC/SC-ST	2	38	09	49	
	08	Welfare Minority	1	0	0	1	
	09	Welfare Social	1	40	621	662	
	10	University College & Trust	2	278	0	280	
	11	PHED	19	29	31	79	
	12	Social Welfare (SAB)	2	2	0	4	
	13	Minority Welfare (SAB)	0	0	3	3	
	14	Human Resource Development (SAB)	2	2	2	06	
	15	Labour Resources (SAB)	0	0	1	1	
	16	Health (SAB)	1	0	4	5	
	17	SC&ST Wefare (SAB), BC&EBC Welfare (SAB)	0	5	0	5	
	18	Desaster management(SAB)	0	1	0	1	
Total						2610	

1.13 Cost of inspection: The cost of audit of the government accounts for which the CAG of India is statutorily responsible is chargeable to the 'Major Head 2016 Audit'.

1.14 Supervision of audit works by gazetted officers (Sr. Audit officer/Audit officer): To ensure effective audit a group of two or three audit parties have been placed under the charge of an inspecting officer who is responsible for efficient supervision of audit, proper drafting and timely submission of the Draft Inspection Report (DIR). Placing of two or three audit parties under the charge of an inspecting officer may be revised considering the need of the expenditure of the auditee unit and availability of inspecting officers. Cent percent supervisions is required for (i) Performance Audit (ii) Audit under section 14, 15, 19, and 20 of the CAG (DPC) Act. (iii) Special Audit of any specific systems or activity (iv) Special Audits where frauds and embezzlements are reported (v) Audit of district and other higher Audit where frauds and embezzlements are reported (vi) Audit of district and other higher level offices which deal with developmental plan programme. Other annual and biannual audit should be supervised to the extent of 50 percent of audit period subject to a minimum of three days at the time of closing of each local audit (Authority: CAG Letter Number-974/O&M/7-81/Vol-V dated 30.11.1982).

1.15 Selection of staff for inspection work: The CAG of India has observed that if the inspections serve their purpose and maximum value is obtained for the expenditure incurred on inspections, this work should be specially entrusted to trained, competent and intelligent officers who would in addition to exercising the routine prescribed checks, also examine the accounts intelligently giving due regard to the principle of higher proficient audit. Special attention should, therefore, be given for the selection of officer to be deputed for work so that it may ensure the inspections are conducted in a really effective manner (Authority: CAG's Letter No-565-Admn- G- Rep-99 dated 23.3.1950).

1.16 Period of stay in inspection (civil) party: Member of OAD field parties, namely AAOs/Supervisors/Sr. Auditor/Auditors are required to stay in the audit party strictly in accordance with the tour programme prepared on the basis of man days sanctioned against auditee units and administrative convenience.

1.16.1 Audit Fees for audit of non-government institutions: The audit fee is chargeable for the audit of non-government institutions according to the scale laid down by the Government of India from time to time. The audit fee should be calculated for each party, as the case may be, on the basis of principles as described here. (1) The daily rates should be so calculated as

to yield the exact cost of the establishment employed for the local audit work. (2) The daily rates for each party should be composed of Direct Charges and Indirect or Overhead Charges. The direct charges may be calculated on the basis of average cost of the particular post plus appropriate allowances and indirect charges may be taken as constituting 125 percent of the direct charges calculated as above. (3) The total direct and indirect annual cost for each party is worked out after calculating the daily rates for the party and adding the allowances made for casual leave, Saturday (office observing five working days in a week), Sundays and Holidays and time spent in transit. The number of days in a year for this purpose may be determined by the Accountant General with reference to local conditions but should not be less than 250 days in a year. The rates of fees should be fixed to yield the cost of the establishment employed on audit assuming that all work of audits including audit fees actually charged, have been carried out on payment. Where the audit is super-imposed on the local body or institution having its own auditors with a view to safeguard government interest and to ensure that the grants or loans by Government have been utilized for the purpose for which it is given, then the CAG will be acting in discharge of his statutory functions and the audit will be at government cost. The question of recovery of cost of audit will arise only when the audit is not the statutory function of the Comptroller and Auditor General and is undertaken on a consent basis. (CAG's Letter No- 2338 Admn-1/378-61 dated 05.09.1962)

1.16.2 Method of calculation of Audit Fees: Audit Fees recoverable from bodies and authorities are to be worked out as mentioned here: (i) The daily rates of Audit Fee on party basis recoverable from non-government bodies is calculated by dividing the total of direct charges and indirect charges for a year by number of working days in a year and is rounded off to the multiple of Rs five. (ii) Direct charges for the actual cost of the party engaged in local audit are worked out by adding together the average cost under FR 9 (31) and appropriate allowance thereon. The average cost of the posts should be worked out from time to time with the revision of scales etc. (iii) The indirect charges in connection with the gazetted supervision of the local audit and the work done in audit office are taken to be 125 per cent of the direct charges worked out in (ii) above. (iv) The daily rates of Audit Fees should be worked out and approved by the head of the department within two months of the revision of the rates of pay and allowance necessitating the revision of rates. Immediately after the rates are revised and approved, a copy thereof should be sent to the CAG and its regular submission watched through the Calendar of Returns of Headquarters Section. (v) The accuracy of the daily rates of audit fees calculated should be checked independently by

the Internal Test Audit Section before the rates to be put up for approval by the Head of the Department. (vi) The accuracy of the daily rates of Audit Fees approved in each office should be checked by the Director of Inspection at the time of inspection of the office and report to this effect may be sent to the CAG after inspection is over. (vii) The powers of sanction of daily rates of Audit Fees have been delegated to the Head of Department in the Indian Audit and Accounts Department with the revision of daily rates of Audit Fees subject to the conditions as mentioned here. (a) The direct charges should be calculated on the basis of average cost of posts involved (b) The indirect charges should be computed at 125 percent of the direct charges. (c) While calculating the direct charges, the average cost of each category of non-gazetted post should be calculated first as per instructions contained in audit instructions below FR 9.31 and by applying the formula average cost of each posts generally utilized in parties under Category- I of Bihar Government Offices observing 5 days week, Category-II of Bihar Government Offices observing 6 days week, Category-III of Central Government Offices observing 5 days week, Category-IV of Central Government offices observing 6 days week for the period from 01.01.2006 onwards should be as detailed below.

Period of Audit	Category of offices	AAO	Sr. Auditor	Auditor	Total	Supervision charge 125%
As applicable	I-Bihar Govt. offices observing five days week	Pay and allowances admissible	Pay and allowances admissible	Pay and allowances admissible		-do-
As applicable	II-Bihar Govt. offices observing six days week	-do-	-do-	-do-		-do-
As applicable	III- Central Govt. offices observing five days week	-do-	-do-	-do-		-do-
As applicable	IV- Central Govt. offices observing six days week	-do-	-do-	-do-		-do-

The figures of average cost would, however, be changed whenever there is revision of pay and allowance. The amount of average cost determined as above, the element of DA, ADA, HRA, Compensatory Allowance etc based on the average cost whatever admissible, would be added. The worked out cost has to be multiplied by 12 and divided by actual numbers of working days available in a year. The work out daily rates should be rounded off to the nearest rupee for each post separately (Authority-CAG's circular No-41-TAI (RUL) T-81/1513 and TAI (RGL) 81dated 23.11.82). Allowances for Sundays, Saturdays, Casual Leaves, Restricted and Gazetted Holidays and transit time may be added for working out the daily rate of Audit Fee. The numbers of working day in a year for calculating Audit Fee is

limited to 258 days and 218 days in respect of government offices observing six days and five days week respectively. On the closing day of audit, the local audit party should serve a memo indicating the amount of audit fee recoverable from the Authority/Body audited by them and keep two copies thereof in the Inspection Report (IR) to be submitted to the head of the office. The amount of Audit Fee is required to be paid by the institutions under the Head of Account "0070-other Administrative Services-Fees for Government Audit". Recovery of Audit Fee in respect of Government Departments should be made according to the instructions contained in FR 127 and Government of India decisions read with FR 9 (31) and FR 116. (CAG's letter number 151/Codes-1/10-76-Grd I dated 3rd April, 1976)

1.16.3 Cost of concurrent audit: The cost of concurrent audit (audit conducted by the Resident Audit Parties in respect of government commercial concerns) will be worked out according to the average cost method as laid down in FR127. In cases where the immediate gazetted supervision of the audit party is arranged on a part time basis, the cost of such supervision will be worked out proportionately with reference to the approximate time spent on such supervision while the cost of Headquarters' supervision will be worked out in the same manner as in the case of local audit.

1.16.4 Realization of the audit fee:The realization of the audit fee is watched through the Register of Audit Fee maintained in Form SY-338 by Central Section. The amount of Audit Fee calculated on the basis of the rate prevalent during the period of audit is entered in the register under columns I-II with audit note relating to institution from which the fee is to be realised. When the intimation of credit is received from the treasury officer or the administrator concerned, the fact is to be noted in the register under remaining columns. A report of the amounts of audit fee outstanding at the end of each month should be prepared on 5th of next month and submitted to the Branch Officer and Group Officer on 15th of April, July, October and January in each year for information.

1.16.5 Audit fee for audit conducted on behalf of another Accountant General: Where audit of any body or authority is conducted as sub auditor on behalf of any other Accountant General or Principal Director of Audit, the AG auditing the same as sub auditor, should prepare demand of audit fee recoverable from the body or authority and keep a record to this effect in their register for recovery and sending it to their Principal Audit Officer on whom behalf the audit of that body or authority is conducted. The Principal Audit Officer will enter the demand in their requisite register and the recovery of audit fee from the apex body would

then be the responsibility of the Principal Audit Officer. (Authority: CAG's Circular Number 36-TAI/83/15 and TAI/RUL/7-81/1 dated 1.12.83)

Note: (1) Audit fee is leviable for whole days even though only a part of the day have been utilized for the Audit work. (2) If a Sunday and holiday is utilized for audit, no audit fee is leviable for that day unless the auditor actually works for full day implying that the local officials cannot be compelled to attend office for audit work on Sunday or holiday.

1.16.6 Recovery of audit fee by the treasury by book adjustment:In case of local bodies or funds who deal with treasuries, the recovery of audit fee is made by the Treasury Officer by book adjustment of the bodies concerned on receipt of a requisition from the Audit office to that effect specifying the amount due for recovery.

1.17 Undertaking of special Audit: Before taking up the special audit of any department, the scope and extent of such audit should be decided with the consultation of department and order of the Accountant General. The CAG may also be informed of the extent and scope of special audit undertaken at the request of Government. The special audit undertaken on the request of the government will be in pursuance of the statutory responsibility of the CAG and cost thereof will be chargeable to Audit Budget vide rule (iii) of Appendix 3 to Accounts Code Volume-1 and the question of recovery of cost of audit will arise only when the audit of the office is not the statutory function of the CAG and has been undertaken on consent basis. In cases where special audit of accounts of guarantee institution is proposed by the government on account of suspected irregularities, the audit should be undertaken with the least possible delay irrespective of whether the accounts are complete or not. Audit of even imperfect records would establish, prima facie, the nature of the irregularities and the institutions may be permitted to complete their records for second time and audit would be undertaken after the completion of the records. After departmentalization of accounts of Central Government it has been decided that in the case of central ministries/departments whenever request for special audit for investigation of frauds etc is received, the ministry/department concerned should be advised to approach the Pay and Accounts Officer (PAO) concerned first for arranging the investigation as a part of internal audit and if in any case, PAO requires the assistance of audit, then the special audit may be undertaken only. Accountant General has, however, a right to undertake special audit of any office in which fraud etc has taken place on his own initiative after obtaining the approval of the CAG of India wherever necessary. (CAG's Letter No- 285-TAI/110-77 dated 18.04.1978)

1.18 Cost of special Audit: When a special audit for suspected misappropriation or serious financial irregularities is undertaken on the request of state Government, it will be in pursuance of our statutory functions and the cost of the audit is chargeable to the Audit Budget. The question of recovery of cost of audit will arise only when that Audit is not the statutory functions of the CAG and is undertaken on consent basis. (CAG's Letter No-1615 Admn-III/232-60 dated 11.8.60).

1.19 Audit Fee Watch Register: The realization of audit fee should be watched at Head Office through the Audit Fee Watch Register No-SY-333 from columns 1 to 11 of the register. A demand note will be simultaneously issued to the head of the institution concerned requesting him to deposit the amount in to the local treasury or sub-treasury and after information received from the treasury officer, the remaining columns of the register should be filled up and put up to Branch Officer/Head Quarters.

1.20 Audit fee for Welfare Extension Projects: Audit fee for accounts in respect of Central Social Welfare Boards and State Welfare Advisory Boards for Welfare Extension Projects will not be charged. (CAG's Letter No-2215/Admn-I/576-56 Dated 10.05.1959)

1.21 Recovery of the cost of audit of Bodies and Authorities: A list of the bodies and authorities in respect of which audit fees are recoverable is being kept in OAD wings of different sectors. The rules regulating the expenditure involved for auditing the accounts of bodies and authorities by the Indian Audit and Accounts Department under section 14, 15 and 19 of CAG's (DPC) Act, 1971 have been laid down in Section-VIII of appendix-3 of Accounts Code Volume-I. Accordingly, the cost of audit of bodies and authorities including corporations will be recoverable in all cases in which audit is undertaken by the CAG or any officer under him as sole auditor. In case the audit of the accounts of the body or authority is conducted by another agency and audit by CAG or any officer under him represents second or superimposed audit under sections 14, 15 and 19 of DPC Act as the case may be, the cost of such audit need not be recovered from the bodies or authorities concerned. As regards, audit of the body or authority entrusted under section 20 of CAG (DPC) Act, 1971 is required to be undertaken on such terms and conditions including recovery of the cost of audit as may be agreed upon between CAG and the concerned government. (CAG's Letter No-13- TA-1/28-73 Dated 09.01.1975)

Clarificatory Orders: (i) When audit is undertaken under Section 14 of the Act and the bodies and authorities are under the audit control of external agencies such as Chartered

Accountants or audit organizations of state Government, audit fee is not recoverable. (ii) Where audit is conducted by CAG under Section 14 and the bodies and authorities are not under the audit control of any other external agencies, audit fee is recoverable if the accounts are certified as sole auditor under other provisions of the Act. (iii) In cases where audit is undertaken by the CAG under section 14 of the Act before the accounts are certified by its statutory auditors, no audit fee is recoverable. It is irrelevant whether audit under section 14 is conducted before or after the certification of accounts by its statutory auditors for the point of recovery of audit fee. (iv) Audit fee is also not recoverable for audit of specific grant in the office of the sanctioning authorities or the accounts of grantee institutions undertaken under section 15 of the CAG's (DPC) Act.

Note-The term 'Sole Auditor' means that IAAD acts as 'Auditor' in respect of institutions and certifies its accounts and prepares Audit Report thereon. There is no other auditor for the institution. (CAG's Letter No-1600-TA-I (RGL) 54-77KW Dated 24.12.80)

1.22 Pay and TA of the officer and staff of Outside Audit Department: Pay, TA and other personal claims of gazetted and non-gazetted members of Outside Audit Department are being paid through nationalized bank like other members of main office.

1.23 Reimbursement of contingent charges incurred by Audit Parties: Once in every quarter, the audit parties should submit to headquarter office, the bill for actual contingent charges incurred by them during the period in connection with the transportation of government records from one station to another during audit tour in the performa provided for the purpose with requisite certificates signed by the claimant. Railway money receipt should be furnished where railway freight is claimed. The bills will be examined by concerned Headquarter Section and after approval of the DAG may be sent to DAG, Administration for reimbursement.

1.24 Special privileges regarding travelling allowance: Although the Travelling Allowance (TA) bill of members of audit parties working in Outside Audit Department are passed and paid under different provisions of supplementary rules and orders of Central Government time to time but Accountant General has full powers to allow relaxation to the members of the field party under SR72 for payment of daily allowance for Sundays and holidays when the members of field party do not attend the duty point and stay on a place other than the duty point in case of non availability of boarding and lodging facilities at duty point. Non-availability of boarding and lodging facilities at duty point should be certified by the

concerned member and his supervising officer and intimated to headquarters for kind approval and relaxation by the Accountant General on commencement of such stay. (Authority O/o No-SRA/1/TA/108 dated 12.11.92)

1.25 Daily allowance for halts during casual leave and holidays on tour: Daily Allowance (DA) will not be admissible for casual leave or compensatory leave whether it is spent at place of duty or elsewhere and such leave in all cases should be noted in "Remark" column of the TA bill. Same remarks for holidays and Sundays spent at a place other than the duty point should be made for the admissibility of DA after relaxation by AG under SR72.

1.26 Journey in connection with cases: If any member of outside audit party attends a court to give evidence on statutory duty done by him on a day immediately preceding a holiday, he will commence his return journey on the following Holiday or Sunday. Travelling Allowance will not be allowed to group-D personnel accompanying AAO/Sr.Auditor/Auditor on a tour to give evidence in a court. If the company of Group-D staff is considered absolutely necessary prior permission of the DAG of related wing should be obtained.

1.27 Responsibility of correctness of claims: The Assistant Audit Officers are personally responsible for the correctness of the tour and halts shown in his TA bills as well as other members of their party. They should countersign the office copies of the TA bills of their Sr. Auditor/Auditor and Group-D staff in token of correctness of the claim.

1.28 Payment of advance of TA on tour: Advances for TA on tour to cover the personal travelling expenses of gazetted and non-gazetted officials engaged in audit of Outside Audit Department are sanctioned under Paragraph 269 (ii) of the General Financial Rules (GFR) of Central Government and that should be equal to 90 percent of approximate expected expenditure. Applications from members of the field party for advances of TA on tour for a particular month should reach at the headquarters by the second week of the month preceding the month for which advances are applied. Separate applications should be submitted by each member of the party. The tour advances of non gazetted staffs are sanctioned by the DAG/Admn and those of the gazetted officers are sanctioned by the Accountant General under GFR 231. In observation of standing orders of CAG, watching recovery of advances for TA granted to official on tour, objection books are kept in Claim Sections. Normally the advances are expected to be adjusted within one year and if not adjusted even within two years, the unadjusted advances should be recovered in accordance with CAG Letter No-2063-TA-1-26-79 Dated 20.12.79. Such cases of advances remaining unadjusted for more than two

years should be commented upon in the DI reports. (Cir No-OAD/TA-24 dated 23.10.56, O/o No-114 dated 22.8.79, and OAD (M) 80-81/186 dated 16.4.80)

1.29 Payment of second advance on tour: In relaxation of the provision of GFR 231 it has been decided by the Government of India that the payment of second advance for one more month for journeys on tour to the non-gazetted staff of the Outside Audit Department/Works Audit Department, Inspection Parties in the Indian Audit and Accounts Department may be allowed pending receipt of the adjustment bills for the first advance subject to the condition that not more than two advances are outstanding for want of adjustment bills. (GOI/FM/DE/Memo No-F/7(3) EGI(B) 63 dated 11/12/63 and CAG's Letter No-276 NGE(1) 157-62 dated 21/12/1963). The relaxation in respect of the second advance for journey on tour has also been extended to the gazetted officers vide GI/MF/DE/Letter No-F/13 (3) GI/64 Dated 31.3.64 and DE/OE-1/CAG/ 62)

Performa of Applications for TA Advance on tour

Application for TA Advance on tour for the month of.....

1. Name of the Government Servant.....
2. Designation.....
3. Party No.....
4. Pay.....
5. Whether permanent or temporary....
6. Total expected days of journey out from the headquarters.....
7. Place of tours and expected fares.....
8. Amount of last two advances.....
9. Amount of claims against last two advances.....
10. Amount of advance required.....
11. Calculation of advance:
DA @ Rs..... fordays Rs.....

Less 10 percent of Rs.....

Add expected fares Rs.....

Total Rs..... (Rupees

Signature of the Government Servant

(Authority-O/o No-OAD (M)-124/ 83-84 /6 dated 26.11.83)

1.30 Adjustment of TA bills: The final TA bills of the members of the field parties for each month should be reach to the Headquarters section latest by 10th of the following month i.e. adjustment TA bills for January should reach latest by the 10th February. Applications for TA advance on tour must also be submitted to the Headquarters latest by 10th of preceding month. As ainstance application of TA advance for the month of March must be invariably submitted to Headquarters latest by the 10th of February along with TA adjustment bill for the month of January. All weekly diaries/monthly tour diary or events report in case of Sr. Audit Officer/Audit Officer must also be sent along with TA bills, if not already sent. Failure of sending of TA adjustment bills and application for TA advance on the due date in proper performa Prescribed entails withholding of successive TA advance and recovery of outstanding amount of TA advance from the pay of the government servant. The TA bills of all the Sr.Auditors/Auditors and Group-D staffs attached to a party must be checked thoroughly by the AAO in the capacity of head of the Audit Party on the spot and a certificate with the words "checked and found correct" recorded by him on the office copy of the TA bill in token of his detail scrutiny of the details of the claims in the TA bill.

1.31 Scrutiny and sanction of TA advance: The application of TA advance is scrutinized in OAD sections with a view to ascertain whether (i) the amount of advance applied for is admissible under the existing rules (ii) the estimate of probable expenditure as given by the person concerned is reasonable and the journeys shown there in are actually due to be undertaken in accordance with the approved tour programme (iii) surety bond in the prescribed performa in case of temporary non gazetted government servants, if necessary, has been furnished and it is prima facie in order. After completing the above checks the applications and list thereof will be submitted to the concerned Audit Officer along with TA Bills register after making necessary entries therein. The latter will initial the register and

forward it to concerned DAG in case of permanent non-gazetted government servants and to the AG in case of temporary government servants for sanctioning of TA advance. After receipt of the sanction of TA advance, it is forwarded to the establishment section for preparing bill and payment thereagainst.

1.32 Payment of TA advance: The establishment section will complete all the checking within ten days from the date of receipt of the sanction of TA Advance, get the amount of bill passed by the Sr.DAG/DAG/Admn adjusting the casual leave, short spells of earned leave and local holidays during time of allotted audit and send to cash branch for arranging payment (Audit).

1.33 Scrutiny and payment of TA bills: After receipt of TA bills in duplicate with fair copy of TA bills prepared by the persons concerned but leaving the money columns blank to be filled in by the establishment section of the office and office copy containing all the details, the Headquarters Sections shall check the final TA bills with the approved tour programme, weekly tour diaries, casual leave register and other records maintained in the section to ascertain the genuineness of the claim and record a certificate to that effect on the body of the office copy of the bills. These checks are done with reference to the TA register maintained in the section and after the satisfaction of concerned Audit Officer that the bills are *prima facie* in order and having endorsement of certificate on the office copy of TA bill in this regard, the bill is forwarded to the Establishment Section for final checking, passing and payment. TA bills should not be retained in the Headquarters Section for more than 7 days.

1.34 Prevention of arrears works in field party: With a view to preventing accumulation of arrears audit works in field audit party due to staff proceeding on casual leave and short spells of earned leave up to seven days etc, the Accountant General has ordered that the parties will be responsible to pull up this arrear. While fixing the items to be completed during a month, the Bihar Government notified holidays shall be taken into account and any local holidays or closures of office due to other reasons shall have to be made good by the parties. On such occasions, the Audit Party may conduct the local audit as usual with special arrangement with the local officer concerned, so that there may be no loss of working days of the audit party otherwise such loss of working days will have to be pulled up by the parties by curtailment of time of future audits or by working extra hours in other working days during the existing audits. The parties will be required to keep watch over such arrears and their liquidation and make specific mention in the time account as per O/o No-OAD/C-60 Dated 11.6.57. The

above orders will also apply to the inspecting officers as much as any loss of working days due to casual leave should be made good by him by going to the places already provided in the programme with a view to check up how far the Audit party has worked in accordance with the rules and how far the audit has been effective etc. The supervision in subsequent items should be suitably adjusted by reducing the time provided.

1.35 Rent free accommodation: District Board has allowed rent free accommodation in their DakBunglows, Inspection Bunglows and Rest Houses to the members of Audit Parties of Outside Audit Departments. It has also been decided by the State Government that the Audit Parties of the O/o AG (Audit) Bihar, while travelling on duty, may be allowed occupation in PWD Inspection Bunglows on payment of rent at half of the prescribed rates. (Letter No-C/14-2019/54-PW Memo No-2143 dated 17.9.54 and No-3151 dated 7.6.54)

1.36 Use of staff car by touring officers: Free use of staff cars by touring officers under the administrative Control of Central Government for specific journeys to be performed by them from the railway station or airport to their place of residence or office and vice versa are allowed with condition that short road mileage may not be allowed to them in respect of such travelling. Free use of staff cars at halting stations for official works within a radius of 8 km or within the municipal limits whichever is more distance is allowed subject to the condition that the touring officers will not claim the road mileage even the distance travelled exceeds 32 km. Staff car would not be placed exclusively at the disposal of the touring officers. (GOI/Ministry of Transport/ Letter No-45 C (9) 54 dated 20.01.1955)

1.37 Production of Inspection Report before Legislature or a Court of Law: The AG has been instructed to advise the State Government for laying the Audit Report on the table of the Legislature even final orders is not passed by him on the irregularities pointed out therein. (Authority: Auditors General's Letter No-78/Admn/1-2139 Dated 7.2.39)

1.38 Payment of TA to officers deputed for examination of records with police investigation: The cost of TA and other incidental charges of the officers deputed for examination of records in connection with the police investigation will be borne by the State Government and debited to the head 2055 Police. (IG Police, Bihar Letter No-5646-C/C-VIII-1/24/63 Dated 20th April 1963)

1.39 Applicability of OP Manual: The rules and procedures prescribed in the OP Manual and application of general orders in other Manuals of the Accountant General are applicable on the staff and officer of Outside Audit Department wing in matters relating to attendance,

holidays, leave, conduct of government servants, disposal of cases and submission of papers to superior officers to the extent of the provision of this manual except specifically authorized variations from any other orders.

CHAPTER-2

Duties and Powers

2.1 Duties of the Deputy Accountant General (DAG): The Deputy Accountant General shall be responsible to the Accountant General for smooth working and general efficiency of the audit of Outside Audit Department under the charge in his wing. His main duties shall be as described here. (i) General Administration of Sector. (ii) Scrutiny, approval and issue of Inspection Reports. (iii) Scrutiny and approval of potential draft paras for the Audit Report before final approval of Accountant General. All audit Comment (observations) from field audit are required to be sent to the Group Officer electronically by field audit teams. After scrutiny, the observations are required to be sent to field audit teams electronically for their issue. (iv) Scrutiny and approval of the draft audit comments submitted by the Assistant Audit Officers and Inspecting Officers before submission to the Accountant General (vi) Disposal of letters and official reference from Government or the office of the Comptroller and Auditor General of India and other important correspondence relating to rules and procedure of audit under the approval of the Accountant General where necessary as well as disposal of any reference from the Inspecting Officers (vii) Supervision of the important items of audit work. (viii) The Local audit of “entertainment and other allowances” of the President/Governors should be supervised by the Deputy Accountant General. All preliminary objection memos should be issued with his signature to avoid frivolous and petty objections (CAG's Confidential Letter No-939/Administration-1/621-56(ii) Dated 28.2.1962). (ix) It has been decided by the CAG that Deputy Accountant General should do an average 10 days minimum inspection in a month excluding transit days and 120 days in a year (CAG's Letter No- 4478/ GCE/31-61 Dated 19.7.61).(x) To detect cases of unauthorized absence of the officers and staff on inspection duty. It has been directed by the CAG that surprise inspections of audit parties in the field offices at the level of group officers should be made more frequently to check the cases of remissions in the performance of duties or unauthorized absence. If such cases are found during the course of inspection that should be mentioned in the confidential report of the officers and staff. If any member of the inspection party applies for leave during the course of inspection for sudden and unforeseen reasons, approval of grant of leave for unauthorized absence should be obtained from Headquarters telegraphically/Fax on the date of the leave applied for. The staff in the audit parties should be required to maintain diaries indicating details of work done on each day which should be scrutinized in detail at Headquarters section (CAG's Circular No- 766/TA-I/137-80 Dated

16.8.80 published in Audit-Bulletin of September, 1980). (xi) When Audit Inspection discloses a defalcation or some serious financial irregularities, the DAG will bring the full facts to the notice of the Accountant General and if necessary, visit the station personally with a view to supervise and guide the Audit Party to conduct a successful audit. (xii) Report of irregularities of lower degree discovered during audit should be sent to the state government in advance of inspection report under the signature of DAG but audit findings like heavy losses, defalcations and other serious irregularities are reported to state government confidentially bringing in to the notice of AG. (xiii) Letters for forwarding the Inspection Report to the departments of state and central government shall be endorsed by him. (xiv) The following returns and registers of the Headquarters sections shall be reviewed by him according to the time table indicated their against each so that all kinds of irregularities may come to his notice and he may take suitable measures to overcome short comings.

Sl. No.	Name of Registers and Records	Time Table
1.	Progress Register of Inspections Report	Every Month
2.	Register of outstanding objections	Every Month
3.	Diary Register of Letters (Hdqrts and General)	Every Month
4.	Objection Book and adjustment Register	Every Month
5.	Register of Defalcation and Losses	Every Month
6.	Calendar of Returns	Every Fortnight

2.1.1 Quarterly meetings.

(1) Clear cut guidelines and instruction should be issued in writing to the audit parties before they proceed on local inspection/ Audit. Various aspects based on discussion and guidelines should be provided to the parties by the Group Officers to Audit party before they proceed to the field. (II) Quarterly meetings are to be conducted regularly. The Group Officer should attend the meeting and discuss various aspects of the Audit entities programmed for Audit during Quarter along with any other audit related issues needing immediate attention. (III) Interesting and major audit objections raised during the previous Quarter should be discussed during the meeting. (IV) It should be insured that an opportunity is provided to each and every AAO/AO/Sr. AO present in the meeting to express and clear their professional doubts. (V) The

minutes of meeting should be distributed among the audit party members and a copy is to be sent to Headquarters.

(Authority: Additional Deputy C &AG, Letter no- 130 dated 15.3.2016)

2.2 Powers of Deputy Accountant General: Powers of DAG are mentioned below.

2.2.1- Sanction of CL to Branch Officer and approval of Tour Programme for Audit:

The DAG may sanction casual leave to the Branch Officers working under him. He approves tour programme and may grant extension of time for individual items of audit to any extent as justified by exigency of the cases.

2.2.2- Financial Power under Audit: In order to avoid unnecessary use of time and labour in cases of simple and unimportant character, the State Government/Union Territory Government has agreed to exercise the following powers by audit office on their behalf which may not be delegated to subordinate officers. (a) An audit officer of the rank indicated below may charge recovery of irregular expenditure not exceeding the amount specified against each as Accountant General-Rs 250/-, Sr. Dy. Accountant General-Rs 100/-, Dy. Accountant General- Rs 75/- and other gazetted officers - Rs 25/.

Note- If the irregularity is such that would be likely to recur, the government servant responsible should be told that the expenditure was irregular but the recovery is not made. (b) Some items are placed under objection because the whole or any portion of the expenditure is unjustified itself and it is not exactly covered by rule, in such cases the Accountant General or the officers under him may forgo recovery up to the limit as Accountant General- Rs 500, Sr. Dy. Accountant General- Rs 200, Dy. Accountant General- Rs 150, Other Gazetted officers- Rs 75/- and Assistant Audit Officer- Rs 25 subject to the condition that (i) The expenditure must not be of recurring nature. (ii) Where the objection is based on insufficiency of sanction, the audit officer should be satisfied that the authority empowered to sanction the expenditure would accord sanction if requested to do so. (iii) Where the objection is based on insufficient proof of payment, the Audit Officer must be satisfied that undue trouble would not be caused by submission of inconsistency proof and must see the reasons of doubt that the charges has actually been paid. (c) Where an expenditure under objection has become irrecoverable for any reason, an Audit Officer as mentioned earlier may write off an amount not exceeding the amount shown against each case as Accountant General- Rs 500, Sr. Dy. Accountant General- Rs 200, Dy. Accountant General-Rs 150 and Other Gazetted

Officers - Rs 50. The power conferred upon Audit officers under the provisions in the paragraph should not be exercised in respect of items for the check or audit of which they have no authority such as items which are received by their officer and forward to another officer for audit or in respect of any amount outstanding under a debt or deposit head. The powers may, however, be exercised in respect of outstanding or over payment established as irrecoverable in provident Fund Accounts.

2.2.3 Recovery and waiving of personal claims under audit objection: In the case of payments on account of personal claim under objection for more than a year after the date of disbursement, the Accountant General can refer the matter to the government before demanding recovery subject to the provision of the order of government that the recovery should be waived and the Accountant General, if satisfied with the action of government will withdraw the objection otherwise the circumstances of the case may be reported to the Legislature through the Audit Report. The power of accepting the orders of government in such cases is vested in Accountant General personally except in cases where the amount involved is Rs 500 or less, the senior Deputy Accountant General/DAG may accept the orders up to the limit of Rs 500 and Rs 250 respectively in each case. These powers should not be delegated to subordinate officers. All cases, in which the orders of government to forgo recovery without further action have been accepted, should be recorded in a register which should be reviewed by the Accountant General at such intervals as may be considered suitable but at least once in a year. The register should invariably show inter alia how the overpayments occurred in each case, which rules were contravened, the degree of responsibility attaching to the drawing and disbursing officers on the one hand and to the Audit Officer on the other hand, the reasons given by government for waiving the recovery on the grounds on which Accountant General, Sr. Dy. Accountant General and Dy. Accountant General accepts the government orders and the remedial measures, if any, taken to prevent the recurrence of such cases. The Union and State Governments have, however, agreed that in respect of cases referred as above, the Accountant General and other Audit officers may forgo recovery on their behalf, if the amount does not exceed the limits as mentioned and they are satisfied that it was drawn by the government servant concerned under a reasonable belief and he was entitled to (i) Accountant General- Rs500 (ii) Sr. Dy. Accountant General- Rs 250 (iii) Dy. Accountant General-Rs 150 and (iv) Other Gazetted Officers- Rs 25. These provisions apply *mutatis mutandis* to over-payments observed during

local audit and non-recovery of government dues where it is the duty of Audit to watch recovery. (Paragraph 7.1.1. of the MSO Audit)

Note- Exercise of the power mentioned as above is subject to the limitation indicated in the note below paragraph 7.1.2 of MSO (Audit) i.e. Audit officers should not exercise their powers in respect of transactions of central government and union territories whose accounts have been departmentalised.

2.3 Duties and powers of the Sr. Audit Officers/ Audit Officers at Headquarters:

2.3.1 Duties: The Audit officers at the Headquarters shall be primarily responsible for all routine matters relating to sections under their respective charge. During the absence of DAG on tour or otherwise, the Sr. Audit officers/ Audit officers shall be directly responsible to the Accountant General for the smooth running of the work of the section under their charge and shall promptly bring to the notice of the Accountant General all important developments relating to the section with suitable suggestions unless alternative arrangements for looking after the charge by another group officer is made.

2.3.2 Powers: The Audit officers at the Headquarters may sanction casual leave to the non-gazetted staff working in section of OAD under their charge up-to limit of 5 days at a time. He may take action to forego recovery and write-off an amount up-to the limit and conditions laid down under paragraph 7.1.13 of the M.S.O Audit. During absence of the DAG on tour all important works requiring the exercises of powers of DAG shall be managed by the Audit Officers at the Headquarter unless alternative arrangement for looking after the charge by the group officer is made by obtaining the approval of Accountant General and the minor matters may either be left over or disposed of by them in anticipation of DAG's approval after return. Such matters disposed off by the Audit officers at the Headquarters during the absence of DAG on tour should be brought to his notice immediately after his return.

2.4 Duties of Headquarters section and other sections: The Headquarters' Section of OAD is responsible for disposing of items of work as (i) Keeping up to date the list of offices to be locally audited (ii) To draw out an audit plan of units to be audited in the next financial year for approval by the Accountant General (iii) Preparation of tour programme of audit parties and Inspecting Officers under the orders of the Accountant General, Group Officer/Sr. Audit Officer/Audit Officer (Headquarters) (iv) Sending intimations of local audit to the concerned offices in time (v) Ensuring that the local audit and inspection are carried out in

accordance with the approved programme (vi) To get the months selected for detailed audit and intimate the same to the local audit parties (vii) To ensure that Audit Note /Inspection Report of each office which audit is completed is received at Headquarters in time and is not detained by the local audit party beyond the prescribed period (viii) To ensure that all Audit Notes/Inspection Reports received are properly and promptly edited and issued to the concerned offices after approval by the Group Officer within the prescribed time schedule. (ix) Scrutinizing the annotated copies of Audit and Inspection Notes received from the Departmental Heads, issuing the further remarks, if any, or take further action on the same until all points raised in the Audit and Inspection Notes are finally settled (x) To review monthly the outstanding paras of Inspection Reports and maintain up-to-date position of outstanding paras of IRs in the Paragraph Registers (xi) Maintenance of all prescribed register and issue of reminders whenever due (xii) Supplying the copies of all important order to local audit parties interpretations of rules, books, codes and manuals which are useful for local audit purpose (xiii) Correspondence with the State/Central Government regarding local audit (xiv) To see that photo copies of list of payments and schedules of drawls relating to selected months are promptly supplied to the local audit parties after obtaining the original from DC sections of the office of AG (A&E) Bihar. (xv) Providing draft para material to Report Section for onward process for inclusion in Audit Reports. (xvi) To see that the amount of the Audit Fee charged by local audit parties from auditee organisations has been correctly worked out. (xvii) Rates of Audit Fees are revised promptly as and when the occasion arises. (xviii) Examination of the weekly diaries and stamp accounts received from the local audit parties. (xix) Checking of movements of the party personnel shown in their TA bills with the sanctioned tour programme, weekly diaries and casual leave registers etc at the time of passing of TA bills to Claim Section with certificates regarding verification of date and days of halt on tour etc. (xx) Requirement of staff for audit in each financial year based on approved Annual plan are correctly worked out and sanction obtained from the Accountant General/Comptroller and Auditor General well in time. (xxi) Budget Estimates are prepared and sent to Administrative Section in time. (xxii) Watching that all the local audit work is done punctually and regularly. (xxiii) Preparation of periodical reports and returns. (xxiv) Maintenance of important orders guard files for guidance of the Headquarters Sections and local parties and keeping the Manual of Inspection Civil Wing up to date. (xxv) Casual leave accounts of the staff of the Inspection Civil Wing and applications for casual leave of local audit parties and Headquarters establishment will be kept in Headquarters

Section. (xxvi) All other miscellaneous and policy matters relating to audit Inspection of Civil Wing in connection with local audit and disposal of Inspection Reports etc. should be dealt with promptly. (xxvii) All the prescribed registers should be examined by the Assistant Audit Officers and submitted to Sr. Audit Officers/Audit Officer at Headquarters and Group Officer on due dates as given in the Calendar of Returns.

2.5 Responsibility of the Inspecting Officer: The officer in-charge of inspection work must acquaint himself with the system of finance of any institution, the accounts of which he is inspecting, what the source of its receipts and how expenditure their against. Then he must decide roughly what system of accounts is necessary for purpose of internal check and how far the existing systems conform to this standard. This is the elementary and primary responsibility of the supervising officer to decide the scope of inspection. An Inspecting officer, responsible for audit of receipts, should co-relate all account's documents so that he may direct his staff to check all money due to be received and actual receipt is brought to account. (CAG`s letter No- T/962 Admn/74 - 40 Dated 23.9.1940)

2.6 Expectations from inspecting officers: (i) To guide their staff, to do a certain amount of original work and to examine personally all important points raised by their staff with reference to initial documents. The Inspecting Officer should try to get all the facts and explanation on the spot. Wherever satisfactory explanation is not forthcoming and the Inspecting Officer feels that the points raised by him are so important that they may ultimately find a place in the Audit Report to be submitted to the legislature, he should take particular care to scrutinise all issues involved, collect all relevant information and take attested copies of all those documents which are likely to be useful in pursuing the matter with higher authorities. (CAG`s DO No- 1307/Admn-I/388-55 Dt 24/9/ 55 and No- 971/Tech/Admn-II/131-68 Dated 2/5/1968) The original work carried out by the Inspecting Officer during local audit should be independent in addition to the examination of work conducted by the notice may also be mentioned in the IR. The modalities for performing as stated below. These are indicated only for guidance and not intended to falter the discretion of the Inspecting Officer in case he finds extensive verification are required. He may conduct the checks in respect of the months selected for audit or for any other periods as he considers necessary.

(i) **Payment:** The cash books and vouchers since last inspection should be generally reviewed and any heavy unusual payments and receipts should be looked into. It should be

observed that proper arrangement have been made for the withdrawal of funds and their safe custody. (ii) **Receipts:** It should be ascertained that adequate regulations and procedure have been framed to secure an effective check on the assessment, collection and proper accounting of money and such regulations framed are followed properly. It should be observed that there is no undue delay in remittance of money into the treasury as laid down in the treasury codes. (iii) **Check of Cash Book:** Transactions during the audit period should be checked at a glance and transaction of high values minutely especially the contract and procurement of services and stores. (iv) **Stores:** The system of acquisition of stores and their custody and the system of indenting and issue of materials should be examined to ensure that all the prescribed rules are followed and adequate safeguards are provided to check the misuse of materials. In respect of huge purchases, the quotations, tenders and agreements should be examined. Entries of the day in the stock register should be examined with reference to supporting documents. Stock verification report should be examined and it should be observed that adequate action has been taken in respect of heavy shortage or other defects. It should also be observed that there may not be large and unnecessary accumulation of stores. Instances of balances, not operated for a long time, should be commented upon where necessary. (v) **General:** All the books of accounts should be generally reviewed and a few entries may be test checked where considered necessary. (vi) **Jail:** During the audit of jail, attention should be paid towards statements of manufacturing units and fixation of selling prices of articles manufactured, purchase and issue of dietary and other articles and accounts of jail products such as dairy, poultry, garden produce etc. (vii) **Hospitals:** The tenders for purchase and issue of dietary article and medicines, the procedure for payment of dietary charges and the arrangements for collection of money and their accounting should be examined. One day's entries from the important register should be examined with reference to the corresponding documents and registers to see that charges are correctly recovered.

2.7 Conduct of Audit following the auditing standard and ethics: In case of supervision of audit the Inspecting Gazetted Officer should always keep in mind the auditing standard and ethics at the time of start of audit, during the audit and at the last of audit as per standing orders of the CAG. The Inspecting Officer should call on the head of the office and ascertain time to time any suggestion from him for any point of audit to be investigated or any initial accounts under him which he entertains any suspicion. The Inspecting Officer will examine such suggestion and any other point that come to his notice. Before the close of his inspection, he will personally discuss the significant audit findings with the Head of the

Office and send them for the information the DAG. After approval of the findings by DAG a copy of this audit note will be forwarded to the Head of the Office under the signature of the DAG. The supervising officer will also discuss with the Head of the Office all important objections of the current audit as well as outstanding objections of the pervious Inspection Reports and endeavour to settle as many of them as possible. The gazetted officer who supervises the audit work and edits the Inspection Report should also prepare the draft paragraph for the Audit Report and important financial irregularities for Appropriation Accounts and forward to Headquarters Section along with relevant Key Documents (KDs) and Inspection Reports for further action (Vide O/o No/OAD (G)/Misc-78 dated 18.10.57). The Inspecting Officer shall write the Inspection Report himself and should not leave it to subordinates to do. This is necessary in order to enable the Inspecting Officer to apply his mind actively to mention the everything in the report to ensure the accuracy of the facts, the cogency of the arguments applied and preciseness of the language used (Auth: CAG's confidential DO Letter No- 307/Admn I/338-55 dated 24.06.1955 and confidential DO Letter No- 388/ Admn I/55 dated 09.12.1955 circulated with the O/o No- 1950 dated 13.01.1956). **Note-**The Inspecting officer may, however, submit typed copy of the report with a certificate that it has been dictated by him.

2.8 Drafting of Inspection Report (IR) by Inspecting Officer: In order to improve the quality of IR the field parties are hereby directed to adopt the procedures as mentioned at the time of drafting and sending the Inspection Reports to the Headquarters. (i) The Inspection Reports, when audit is supervised by the Audit Officer should be drafted by the Audit Officers themselves. In case where no supervision is provided, the IRs will be drafted by the Assistant Audit Officer (AAO) concerned with the charge of the party in a similar manner. The IRs to be submitted in soft copies and printed copies to the Sectorial Section (H.qrs).(ii) The Inspection Reports should invariably be drafted in three copies and sent to the Headquarters. It may also be ensured that all annexure to the Inspection Reports are prepared in triplicate. (iii) Important objections may be included in the IR and minutes of exit conference and minor objections should be issued as Test Audit Notes which needs not to be replied by the office but the observations to be complied and get it seen by next audit. (iv) The field parties may ensure that the objection memos have been issued to the offices and in token of receipt has been obtained from them. (v) The IRs should be discussed with the Head of the offices and his dated signature on discussion sheet should be obtained and sent to the

Headquarters office within five working days following the date of completion of audit. (Authority: O/o No-OAD (M) 124/87-88/100 dated 10.12.1987)

2.9 Drafting of Inspection Report (IR) by Assistant Audit Officer (AAO): Where supervision of Audit officer/Sr.Audit officer is not provided or provided only for first few days of audit, the Assistant Audit officer-in-charge of the Audit Party should draft the IR on the basis of the objections issued and replies received and discuss the Draft Inspection Report with the head of the office on the last working day and the report should be submitted later on to the inspecting officer for editing who will carefully examine the Draft Inspection Report (DIR) and forwarded the same to the Headquarter section. The Inspecting Officer should take particular care to see that the Inspection Reports are properly written up in accordance with the general instructions contained in chapter-5 of this manual and there should be nothing which may provide grounds for complains of misstatements by the local officials. DIR in respect of an audit which is supervised by the Inspecting Officer at the closing stage must invariably be drafted by the Inspecting Officer (O/o No- OAD (M)-124/ 81-82/24 dated 23.07.1981). The Inspecting Officer will check carefully the entries made by the AAO in Part-I of the enclosed title sheet and fill up the part-II by him with his dated signatures while forwarding the DIR to the Headquarter office. The Inspecting Audit officer, at the end of every fortnight, will submit a statement showing the position of DIRs received by them from the AAOs and forward them to the Head Office after necessary vetting. The Inspecting Officer shall also submit a monthly diary of his work and the important matters relating with the parties under him for information to the AG through DAG concerned in the first week of the month following to which it relates. The diaries should contain the details mentioned as (a) Full particulars of work done on each working day. (b) Particulars of the objections relating to the pervious and current IRs discussed and settled during the inspection of the office. (c) Any serious financial irregularities or other significant audit finding noticed during the audit which may be included in the Audit Report and draft Inspection Reports so that immediate action may be taken to finalize them. (d) Any abnormal difficulties of the audit staff under his supervision which he considers fit to be brought to the notice of the DAG. (e) Any other important matters that may come to his notice either during his inspection of the accounts or by some otherwise means which needs investigation by performance audit it will be intimated confidentially on a separate sheet to the DAG concerned. (f) List of pending DIRs in respect of inspections conducted by the field parties under his charge together with reasons for delay. The tour diaries should be sent in envelopes superscripted "Tour Diary"

and addressed to the DAG by name. (O/o No-OAD (G)-14 dated 19.06.50 and 21 dated 04.10.56)

2.10 Records and Registers maintained in the Headquarters section: A list of records and register is maintained in the OAD Headquarters Sections and the registers should be periodically examined by the AAO and put up to the Audit Officers and DAG on the date mentioned in the calendar of Returns.

2.11 Duties of personnel in audit parties after restructuring of cadres in IAAD: The restructuring of cadres in IAAD and granting of higher pay scale to Sr. Auditors and Assistant Audit Officers necessitates a clear demarcation of duties of personnel in clearly defined areas of work to ascertain their accountability and to identify the contribution in field duty in terms of quality and quantity. As laid down in Para 2.6 of chapter II of this manual, after restructuring of cadres in IAAD, Sr. Auditors/Auditors are able to issue observation memos and submitted to Assistant Audit Officer in the form of materials for inclusion in the inspection report based on assigned actual work done by him and the replies of the departments thereon. Where the supervision of Audit Officer is partial, the DIRs should be compiled by the AAO in -charge of the party for editing and onwards transmission to Head Quarters office for vetting and approval by DAG to be issued as Inspection Report. The Audit Officer-in-charge of the inspection party is not however precluded from making any changes in writing by him in distribution of work keeping in view the suitability of the individual official for the type of work in hand. Audit works are generally done by officials as mentioned below.

(A) Audit Officer: Duties and responsibilities presently assigned are not only important but also sufficiently exhaustive. Review of the scheme executed in a department will in fact be time consuming. Further the Inspecting Audit Officer has to perform the co-ordination functions to achieve overall efficiency in performance. The Inspecting Officers are responsible for supervision and efficient working of local audit parties entrusted to their charge and perform duties mentioned as (i) the duties and responsibilities assigned to the Inspecting Officer according to the provisions in Section VI of Manual of Standing Orders (Audit) are sufficiently exhaustive. Besides performing the coordinating functions to achieve overall efficiency in performance and seeing that necessary processes of audit of various documents have been carried out by the staff under him, the Inspecting Officer will do a certain amount of original work and examine personally all important points raised by the

staff with reference to original documents. He should personally review all tenders and agreements and also ascertain whether the state of accounts in the office is satisfactory. He should himself draft the Inspection Report and discuss it with the head of the office whenever he is present at the close of the inspection. (Annexure to Para 6.1.7 of MSO (Audit) 2nd Edition, 2002) (ii) In case of important audits he should ensure that necessary briefing form Group Officer have been obtained well in time with regard to any special point to be examined during such local audit. Likewise in case of special audits he has to obtain necessary guidelines and the period of records to be examined from Headquarters in detail (iii) The Inspecting Officer shall call on the Head of Office being inspected in the beginning of audit and ascertain from him if he has any suggestions for looking into any point of importance in details. He should examine such suggestions and other matters which come to his notice for deciding the lines in which local audit is to be started. (iv) The Inspecting Officer has to acquaint himself with the system of finance and accounts of the office to make up his mind to what system of accounts is necessary for the receipts and expenditure, the registers are necessary for internal check purpose and how far the existing system conforms to this standard. This is the elementary and primary responsibility of the Inspecting Officer to be discharged at whatever stage he comes in on the inspection. (v) The Inspecting Officers should guide his staff and do a certain amount of original work in respect of important transactions and should personally examine with reference to the initial documents all important points raised by their staff. (vi) The settlement of outstanding paragraph of the earlier inspection reports is one of the important duties of an Inspecting Officer. (vii) He should try to get all the facts and explanations on the spot by discussing the points raised during inspection with the Heads of Office concerned. Wherever the Inspecting Officer feels that the points raised by him are so important that may ultimately find a place in the Audit Report of the Comptroller and Auditor General, he should take particular care to examine all the issues involved, collect all the relevant information and also take attested copies of those documents which are likely to be useful in pursuing the matter with higher authorities so that while editing the draft paragraphs for the Audit Report, the Headquarters should not feel difficulty because of missing links in the facts and arguments set forth necessitating a fresh reference through the next audit party resulting in avoidable loss of time. (CAG's DO Number- 1307/Admn- I/388-85 dated 24. 09.1985) (viii) One of the important duties of Inspecting Officer is to report immediately to the Group Officer anything really serious in nature or important which comes to light in course of his inspection without waiting to be

included it in the inspection report. (ix) It is essential that in the case of supervised audits, the Inspection Reports should be drafted and edited by the Sr. Audit Officers/Audit Officers. (CAG's Letter No- 1307/Admn-I/388-55, dated 24.01.1955 and No- 76/Tech/Admn- I/385-65 dated 14.01. 1966) (x) The Inspecting Officer shall personally do the items of work during local audit mentioned as (a) Disposal of last Inspection Reports including review of old objections (b) Conduct a general review of the cash book and scrutiny of transactions involving heavy expenditure and receipts of peculiar nature (c) Examination of system of store, purchases and general review of purchases made. (xi) The Inspecting Officer shall approve the distribution of duties among the members of audit party.

The issue regarding sanction of leave to the members of field parties on a uniform pattern of all the Groups is examined in the light of the Headquarters letter number-766/TA- I/137-80 dated 16.08.1980. Accountant General has accordingly ordered that the procedure should be followed by all the Groups mentioned as **(1) Casual leave:** Casual leave shall be applied in advance by Assistant Audit Officer/Sr. Auditors of the field party and may be sanctioned up to five days by the Group Officer. Sr. Audit Officer/Audit Officer supervising the field party may sanction casual leave to the Assistant Audit Officer up to three days at a time. In case of emergency and urgent necessity, the Sr. Audit Officer/Audit Officer/Assistant Audit Officer may themselves avail of casual leave not exceeding two days at a time. They shall, however, inform the Headquarters section telegraphically/fax/telephonically before proceeding on leave and further extension of leave they shall apply to the Headquarters sections in advance. **(2) Regular leave:** In case of regular leave applications should be sent to the Headquarters Section for sanction by the competent authority ie Sr. Audit Officer/Group Officer. However, in case of urgent necessity when casual leave is not due to the official, provisions as above shall apply.

The leave applications in all cases shall be dispatched under registered cover on the same day to the concerned Headquarters Section. Headquarters Section of all the groups shall maintain the casual leave account and verify the same with weekly diary reports. (Authority: Control/11-1/Field parties/leave/ 87-88/2159-62 dated 21.12.87) (xiii) The Inspecting Officers are required to report important and interesting cases to the Accountant General every month by demi-official letter by 5th of the following month with a copy to the Group Officer concerned.

(B) Assistant Audit officer: (i) Audit of the accounts of receipts. (ii) Audit of the accounts of stores. (iii) Examination of the cash Book. (iv) Examination of vouchers for the test months which were submitted to audit and made available to the party by the headquarters with original records and contract documents etc. (v) Audit of vouchers not submitted to audit. (vi) Verification of drawls and deposits into the treasury with reference to treasury records. (vii) Examination of the special points marked for special investigation by central audit. (viii) Audit of works expenditure. (ix) Accounts of stores, requirements etc. received under various foreign aid programme. (x) Departmental inspection reports.

(C)Senior of the two auditors: (i) Examination of Service Books, Broad Sheets and Ledgers in respect of PF accounts of group "D" staff. (ii)Obtaining files containing important rules and orders issued by government in respect of the institution under local audit with a view to study them and also take notes from the dictionary of references maintained. (iii)Check of disposal of previous inspection Reports. (iv)Audit of (triennial) takavi accounts. (v)Audit of expenditure by state government in connection with large gathering of political organisation. (vi) Establishment Pay Bills. (vii) TA Bills. (viii) Register of undisbursed pay and allowance. (ix) Register of advances. (x) Property accounts i.e. immovable property accounts like land, buildings and other assets. (xi) Audit of payment of provisional pension.

(D)Junior of the two auditors: (i) Dead stock register. (ii)Register of empties. (iii)StampAccount.(iv) Register of deposits. (v) Log books and diaries of government vehicles. (vi) Register of stationary. (vii) Register of uniforms. (viii) Register of Books and periodicals. (ix) PFAccounts of Group-D employee. In such a case, where the structure of the civil audit party is two AAO and one Sr.Auditor while the gazetted supervision remains the same, the distribution of work could be mentioned as (A) Audit officer: Same as mentioned above. (B) Assistant Audit Officers Work of items (ii), (iii), (iv), (v) and (ix) by the senior of the two AAO and (i), (vi), (vii), (viii) and (x) by the junior of the two AAO. (Authority: Para 2.9 and Annexure 2.9 of Chapter II of Manual of Instructions for restructuring of cadres in IAAD)

CHAPTER - 3

General Rules and Procedures for the Head Offices:

3.1 Functioning of Controlling Headquarter: The main functions of the Headquarter are (a) to prepare tour programmes of the inspection parties (b) to issue intimations to the auditee units concerned (c) to collect all relevant files, documents, vouchers etc. from the sections and to dispatch them to field parties (d) to issue demands for and to watch the realisation of audit fees (e) to examine and submit to BO/DAG weekly diaries of field parties and to watch their prompt receipt (f) To examine the TA bills of field parties with reference to diaries of the parties and approved tour programme before forwarding to claim section (g) to forward to all field parties copies of all important orders, circulars etc. (h) to keep OAD Manual up to date (i) to deal with all general questions relating to OAD (j) to maintain Calendar of Returns and submit on due dates to the authorities to whom they are due (k) to maintained a list of records and registers in light of Appendix-II. and the registers should be periodically examined by the Assistant Audit Officers concerned and put up to Branch Officer and the DAG on the due date mentioned in the Calendar of Returns. In respect of special audit the concerned Headquarter arranges audits on the basis of time schedule supplied by special Audit Cell.

3.2 Distribution of work among Sr. Auditors/Auditors/Clerk in Headquarters Section: A statement showing the detailed distribution of work among the Sr. Auditors/Auditors/Clerk in the Headquarters Section should be maintained in the respective section. The allocation of work shown therein should be formally communicated to the Sr. Auditor/Auditor/Clerk concerned and his signature obtained in the office copy. Any subsequent change in the distribution of work should be approved by the DAG and formally communicated to the person concerned on the same manner. Each Sr. Auditors/Auditor/Clerk should maintain a duty card of his seat duly attested by the Assistant Audit Officer of the Section/Cell.

3.3 Permanent Programme Register: This register should contain a complete list of auditee units to be done by OAD with their periodicity and time allotted in terms of an Audit Party as approved by the Accountant General. Whenever any new auditee unit is added or existing unit is deleted or its periodicity is altered under the order of a competent authority, the necessary addition or corrections should at once be made in the register quoting full reference of the relevant orders under dated initials of the Audit Officer. This register is designed to serve as a permanent record of the department and it should be neatly maintained in a bound

volume containing sufficient number of folios of good quality preferably ruled. The permanent programme register should be maintained in Performa giving the details as described here. Column- 8 will be filled in on receipt of the DIR from the Sr. Audit Officer/Assistant Audit Officer containing the information as (i) Serial Number of Inspection Report (ii) Name of Government Department and Drawing and Disbursing Officer (iv) Periodicity of Audit (v) Number of days allowed etc.

3.4. Programme: The programme of local inspection is required to be prepared on the basis of annual forecast and it may be prepared for field parties and inspection by Audit Officer in advance for every quarter and submitted to Deputy Accountant General for approval.

3.5. Provision of transit days: The programme should be drawn up in the most economical manner so as to ensure maximum output. Any particular holiday, whether it should be taken as transit day or not, is to be decided by the Accountant General on his discretion and after consideration of the importance of the holiday and the convenience of the administration and staff. (CAG's DO Letter No. 2396/ Admn-I/528-62 dated 11.9.62)

3.6 Intimation of Audit: Just after approval of tour programme the intimation should be sent by the Assistant Audit Officer of the Headquarter concerned at least three weeks in advance of audit so as to enable the local office to get ready for the audit in time or seek postponement in case of some unavoidable circumstances warranted. The audit intimation should invariably contain a request that the head of the office or any other officer representing him should be present during the period of audit and especially on the closing day of audit so that he may be able to discuss the Draft Inspection Report. (Regulation no. 177 of Regulation on Audit and Accounts 2007)

3.7 Preparation of Audit Programmes: The man days allowed for each audit have been fixed after taking into consideration quantum of work and expenditure of the unit and additions, if any, to be done during local audit. Inspecting officers and field parties are expected to adhere strictly to the same. However, in case of any unforeseen circumstances, a request for extension of programme should be made to concerned Headquarter on the first day of local audit with a view to obtaining the sanction of Accountant General. Important festivals and holidays should not be taken as transit days while arranging the tour programme. A copy of the approved tour programme should be supplied to the Audit parties and Inspection Parties in time so that there should not be wastage of time for waiting of tour programme. If there is any subsequent amendment that should be communicated to the party

concerned in time. The programme of audit in respect of which financial statements and certificates etc are required to be incorporated in the Appropriation Accounts/Audit Report should be arranged in such a manner that all audit works at least partially supervised and concluded well in advance on the date by which the materials are required to be supplied to the Appropriation Audit Section. Such audit is conducted in two spells. The first spell of audit covers the general account for nine months of the year and the second spell covers the general accounts for the remaining three months and the Performa Accounts of the entity.

3.8 Revision of tour programme:When circumstances necessitates the revision of tour programme, the Headquarters section will concede the request for revision of tour programme in genuine cases but the field parties must obtain prior approval of the Accountant General. The request for the revision must invariably reach to the Headquarters within two days from which the change in the approved programme is intended to be effected. (Authority: O/o No-OAD (M)/124/84-85/25 dated 14.6.84) Generally proposal for revision of approved tour programme by the field audit parties will not be accepted in the Headquarters but audit of an office as per approved tour programme is not possible due to some unavoidable circumstances, the members of audit party will have to report to Headquarters immediately or they may take up audit of the next item of the approved tour programme and intimation along with the documentary evidence to that effect and circumstances under which the audit of that particular item could not be materialized should be sent to the Deputy Accountant General through the concerned Audit officer immediately for approval. Those Audit Officers who have been provided with two or more field audit parties for supervision, may, in the above circumstances, change their supervision from that audit party to another audit party and it will be necessary for them also to intimate the Deputy Accountant General immediately for approval. (Authority-O/o No-OAD (M)/34 dated 2.7.92)

3.9 Preparation of programme for supervision: The programme for supervision should be prepared for only such items of audit which are either in progress or are to be taken up during the month in accordance with their normal sequence in the party's audit programme and for doing so every endeavour should be made to see that (i) new item of audit taken up by the audit parties, although the minor and unimportant ones are supervised as far as practicable (ii) all important audits are adequately supervised either in one or more spells (iii) the supervision is done as far as practicable at the close of audit in order to enable to settle all important points and discuss the draft inspection report with the head of the office and (iv) the cost of TA is not unnecessarily increased.

3.10 Co-ordination between Central Audit Section and OAD Parties: The local audit supplements the Central Audit and it is necessary that the work of audit should be reviewed as a whole and not in separate compartment. The Central Audit Support section (CASS) should, therefore, keep a vigilant eye over the transactions which come under their audit purview and should not hesitate to bring those cases to the notice of the OAD Headquarters which in their opinion may be considered necessary in view of the heavy expenditure or imperfect control exercised by the disbursing and controlling officers or general extravagancy in a particular office or department, the accounts of which should be locally examined. The Central Audit Support Section should forward such cases to the Deputy Accountant General or in his absence to Audit Officers at OAD Headquarters. In order to keep an effective watch over such cases, CASS cell will maintain a "Register of points for Local Audit" in which all points meant for local audit should be kept in sufficient details. Before taking up the local audit of the accounts of an office, OAD Headquarters will intimate the actual or approximate date on which the local audit is due to commence to concern sections in which accounts of that office are centrally audited. On receipt of that intimation, the Assistant Audit officer of concerned section will review his "Register of Points for local Audit" and obtain orders of the Branch Officer whether any points or outstanding objection should be referred to the outside audit party for local investigation and after obtaining orders, necessary extract from the register along with all concerned vouchers and the notes and comments on each points should be forwarded to OAD Headquarter Section for onward transmission to the outside audit party concerned. Any matter with substantial importance once should be brought to the notice of the Deputy Accountant General or in his absence to the Audit Officer at the Headquarters. The results of investigation should be reported to the audit section concerned in due course.

3.11 Coordination between Performance Audit (PA) Section and OAD Parties: Performance Audit Section will also suggest cases for local investigation as (i) points which come to the notice in course of audit of sanction (ii) scrutiny of expenditure for efficiency audit point of view and (iii) examination of schemes which shall not be satisfactorily tackled in the main office. The PA section will suggest such cases with the approval of the Accountant General. Each point referred to audit party should be noted on separate sheet so that after the completion of local investigation, separate case file may be started for each. The result of such investigations should be intimated to the PA section.

The important irregularities noticed in departmental accounts during the local audits should also be brought to the notice of OAD Headquarters sections concerned for taking appropriate action with the higher authorities so that the action may be adequate and effective. With a view to ensuring quick disposal of Inspection Report it has been ordered by the Pr. Accountant General that whenever an inspection report is received by OAD Sections for comments or opinion, it should be diarised in the sectional Diary Register of Telegram and Express letters etc. and its disposal will be watched accordingly based on O/o No-1457 (OAD) dated 18.1.54). Except in purely routine matters as obtaining information etc. no case should be referred by the OAD sections to other sections without obtaining the orders of Branch Officer who will satisfy himself that the course is essential and that steps have been taken to prevent any avoidable delay.

3.12 Check Register of Inspection Report: All OAD sections other than Headquarters Sections will maintain the "Register to watch the progress with the settlement of inspection report." in the revised form SY-328 (vide Appendix-III) and OAD Headquarters sections shall maintain the "Register for watching the receipt and issue of Inspection Reports" in the revised form SY-336 (vide Appendix-IV to this chapter). CAG's Circular No-259 OEM/30-67/Vol. XII dated 5.5.72

3.13 Vetting and issue of the Inspection Report: Inspection Reports of supervised audits should be vetted only by Deputy Accountant General and reports of unsupervised local audits by Assistant Audit Officer should be vetted and issued by Audit officer Headquarters sections at their level unless there are important points to be brought to the notice of Deputy Accountant General. Scrutiny of drafted reports by supervising Audit Officers by another Audit Officer or an Assistant Audit Officer at Headquarters will take the initiative to minimise their responsibility in careful drafting of the reports. Section concerned may assist the BO/DAG for verifying the facts in the inspection reports. (CAG's Letter No-76/Tech/Admn- I/385-65 dated 14.1.1966).

3.14 Issue of Inspection Report: The final the Inspection Reports should strictly be issued by field Audit Officer within 30 days from the date of completion of the audit of the respective audited entity. The audited entities may be impressed upon to give replies to the audit findings in the Inspection Reports within prescribed time limit i.e. four weeks from the date of receipt of Inspection Report (O/o CAG's PPG letter No-402 dated 05.10.2016)

As soon as the draft Inspection Reports with Audit Comments etc are received in the Headquarters Section from the Audit Officer acting on behalf of Accountant General for conducting local audit entrusted to him, they will be placed in a file cover and entered in the "Check Register Part-I". The serial number of the check register in respect of the reports concerned will also be noted on the file cover as well as at the top of the Draft Inspection Reports indicating the year to which they relate. After that the dealing auditor/senior auditor will fill up the Edition Memo and submit the same to the Assistant Audit Officer for scrutiny and grading of paras (appendix-13) and onward submission to the Deputy Accountant General through the Branch Officer concerned within a week from the date of its receipt in the Headquarters section (CAG's Letter No-1836/Admn-I/138/62 dated 28.7.62). After approval of the IRs by the Deputy Accountant General, the Assistant Audit officer will get it typed as expeditiously as possible. While sending the approved Inspection Report to the typing branch, the Assistant Audit Officer will note the total number of copies to be typed. This will be determined on the basis of the number required for the local authorities and one extra copy for the Headquarter Section. After comparing the fair copies with approved copy the IRs are issued to concerned authorities for compliances and replies.

3.14.1 Draft Inspection Reports in respect of these high risk units should be submitted by field audit parties within 7 (seven) days from the date of completion of the audit of respective audited entity. In the draft Inspection Reports, specific mention should be made regarding part-II A paragraphs that belong to current transactions and have potential to be developed as draft paragraphs, so that the Group Officers may focus on them to process on priority for inclusion in the Audit Report. Such cases should immediately be brought to the notice of the Pr. A.G/ A.G by the concerned Group Officers for information and necessary action. (O/o CAG's PPG Letter No-402 dated 05.10.2016).

3.15 Procedure regarding issue of Inspection Report to Local Authorities: In order to avoid delay to issue of Inspection Reports it has been decided by the Accountant General that the Draft Inspection Reports sent by the Inspecting Officers should be issued to local officers after approval of Deputy Accountant General with forwarding letter of the Headquarters Audit Officer. The Inspection Reports shall not be sent by Assistant Audit officer or Inspecting Officers. (OAD NC - 1/141 dated 4/59 based on O/o No- OAD (E)- 302 dated 24.12.64).

3.16 Inspection Reports required to be issued to authorities: Copies of Inspection Reports should be sent simultaneously to the Head of the Office inspected, Head of the Department concerned, Superior Officer, if any, between the head of the office and the head of the departments, the

Administrative Department of Government and Higher Authority to invite his attention specially to any important item or serious irregularities. Copies of Inspection Reports will not ordinarily be sent to the Finance Department of the State Government, but when embezzlement or any serious financial irregularity is detected, a copy of the Inspection Report containing such information should be sent to the Finance Department also. In such cases, special attention of both the Finance Department and Administrative Departments should be drawn in the forwarding memorandum, to the relevant paragraphs of the report, so that they may take action as expeditiously as possible. The forwarding of the Inspection Report should be invariably be stated to reply the different paragraph of the report within one month from the date of its receipt with recommendation of HOD. The reply should be given within one month from the date of issue of Inspection Report (Authority: CAG's letter No-1895/Admn-III/268-60 dated 20.9.66). The receipt of compliance report of Inspection Reports and settlement of paras are to be watched through a Progress Register of Settlement of Inspection Reports in form SY-328 maintained individually by Senior Auditor/Auditor concerned (Appendix-III) Based on CAG's letter No-1656/Admn-III/152-60 dated 16.8.60). This should be submitted once in a month to Branch Officer/DAG concerned. The Senior Auditor/Auditor should endeavour to settle the paras expeditiously and in case where final and full compliance has not been received Demi Official reminders should be issued at appropriate level. Money value of objections raised in Inspection Reports should be entered in the Objection Book maintained in form MSO-Audit 10 (CAG's Letter No-692/TAI/635-66 dated 1.3.67 and No-768/Tech-AdmnI/635-66 dated 13.3.67). The money value as mentioned in cases however needs not to be entered in the objection book. (i) Trading and Performa losses of government schemes (ii) Outstanding dues of government on account of credit and other outstanding dues in respect of which accounts are kept for the purpose to watch recovery. Items in respect of which there is delay in recovery of outstanding dues over a year should, however, be segregated and commented upon in inspection report and recorded in opening balance. (iii) Outstanding loans and advances made by departmental agencies debited to a debt deposit or advance head of amount. (iv) Cases of differences, discrepancies etc. in stock other than specific cases of shortage in departmental balance of stock for which responsibility has not been fixed and action for recovery has not been taken. (Authority: CAG's Letter No-2560/Tech/Admn-1/635-66 dated 1.9.67)

3.17 Register of Cases of Defalcations and Frauds etc: As soon as a report regarding defalcation or fraud is received either from the audit parties or from the local offices, it should be entered in the register in form SY-17 quoting the amount involved as well as brief particulars of the case and final disposal watched through it. This register should be submitted to the Branch

officer on 20th of each month (AG's order dated 30.12.55 and O/o No-1948 (TM) dated 6.1.56). On receipt of such reports, the Deputy Accountant General should take up the matter with the higher authorities inviting their personal attention and requesting for necessary proper investigation. The Accountant General should be fully kept informed about these happenings and their developments. All such cases should promptly be reported by the head of the office demi-officially to the government with a copy to Finance Department for advance information without waiting for the receipt of the Final Inspection Report. The draft along with the report of the case should be shown to the Accountant General for his information and approval. In cases of defalcations in Treasuries or departments under the control of the Board of Revenue, a copy of the preliminary report should be submitted to the Board of Revenue and the final report after the enquiry should also be forwarded with the remarks of this office to the Board for submission to government. Any such case reported by a local authority should also be dealt with on the similar lines as is brought to the notice of the Accountant General if the government of the local authority has not already done so.

Note- In cases of defalcations occurring in the treasuries and sub-treasuries, it should be considered whether the defalcations were due to appointment of junior officers as Treasury Officers (Authority: Auditor General's Letter No- T-240/Admn-1/81-35 dated 22-5-1935).

3.18 Defalcations cases reported to the Comptroller and Auditor General of India: It is not necessary to report individual cases of serious financial irregularities to the CAG unless his intervention is deemed desirable. All serious and important cases of fraud and forgery and cases indicating the need for a change of procedure should, however, be reported at once for the information to the CAG. No parameters can be laid down to determine the types of cases which should be considered serious enough to warrant a report to the CAG. The discretion has been left with the Accountant General to decide each case on merit whether it should be reported to CAG or not. But cases of huge amount and if the responsibility of the audit office is involved should be reported to CAG. In all reports, a clear statement of point of issues and the view of the Accountant General, he thinks to be adopted and action he has already taken or proposed to be taken should be made to the CAG for advice. Copies of relevant reports and correspondence should accompany where these may be necessary to explain any point in detail (Based on paragraph 7.1.18 of MSO Audit).

3.19 Objection Books: It has been decided by the CAG of India that a separate objection book should be maintained in the Outside Audit Department for record of objections raised in local audits and Inspections as contemplated in paragraph 7.1.23 of MSO (Audit). Money values shall be assigned as far as practicable for such objections. This Objection Book shall be in addition to the

Register of Inspection Reports (Form-SY-328) which is maintained for a different purpose and cannot appropriately be utilised for record of objections with their money values and for watching their settlement time to time (CAG's Letter No-1648/Admn-1/684-85 dated 22.7.55). The procedure to be adopted in recording, pursuing and removal of objections and closing of the Objection Books shall be same as followed by sections of other sector. The objection book should be submitted to Deputy Accountant General or Accountant General once in every half year ie. on the last working day of February and August every year (AG's order dated 8th June 1955 on reply to para-11 of the report of the Director of Inspection and O/o No-1818 (TM) dated 17.6.55).

3.20 Six monthly register of objection: A register of items outstanding for more than six months is maintained in which necessary entries are transcribed from the objection books. The details of the objection and the action taken for their settlement should be clearly mentioned in the appropriate columns of the register. The unsettled objections should be listed in the register and submitted to the Branch officer in-charge each month for inspection with a brief abstract showing the total number of items outstanding for each month. The register should be submitted to the Accountant General once in each quarter ie on the last working day of June, September, December and March (O/o No-1710 (TM) dated 28.2.55). The six monthly register which do not contain any items need not be submitted to AG (O/o No-306 dated 23.4.1938). After reviewing the outstanding items quarterly as prescribed in para 863 of CAG's Manual of Standing Orders (Tech) vol-I, a list showing the results of the review should be sent to the state government with a view to expedite disposal (CAG's Letter No-1118/Admn/142-51 dated the 30th April 1951).

3.21 Preparation and maintenance of Audit Note Book: The Assistant Audit Officer and every Senior Auditor/Auditor at the Headquarter section should maintain a Note Book in which he should maintain a record of the points, he has to watch but which are not required to be noted in any of prescribed registers. All pages of Note Book should be serially numbered and there should be an Index. Whenever there is change of incumbency, the Note Book should be surrendered to the Assistant Audit Officer who will hand over it to successor. In order to ensure that the Note Book should serve the purpose for which it has been introduced the Assistant Audit Officer should personally instruct the Senior Auditors/Auditors for maintaining it. A similar Audit Note Book should be maintained by every Assistant Audit Officer and Senior Auditor/Auditor engaged on outside audits for noting all information, rules and orders. A separate set of pages should be assigned in this note book to each class of accounts which the party has to audit every year (O/o No-TM/1578 dated 13.9.54).

3.22 Dictionary of references: A dictionary of reference should be maintained in the Headquarter Section in Form SY-256 which should contain a gist of all important orders, ruling and decisions requiring reference during local audits and do not find a place in other code or Manual. This will ensure uniformity interpretation and practice (CAG's Letter No-1505/Admn-1/441-53 dated 17.8.54).

3.23 Register of draft corrections to the Manual: A register should be maintained in which all new orders and corrections affecting the office manual should be entered. The Assistant Audit Officers will be responsible for keeping the Manual up-to-date. They should propose draft corrections to the Manual as soon as any rule or order necessitating an amendment comes to their notice. The outside audit and inspection parties should also scrutinize at each inspection the relevant position of the Manual to see whether it requires amendment in any respect.

3.24 Supply of important orders to Audit Parties: The Assistant Audit Officer will ensure that copies or gist of all important orders of the Deputy Accountant General, Accountant General and other authorities, as well as the various corrections slips to books of reference are promptly supplied to each audit party as well as Audit Officer on tour,

3.25 Supply of stationary and forms: The stationary and forms required for use in the Headquarters Sections and outside audit parties should be obtained separately from the record section in one quarter in advance i.e. supplies for the quarter ending April-June may be obtained in the month of December and those for the quarter ending July-September may be obtained in the month of March. Quarterly indents should be sent to the Record/GD Section by the 20th of the month immediately preceding that in which title supplies are required to be obtained, failing which the requisitions are likely to be turned down by the Record/GD Section. Supplementary indents may be entertained by the Record/GD Section only under the orders of the Deputy Accountant General who will examine the cause of delay and take such action as he may consider necessary. A proper stock account of all stationary articles should be maintained at the Headquarter sections of the OAD. The article meant for outside audit parties should be promptly supplied to the Assistant Audit Officer concerned and their acknowledgements obtained and kept in file.

3.26 Supply of stationary and forms: Stationary and forms should be supplied to each outside audit party subject to availability of stock in accordance with the scale as below:

- (i) Seerampur Paper for drafting of Inspection Report etc- 4.5quirs
- (ii) Blotting papers - 4 sheets
- (iii) Note Sheets - 60 Nos.
- (iv) Draft form big size - 60
- (v) Draft form small size - 60
- (vi) Envelope big size - 24
- (vii) Envelope small size - 24
- (viii) Audit Pencils - 9
- (ix) Lead Pencils - 9
- (x) Carbon paper for

writing objections - 12 (xi) Slip books -3 (xii) Penholder -1 (xiii) Sutli - 250 Gms. (xiv) Tags - 100 Nos. (xv) Pins - 100 Pins (xvi) Gum - 125 Grams (xvii) TA bill forms- 24 Nos. (xviii) Audit objection memos - 300 (xix) Weekly diary forms – 15 (xx) Audit Intimation forms - 20 (xxi) Index sheet for IRs- 15 Nos. (xxii) Blank Registers for maintaining office copies of diaries - 4 annually (xxiii) TAN forms (SY-203) - (a) Inner - 100 Nos. (b) Outer - 25 (xxiv) Line memo forms - 25 (Based on AG's order dated 8.7.58 in the Manual file).

The annual requirement of stationary and forms should be assessed by the OAD Headquarter sections and intimated to the Record/GD section every year on or before the dates notified by the section from time to time. In preparing the indents due consideration must be given to economy, previous quarter consumption, stock in hand and the scale lay down.

3.27 Disposal of References from the Inspecting Officers and audit parties: All communications from the Inspecting Officers and outside audit parties should be diarized in a separate register and their disposal noted against each item. The important notes and papers received from the field parties should be taken up and disposed off immediately. An arrear report of such communication should also be compiled in the diary registers at the end of each work and put up to Branch Officer for his review as is done in the case of other letters received from other sources.

3.28 Publication of Audit Report on the accounts of the commodity committees and institutions in the official gazette: The rules and byelaws of certain commodity committees and institutions at present provide for the publication of their Audit Reports with the statement of Annual Accounts in the official gazettes. Actually, it has been the practice hitherto to publish only the statement of Annual Accounts with the audit certificate "checked and found correct etc" on it in the gazette without the Audit Report itself. Such publication does not meet the requirements of rules and byelaws of the committee concerned but it also apt to erroneous or misleading impression on the minds of the public, particularly in those cases where serious irregularities have been mentioned by audit in its Audit Reports. At the same time, the publication of the whole of the Audit Report in the gazette will not only make the gazette unnecessarily long and detract much from their usefulness but will also involve unnecessary extra expenditure on printing without any commensurate advantage. It has, therefore, been decided by the CAG that in such cases the report should be prepared in two parts (i) the "Audit Report" which should contain only the important irregularities and objections which are intended to be printed in the gazette and (ii) the Audit Note which should contain the statement of minor irregularities which neither need inclusion in the main report nor publication in the gazette. The certificate to be given on the accounts should be

worded somewhat as "Checked and found correct subject to the remark in the Audit Report Appended". There should also be a paragraph in the main Audit Report mentioning the fact that it includes only the major and important irregularities and not the minor one which has been included in a separate note not published. It should be watched that the Audit Reports as prepared above are duly published in the gazette so long as the rules and byelaws of the committee concerned stand as they are (CAG's Circular No- 1975/Admn-1/458-53 dated 18.10.54 and O/o No- OAD/38 dated 29.12.54).

3.29 Submission of certified accounts of statutory/autonomous bodies and Separate Audit Report thereon for presentation to the Parliament: The Comptroller and Auditor General of India has prescribed the procedures for submission of certified accounts of statutory and autonomous bodies and Separate Audit report thereon for presentation to the Parliament. The irregularities included in Separate Audit Report should be processed in the form of draft Para independently of the inspection report as are noticed either in concurrent audit or in the initial audit which may be taken up sufficiently in advance of closing of the accounts wherever possible. By the process, it might be possible to get the remarks of the bodies/government on these Para by the time of audit of the Annual Accounts is completed. Only Para arising out of the accounts will have to be processed by taking up the matter in detail at high level. It is also required that the exact figures to be mentioned in the Para will be taken only on closing of the final accounts. In such cases, the irregularities pursued and the final figures indicated in the Para are included in the Audit Report.

At present draft audit reports along with the audited accounts of the autonomous bodies may also be forwarded to the office of the CAG so that the remarks on such Para can also be taken into account while drafting the consolidated audit report along with the audited accounts, subsequently to be issued to the ministry for presentation to the Parliament. These procedure may also be adopted in the case of state autonomous bodies whose accounts are required to be certified and presented to State Legislature (except in cases where a separate procedure is already in vogue as in the case of State Electricity Boards) so that there may be no undue delay in the certification of accounts and finalisation of audit reports. As regards, the draft Para in respect of these bodies proposed for inclusion in the conventional report, the existing procedure of sending the Para to the CAG for inclusion in the conventional audit report is adopted. In order to comply with the above instructions of the CAG, the Inspecting Officers may ensure that any irregularities/materials worth commenting upon in the duly processed and properly drafted audit report is sent to the Headquarters with supporting documents and acceptance of the factual position by the organization, promptly without waiting for conclusion of audit. (CAG's Letter No-904/Rep/180-84 dated 19.4.66).

The CAG of India has further decided that where the forms of accounts of 'Receipt and Payment Account', 'Income and Expenditure Account' and "Balance Sheet" for an institution are prescribed, it would be suffice that the Income and Expenditure Account and Balance Sheet are only certified and included in the Annual Accounts to be presented to the parliament, though the institution concerned may continue to prepare the receipt and payment account and submit it to audit for checking (Authority-CAG's Letter No-1252/Tech/Admn I/9-Rep/65 dated 6.5.66).

The draft audit reports prepared for the CAG's office may be got typed in half margin and sent in duplicate (Authority: CAG's Letter No-1928/Rep/285-65 dated 18.9.65).

3.30 Replies to Inspection Reports: The period for receipt of first reply should be one month from the date of issue of an Inspection Report. The receipt of such replies will be watched by the Headquarter Section through the check register and in case of unusual delay the fact should be promptly taken up with the higher administrative authorities of the department concerned.

3.31 List of outstanding objection to be sent to the department concerned: In order to enable the State Government to expedite the disposal of outstanding objections and keep effective watch over the progress made in this respect, it has been decided by the Pr. Accountant General that a complete list of the outstanding objections relating to each department should be furnished to the head of the department concerned, once in every quarter of the year. In important cases, the matter may be taken up demi official letter with the head of the departments concerned or government.

3.32 Disposal of replies in the Headquarters Section: On receipt of the replies along with supporting KDS it is carefully examined by the dealing Sr. Auditor/Auditor concerned in the Headquarter Section with reference to the original objection and submitted to the Assistant Audit Officer/Audit Officer at Headquarters along with a draft rejoinder in respect of such items where further action is called for after the reply of the head of the office is considered unsatisfactory or not sufficient and comments of the higher administrative authorities of the departments may be called for, and important cases may also be referred to government for decision or clarification after obtaining the orders of the Deputy Accountant General or the Accountant General where necessary.

3.33 Disposal of Inspection Reports relating to the offices and Institutions under the Directorate General of Resettlement and Employment, Government of India: The Government of India, Ministry of Labour have laid down the following procedure for securing quick and satisfactory settlement of the irregularities reported in the inspection reports relating to the offices and institutions under his administrative control. (i) The head of the office concerned should forward his replies to the Regional Director of Resettlement and Employment through his

controlling officers, if any, within fifteen days from the date of receipt of an inspection report. (ii) The controlling office will examine the audit objections and the replies thereof in detail and after his remarks thereon forward the same to the Regional Director or the Directorate General in case the Regional Director is himself the controlling officer. (iii) The Regional Director should see that audit objections are settled satisfactorily and the head of the offices have taken steps to prevent a recurrence of the irregularities pointed out. He will then forward the reply to the office of Accountant General within one month of the receipt of audit report together with the replies of the head of the office and his remarks thereon under intimation to the Ministry of Labour. If the orders of the government are necessary on any objection in the report, a separate and self contained reference should be made to the Directorate General of Resettlement and Employment. A copy of the inspection reports relating to the office or institutions under the Directorate General of Resettlement and Employment should invariably be forwarded to the Regional Director of Resettlement and Employment and the ministry to watch its quick disposal (Authority: DG of Resettlement and Employment, Ministry of Labour, GOI, Memo No-RB-28 dated 14.6.1949).

3.34 System of Records: The bulk of records of the department consist either of inspection report files or cases on important subjects. After the inspection reports are typed and issued, the original draft along with spare typed copy, the objection statements and other concerned papers are filed together in the stiff cover. All subsequent correspondence in this inspection report including the replies and rejoinders should be filed in the relevant inspection report file. Separate case file should be maintained on another important subject. Care should, however, be taken to see that the number of files are not unnecessarily multiplied and correspondence with the same subject matter are made together for the sake of easy reference. The case file should have relevant file headings indicating the subject matters in brief. Instructions regarding system of filing and destruction of letters are contained in chapter XIV of Office Procedure (OP) Manual for further reference.

CHAPTER-4

Rules and Procedures for the attendance and presence of field staff

4.1 Presence of field staff: All the members of the OAD parties must attend the office under inspection during its regular office hours on working days. Inspection civil parties while on tour may observe the Central/State Government holidays (CAG's Letter No-3247/NGE/51-50 dated the 6th December 1950).

4.2 Leaving of duty station: No member of the inspecting staff like Assistant Audit Officer and Sr. Auditor/Auditor should leave the duty station either during holidays or after applying for leave without prior permission of the DAG or the Audit Officer. Leaving of duty station without permission is prejudicial to the interest of the department and is liable to be considered an act of indiscipline. It has, therefore, been ordered that no leave other than leave on medical certificate should be availed by any member of the inspection parties without prior sanction of the leave applied for and they should not leave their place of duty without prior permission for doing so (Sectional order No-12 (OAD) of 1953-54). When AAO go on leave, they should send their leave applications to Headquarters as well as to the Inspecting Officer concerned for onward transmission to DAG with the information to continue the officiating arrangement for more than 14 days. The certificate prescribed should be given not with reference to the programme initially fixed but with reference to the revised programme or extended time so that the question of accumulation of arrears may not arise. Similarly when an Inspecting Officer proceeds on leave, the application should be sent to Headquarters Section and he may also inform the AAOs under him (Based on O/o No-OAD/324 dated 3.3.60). In case of field parties, prior approval of the AG is required to be taken for officiating arrangements continued beyond 14 days. Movements by Audit Parties should be strictly restricted in accordance with the approved tour programme by the Accountant General.

4.3 Application for leave: Application for leave (except in most urgent cases) should be submitted through the Inspecting Officer well in advance so as to admit that for being considered and sanction communicated before the date of commencement of the leave. In cases, the applications are finally disposed off by the Inspecting Audit Officer under the orders in force and the power vested in him, he will communicate the orders to the AAO concerned and forward the application to OAD Headquarters for information and records to be maintained. Whenever any member of the field party intends to proceed on leave including CL, leave application or intimation to this effect may be sent to the Headquarters either through a telegram or under certificate of posting and the documentary evidence of having sent the intimation/application before proceeding on leave

should be kept by AAO for production to authorities, if required latter on(O/o No-OAD (M) 124/83-84/17 dated 27.3.84).

4.4 Transfer: Transfers of Auditors from one party to another are generally done in March every year. If any member of office staff has preference about any particular circle, he should inform the DAG in writing by the 20th of the February. The request will be taken into consideration as far as practicable keeping in view the exigency of public service but it should be borne in mind that such transfers cannot be claimed as a matter of right.

4.5 Change of AAO and Sr. Auditors/Auditors during Audit: Where an AAO is transferred during audit, he must at the time of his transfer or within one week elsewhere hand over charge to his successor in respect of all unsettled objections and drafted paragraphs relating to his period. Separate sheets of papers should be used for each such paragraph so as to allow further additions or modification if necessary by the AAO who complete the audit. In case the objections are not replied by the local office by the time of his transfer, he should prepare his drafted paragraphs on the basis of duplicate copies of the objections maintained by him. Where the first successor is also transferred before the completion of the audit, he should also similarly hand over drafted paragraphs to his successor along with material received from his predecessor. Subject to the provisions of this manual the AAO who completes the audit will be responsible for consolidating the draft paragraphs at suitable places in the Inspection Report along with drafting the Introductory Para, concluding and arranging the other materials in Part-I, part-II (Section A and Section B) and Part-III (Test Audit Note) of DIR. He will also be responsible for timely submission of the DIR to the Inspecting Officers concerned for editing. The Audit comments made by the AAO who completes the audit should be given particular attention by the supervising Audit Officer before forwarding the IR for approval. If the gazetted supervision is not provided at the closing stage of the audit, the audit certificates on the Performa Accounts will be signed by the Assistant Audit Officer who closes the Audit.(Circular No-OAD(M) 81-82/124 dated 23.7.81).

4.6 Correspondence by AAO: Ordinarily, the AAOs are not authorised to make correspondence directly with the heads of the local offices or other authorities except on routine matters such as intimations regarding audit, request for return of draft inspection reports on objection sheets and requisitions for records etc. Whenever they have occasion to make a reference on other matters, they should submit a note through their Inspecting Officers along with a draft for approval by the

DAG. Within the department the AAOs and Inspecting Officers should refer all matters to their superior officers through "notes" and not in official letter forms. (Circular No (OAD) 9/ 52-53)

4.7 Matters dealt with by Audit Parties to be kept confidential: All members of the Audit and Inspection parties should carefully note that matters with which they have to deal during the course of their professional duty are to be kept confidential. The audit is intended for the assistance of local officers of government and as such permitting their shortcomings to become public by the audit department is not justified.

4.8 Granting of Certificates: Assistant Audit Officers are not permitted to grant certificates of any kind to the employees of the offices inspected by them and to their Sr. Auditor/ Auditor.

4.9 Meetings with the Head of office inspected: Soon after taking up an audit the AAO should have an introductory meeting with the head of the office and invite suggestion in which he may like to offer any special point for examination during audit. He should also see the head of the office as and when necessary with a view to discuss the matters of importance arising out of audit. At the end of the inspection when it is not supervised by an Inspecting Officer, the AAO should invariably arrange another meeting with the head of the office to discuss in detail the Draft Inspection Report embodying the result of audit. When an Inspecting Officer supervises an audit, he should lead the discussion.

4.10 Facilities to be given to auditors: The Head of office, the accounts of which are under audit, should arrange to give every facility to the audit party to conduct his official business. All accounts records, registers and other documents which he may demand for this purpose should be made available to him with due expedition. If the Auditor does not get the necessary documents required by him, he should bring the fact to the notice of the head of the office before making any representation to the DAG. Where the State Government certifies that the documents in question are secret, the Assistant Audit Officer should accept a certified statement by the State Government in lieu of such documents as a correct account of the facts stated therein. If the documents are confidential, the officer made responsible for preventing disclosure of their contents, shall give such certificates. The daily objection statements issued in course of audit should be returned within three days with replies by the audited entity showing the actions taken or proposed to be taken for settlement of the objections. These replies should be signed by the head of the office inspected. All objection statements should be returned on the date on which the audit closes. No objection statements should remain unanswered on that date.

4.11 Requisition of records: Members of audit party must requisition all records and registers required for audit in writing. If members of audit party state that the records were called for but they were not produced by the local officials. This fact must be proved from the written requisitions of records.

4.12 Removal of office records: The Audit Inspection Parties shall not, except with the written permission of the head of the office whose office are inspecting, remove any books, vouchers or documents of any kind from the premises of office.

4.13 Time allowed for audit: The time schedule as provided in the approved tour programme should be strictly followed. The number of working days for each audit should not be exceeded without the prior approval of Deputy Accountant General on valid ground. The time fixed for each item of audit includes the time required for drafting of the Inspection Reports also and extra time is not allowed for this work. It is, therefore, essential that as far as possible, the AAO/Inspecting Officer must write up their reports and schedules day to day. In absence of AAO on leave, the Sr. Auditor/Auditor in-charge of the party should finalise the drafting of the Inspection Report. If, however, the audit is finally supervised by the Inspecting Officer, drafting of Inspection Reports devolves on him as usual. (Based on O/o No-OAD (NC)-G/163 dated 18.9.59)

4.14 Time allowed for submission of Draft Inspection Reports: The Draft Inspection Reports should be submitted by the AAO to Inspecting Officers concerned for editing and onward transmission to the Headquarters Section following the day of the close of audit. The Inspecting Officers in their turn should dispatch the reports to Headquarters Section duly edited following the day in case of minor audit and within ten days after completion of major audit. Man days are provided for high, medium and low risk items for which time is originally allotted in the programme. (Based on CAG's Letter No-1895/Admn-III/269-50 dated 20.9.60 and OAD/ E-VI/26 dated 5.7.61)

4.15 Weekly diary of work done: Every AAO/Sr. Auditor/Auditor should submit a weekly diary in standard form No-SY-324, showing separately the details of each day's work done by him. Each diary is intended to form a record of daily work done during the spell of a week. The Sr. Auditors/Auditor should avoid the use of such general terms as "assisted the AAO/Inspecting Officer" in writing of diaries. The AAO should see that all columns of the diary are properly filled in and written up in such a manner that responsibility for each particular item of work done can be definitely fixed on a particular Auditor. The journeys performed, absence on casual leave as well as the gazetted and local holidays availed should

also be shown in the diaries. The diaries should be prepared in duplicate. One copy of the diary is required to be submitted to the Inspecting Officer concerned and other to be dispatched directly to the Headquarters Section, punctually on the afternoon of every Saturday. The Inspecting Officer will scrutinize the diaries submitted to him with a view to see whether the necessary checks have been exercised and the work done is satisfactory and there after forward the diary to the Headquarter section with his remarks, if any. In the Headquarters Section the weekly diaries shall be examined and the information available in the diaries should be entered in the Register of Diaries (Form No.SY-325) column 1 to 5 of the "Check Register of Inspection Reports" and filed in separate stiff cover files maintained for each audit party. The check register of diaries should be examined every week to see whether the diaries have been received from all the parties and time allotted for the audit has not been exceeded in any case without prior permission of a competent authority. Cases of discrepancies and non receipt of diaries should be brought to the notice of the Audit Officer at Headquarters for further action and compliances.

4.16 Monthly statement of works done: Each audit party should submit statements to the Headquarters Section on the first working day of every month in the form as indicated below:

Statement of works done during the month of20...

Part I - Time Account							
Total number of days in the month	Total number of authorised holidays	Total number of authorised local holidays	Total number of days available for local audit	Remarks			
Particulars	AAO-I	AAO-II	Sr.Ar./Ar.-I	Sr.Ar./Ar.-II			
No. of days spent on casual leave.							
No. of days spent on local audit.							
No. of days spent on transit							
Part II - Position of Draft Inspection Reports							
Sl. No.	Particulars of audits completed till the end of the month covered by this report.	Time taken for the audit from to	Particulars of DIR outstanding from the previous month	Due date of submission of the DIRs	Date of actual submission	Reasons if any for the delay in submission of the DIRs.	Remarks if any

				to office.			

4.17 Service postage stamps:The Audit Inspection Parties are supplied with service postage stamps for using exclusively on official correspondence. They should maintain an account to show the receipt and expenditure of the service postage stamps supplied to them and extract from this account should be given with the weekly diary reports in the space provided for the purpose. Auditors should use the stamps very economically as far as practicable. All routine ‘Dak’ should be accumulated and sent in one cover at the end of the week. Only important letters should be sent by registered post and service stamps should be used for their sending. The system of supplying service postage stamps to the audit party has since been discontinued but the requirements are felt.

4.18 Duties and responsibilities of the Sr. Auditors/Auditors attached to parties: Each AAO is provided with two or more Sr. Auditors/Auditors to help him in carrying out his duties. They should work under the general supervision of the AAO and carry out the duties allotted to them with thoroughness and intelligence. A working plan/duty list should be drawn up at the commencement of each audit showing the items of work to be done by each person with definite dates by which each item is required to be completed. The AAO will, however, be responsible for the work as a whole and would ensure that the working day of each Auditor is fully and effectively utilized. He should keep a vigilant watch over the progress of work done by the Auditor and scrutinize their objection statements properly before issuing them to the local office. The Auditors should also render necessary assistance to the AAO in drafting of Inspection Reports. They should carry out the instructions of AAO in all matters pertaining to their official work. All official papers including representations, if any, should be submitted to the higher authorities through the AAO.

4.19 Attitude of Auditors and their behaviour: Auditors (members of audit party) while performing their official duty they should be very careful to avoid any misunderstanding or friction with the local officials with whom they come in contact. Their attitude should be balance so as he has come to assist them and not merely to criticize. If the auditors avoid frivolous objections and convince the officers by the manner in which they go about their work they will meet with little difficulty and receive full cooperation. They should bear in mind that unnecessary meticulous and badly expressed objections not only bring discredit to audit and cause annoyance to local officials but also increase the work at both ends. The inspecting staff should, therefore,

maintain strictly detached, dispassionate and technical attitude in day to day conduct of their work. Nothing should be done to hamper the complementary roles of audit and Administration either by the use of extravagant language or by attitude that audit alone is the keeper of the nation financial conscience (Based on the CAG's DO Letter No-PS-58S/ 56 dated 23.10.1956). It is strictly forbidden for members of the Audit Party to place themselves under any obligation, however, trivial to persons connected in any manner with the offices of the accounts which are subject to their audit. A request for arranging accommodation will not, however, be considered as obligation. The OAD sections dealing with the inspection reports will send to the OAD Headquarter sections a list of Para which are required to be sent to the AAO of the party concerned for verification of the final settlement of the Para and other point which are to be seen/investigated during next audit.

4.20 Procedure for simplification of initial accounts: Although it is primarily for the head of the offices concerned to bring to the notice of any process of the initial accounts, the forms which have been prescribed by the Comptroller and Auditor General of India and which in their opinion have become unnecessary or obsolete in the changed conditions, yet the audit parties should always be ready to take this matter as and when it comes to their notice during the local audit and inspection. They should also assist the local officials by giving advice in matters affecting the accounts and financial regularity of transactions. They may even show by practical illustration, if necessary, how the accounts registers should be maintained and how a proper check is exercised in order that there may not be any possibility of mistake or omission due to ignorance on the part of the local officials. The proposals regarding simplification should not, however, be embodied in the Inspection Reports but submitted separately to the Accountant General through Deputy Accountant General. If, however, in any case the head of an office desires some special help from the inspection staff and requests for some type of investigation to be conducted which is likely to take more time and consequently dislocate the audit programme, the matter should be promptly referred to the DAG and seek his orders. In any case he should not take up any special investigation work which is not within the scope of audit at the instance of the Administrative Authority without the specific sanction of the DAG. They should not also make independent enquiries from the general public as such action amounts to encroachment upon the functions of the administration (paragraph 2.1.7 of C&AG's Manual of standing orders (Audit)). Audit should confine itself to calling upon the executives to obtain the necessary information and in case of difficulty it should confer with the executives as the best means of obtaining the evidence which it requires and if necessary specific orders of DAG on that point should be obtained.

4.21 Period of account to be audited: The period of accounts to be audited by the Inspection Party should, unless otherwise specified, be the period falling between the month up to which the accounts were last audited and the month preceding that in which inspection takes place. This is intended to ensure that the points which are taken up in audit relate to correct or recent matters and not to very old matters. The local audit and inspections should be complete and thorough in respect of the transactions covered by them. There have been cases in which local audit by audit party failed to bring to light serious irregularities and even defalcations which were later discovered by other agencies. The C&AG of India has desired to strongly impress upon all the members of the inspecting staff that a single instance of such failure will bring the whole Audit Department into a disrepute. The inspecting staff should bear this fact in mind and must be vigilant in their work. (C&A G's DO Letter No-nil dated 6.6.1955 and O/oNo-1835 dated 4.7.1955)

4.22 Special investigation and independent enquiry by Audit: Members of inspecting audit parties are not competent to undertake any special investigation which requires some extra time. If any such important point is noticed in the course of audit, the inspecting officer should bring it to the notice of the DAG and seek his orders. He should not take up any special investigation work which is not within the scope of audit at the instance of the Administrative Authority without the specific sanction of the DAG. Inspecting Officers or Auditors are not bound to confine their investigation to the nominal period prescribed for his audit. He may pursue a transaction to any period when a serious irregularity is discovered and it should be invariably pursued up to date.

4.23 Quantum of Audit: Except otherwise specified in any particular case, the accounts for one month in a year will be checked in detail. The test audit of the accounts of the selected month would include the checking of the entries in the Cash Book relating to its receipt and its remittances into the treasuries during the month selected for detailed check. In addition to the detailed check of the accounts for one month the arithmetical accuracy of the cash book should be checked for one more month selected at random. The above check of the Cash Book should include checking of the opening balance for proper carry forward from the closing balance of the month selected for scrutiny to the next month. In case of biennial and triennial audits checking of arithmetical accuracy is to be continued to two months selected for test check (Authority: C&AG's DO No-770/ TA-I/IT-74 Dated 7.9.1974)

4.24 Selection of months for detailed checking in audit: The OAD Headquarters with the order of the DAG will select the months for detailed checking on the basis of expenditure obtained from the concerned TA Section of AG (A&E) well in advance and selection of month should be

indicated in the quarterly tour programme prepared by the OAD Headquarter Sections and sent to the field parties. If the months for detail checking have not been indicated in the programme, months for detail checking should be selected by the heads of the parties after proper and judicious review of the transactions month wise on the basis of expenditure as evident from the Cash Book, Bill Book and Contingent Register etc. The selection is finally approved by the Inspecting Officer where supervision is provided. (AG (Audit)-I/Patna - Misc/545 Dated 02-04-1996)

4.25 Audit Planning: While selecting the departments for local audit inspection it should be kept in mind as far as possible, the same party personnel should be provided to do the audit of the same department (Major Departments). In every quarter these party personnel should meet with the staff of the concerned CAP section in Patna for one week and they should scrutiny the treasury records and get a feed back about the objections coming from such scrutiny (AG's order/Annual Forecast/OAD (M) 95-96 Patna Dated 2-7-96). In the case of biennial audits, accounts of one month with additional of another month for any broken period in excess of six months that have lapsed since the date of last inspection should be selected for detailed audit scrutiny. Where the periodicity of audit is triennial or less frequent two months account from the entire period generally one month from last year and another from the remaining years should be selected for detailed audit (C&AG's Letter No-15 Admn-III/432/Admn II/59 Dated 09.01.1960).

4.26 Accounts of months checked in detail not to be disclosed IRs:The Inspection Reports should not disclose the months of account checked in detail. It should be sufficient to state in the Inspection Reports that a test audit was conducted (without specifying the month or other details). In the title sheet, however, a note should always be kept about the accounts of months audited in detail so that the information may be available for fixing responsibility for failure of audit etc. if it becomes necessary on later date. (C&AG's Letter No-12/Admn-II/1954 Dated 6.2.1954)

4.27 Validity of sanctions of higher authorities may be examined by audit: It is not beyond the scope of an auditor's (members of audit party) work to examine the validity of sanctions accorded by authority superior to the head of the office whose accounts are under audit by him. In fact where the powers of sanction or incurring expenditure of a particular authority are not clearly defined, the matter calls for special alertness and intensive scrutiny. The financial competence of the authority should be carefully examined to see whether he is incurring unauthorized expenditure or issuing sanctions beyond his financial powers.

4.28 Action to be taken when accounts are not ready for audit: When it is found that the accounts of an office have not been written up-to-date and are not ready for audit or there are any

other facts which are likely to seriously retard the progress of audit, the AAO should at once report full facts for seeking instructions from the Headquarters.

4.29 Verification of cash balance: The Inspecting Officers are not required to verify the cash balance of the office under inspection by count. It is, however, not the intention that an Inspecting Officer should be debarred from verifying the cash of an office, if the circumstances of any case warrant this. In such a case, the verification should be undertaken, as soon as the necessity for the same is felt and this should preferably be done at the time when the officer-in-charge is present. (Authority: C&AG's DO Letter No-70/Admn/54 Dated 26.7.1954).

4.30 Position of audit and departmental officers in the departmental offices: The primary object of inspection of the departmental offices by the Indian Audit Department is to assist the executive authorities for maintaining an efficient and regular control of financial transactions entrusted to their charge. It is not intended that those authorities should be relieved of their responsibilities in the matter of frequent check and supervision expected of them as a standing arrangement. An inspection by the audit staff does not and cannot extend to detailed examination of each and every item of receipt or expenditure or other transactions that occur in an office or department. An audit inspection which only supplements inspection and supervision by administrative authorities can do no more than to see generally that the rules prescribed for the guidance of those authorities in the matter of financial transactions are being duly adhered to and any irregularity if found is brought to the notice.

The audit department is responsible to see that the procedure observed in the departmental offices meets all the requirements of audit and the accounts are properly maintained. In fact, any suggestion of safeguarding the financial interests of government should be given special attention. If the accounting procedure is found defective or difficulties arise in the application of audit checks, the matters may be discussed with the head of the office and full facts of the case reported separately to the OAD Headquarter for taking it up with the higher authorities if considered necessary. It should, however, be kept in mind that any criticism in this regard must be limited to financial aspect based on accounts. It is not the function of Audit to range over the field of administration or statistics and other suggestions how government may conduct it better.

4.31 Main objective of Audit: The Comptroller and Auditor General of India has briefly stated the main objectives and purposes of Audit of not to concentrate on minor irregularities and over payments arising out of the claims of officials which form an insignificant part of the financial transactions of the State Government but to review the manner in which contracts have been

negotiated and plans and programmes of the various departments are being implemented. (CAG's DO letter Dated 6.6.55 and Dy. CAG's DO letter No-1307/Admn-I/388/55 Dated 24.6.55).

4.32 Conduct of Audit: The above objectives of audit can be achieved only if the Audit Parties and Inspecting Officers learn to do an intelligent review of the financial administration and concentrate on a few really important points rather than to waste time and energy over a mechanical sort of audit directed to score objections with a view to keep the sight of the Inspection Reports. As the essential objective of accounts is to present a true and fair picture of the financial conduct of an institution, an intelligent and proper audit requires visualizing the financial aspects of an institution or scheme as a whole in their proper perspective and not merely investigation of the details of transaction which work up to a final result. It is, therefore, essential that before taking up the audit of any particular institution, the Inspecting Staff should consult the printed administrative reports and other government publications describing its objectives and activities so that they may have an intimate knowledge of its system and activities and thereby make their audit useful instead of allowing it to become merely a process of checking registers and records in a disconnected and mechanical fashion.

4.32.1 Good knowledge about accounting of the unit: The fundamental responsibilities of an officer in charge of inspections have been laid down by the C&AG of India in the terms "The officer must acquaint himself with the system of finance of any institution, the accounts of which he is inspecting, i.e. what makes up its receipts and how its money is expended. Then he must make up his mind roughly what system of accounts is necessary for these receipt and expenditure, what registers are necessary for internal check purposes and how far the existing system conforms to this standard. This is the elementary and primary responsibility of the supervising officer to be discharged at whatever stage he comes in on the inspection. An Inspecting Officer, responsible for audit of receipts, should make his duty to co-relate all the documents that he may direct his staff how they can check that all money due is received and all money received is brought to accounts". The Comptroller and Auditor General of India consider that Inspection Party which does not do this job fails to appreciate the first responsibility of Audit. (Authority: AG's Letter No-T-962/Admn/74-40/ Dated 25.9.40)

4.32.2 Good knowledge of various acts, rules, code and manuals for intelligent audit: The value of an audit depends largely on the intelligence and thoroughness. Sometimes routine and formal objections lead to the detection of serious irregularities or defects in system liable to fraud, if pursued properly. Members of audit party should always be vigilant for this effort and never exercise the

checks perfunctorily. When an Audit party member finds a matter which may lead to investigation, he should go into exhaustiveness and leave no detail undiscovered for taking it granted during such an investigation. Members of Audit party should take particular care to collect all relevant information, clinch all issues involved and also take attested/xerox copies of such documents which are likely to be useful in pursuing the matter with the higher authorities. It is necessary that the members of audit party should have an intimate knowledge of the various acts, codes, manuals and any special rules relating to such accounts for intelligent and efficient audit of accounts. They should also be conversant with the subsidiary rules issued from time to time represented in concise form with the experience of many years and their value cannot be overlooked. The Audit Party must not be converted into a rigid spirit or considered as all sufficing under circumstances where they are obviously inadequate. But when anything is less done than laid down in, the member of audit party must bring them to notice. Ordinarily they must be taken as the minimum of a good audit. If in any case it becomes necessary to consult the files of the State Government in order to have a detailed and latest information on a case, a proposal for this should be put up to DAG who will scrutinize the demand carefully and obtain AG's orders, if necessary. The C&AG's instructions regarding scrutiny of file are that the secret and confidential files of government should be obtained and seen by the Accountant General and other files may be requisitioned and seen by an officer not below the rank of DAG. The requisition for the file and the result of the audit of the file should be communicated to government under the signature of DAG (Vide O/o No-C-383 Dated 25.3.55). When a member of audit party proposed to raise a higher audit question on grounds of financial propriety on a subject which is predominantly administrative or technical in character, he should make sure that he has been able to ascertain and properly grasp the facts and principle or principles behind them and the raising of the question is a legitimate duty of audit and is also likely to serve some practical purpose. The issues involved should be looked into intelligently, not only on procedural knowledge, and common sense should be applied, especially where technical points are concerned.

4.32.3 Checking of records: It is, however, not proper in local audit that the checking of important initial records such as Cash Book should be neglected in favour of materials which may provide cases for "Efficiency-cum-performance Audit". But it is equally important to secure the correctness of accounts. In course of the local audit of the initial records such as Cash Book etc. It should be invariably checked with the counterfoils of receipts and the treasury challans. It has come to the notice of the C&AG that the challans in respect of the credit of sale proceeds remitted into the treasury could not be produced during local audit in several cases in support of the entry

made in the Cash Book against cash remittances to treasury. This created suspicion and the audit staff made special arrangements to compare the credits direct with the accounts records of the treasury. This verification disclosed that the amount of several challans which had been accounted for in the Cash Book as having been remitted to treasury were not actually so remitted but was embezzled by the cashier by forging the signature of the treasury officer and banker on the receipted challans. It has, therefore, been ordered by the C&AG of India that during local audit and inspections, the cash book of the office for two months should invariably be checked with reference to the counterfoils of receipts and the remittances verified with the original books of treasury (Treasury cash Book or receipt schedules). Where this test check reveals defalcations, orders should be obtained whether to extend or not to extend the period of check. This check is, however, not intended to be applied during local audit of the Public Works and Forest Divisional offices (C& AG's Letter No-1986 Admn-1/425-52 Dated 23.7.53 and No-2465 Admn-I/425-52 Dated 6.10.53, O/o No-1264 (OAD) Dated 24.2.53 and 1277 (OAD) Dated 19.3.53). It should be a general rule that the Cash Book should be checked personally by the in charge of the party or by the Inspecting Officer himself and certify its correctness. The fact of such checking should be specifically recorded in the title sheet attached to the Inspection Report mentioning therein the months of accounts which have been checked in detail.

4.32.4 Checking of Cash Book with relevant payment records and propriety of expenditure: In addition to checks prescribed in the Codes and Manuals, the most important point whether the cash shown as remitted to treasury is supported either by a proper voucher or challan, should be kept in view during checking of Cash Book (Based on O/o No-OAD(C) 1431 dated 28.3.55). In audit party members should not apply their mind merely for numerical checking of proper acquittance in support of payments, the amounts charged are arithmetically correct and the rates are in accordance with the schedule of rates but in the interest of thorough audit it is necessary to see that the charges in the bills are not extravagant and if doubt arises, the prevailing market rates should be ascertained through the district office. Cases of different rates paid for the same article especially noticed during audit of two or more offices in the same locality should be investigated and members of audit party should find out the causes of such differences. Members of audit party should tick or cross tick all entries checked by him and initial all vouchers with the special audit pencil. It should be borne in mind that where more than one "tick" has to be placed against the same items, different varieties of ticks should be used, each denoting that a special type of the audit have been performed. The tick should be small and neat so as not to give an untidy appearance of the books or documents of

the office under audit. Audit pencils are supplied to members of audit party for recording tick only and they should be carefully preserved and not used for any other purposes.

4.32.5 First audit of an institution: When the local audit or inspection of an office or institution is conducted for the first time, the adequacy and suitability of initial system of accounts, forms, registers, internal supervision by higher administrative officers, the scope of central audit and the desirability of local audit in future years should be properly examined. The defects and improvements, if any, in the initial accounts and the need of supervision should be pointed out in the Inspection Report as usual. The suggestion in respect of central audit, if any, should be incorporated in a separate note to be submitted to the DAG. (O/o No (OAD) 1299 dated 8.4.53)

4.33 Report of Defalcations and frauds: All cases of defalcations and other serious type of financial irregularities noticed or suspected during local audits should be promptly reported confidentially by the head of the inspection party to the DAG and also to the head of the office concerned or to his next higher authority where it is suspected that the former himself has something to do with the irregularity. The report should also indicate whether any assistance as the personal interventions of the DAG or additional hands and records necessity for full and complete investigation. The progress of investigation should be regularly reported through interim reports and when the fraud or embezzlement has been fully investigated by the Audit Party, a complete report on the case should be submitted to the DAG explaining clearly how the fraud was committed and there is reason to suspect that a detailed examination of the accounts will come out with further cases of frauds by the same or other persons. It should also be stated that the fraud was discovered during the present period of audit or the prior period of present audit.

4.34 Techniques and approaches in audit for investigation of fraudulent transactions: In course of audit, if heavy expenditure of abnormal nature is noticed, the Inspecting Officer should immediately call for all relevant details pertaining to the payment and carry out a thorough investigation about every aspect of the transaction. He should proceed as (i) Checking of allotment and expenditure with reference to allotment register and government orders received on the subject. (ii) It should be checked whether the drawl is within the allotment and it is for the purpose for which it is given. Any deviation in this respect should be closely scrutinized. (iii) Sanctions for expenditure should be checked with reference to financial competency of the sanctioning authority and propriety of the sanction etc. (iv) In case of payment pertaining to purchases, works etc, all procedural steps right from calling of tenders to preferring of bills and payment thereof should be critically examined. Detailed instructions for checking these aspects of the

transactions have been given in MSO (Tech) Vol-I. (v) Vouchers of less than Rs 1000/- and copies of vouchers above Rs 1000/- available in the audited entity against fully vouched bill should be thoroughly checked with reference to relevant rules and in case of any doubt the genuineness of payment should be verified with reference to purchases and services obtained. (vi) It should be observed that whether the AC bills are followed by DC bills and these are sent to the office of AG (A&E) Bihar, Patna for adjustment of AC bill and finally to Audit Office for central audit. In case these have not been sent, a doubt of genuineness of the payments contained in those bills should naturally be raised and these should be thoroughly checked. Any point of doubt or suspicion should never be passed on without adequate scrutiny and sense of complacency should not be allowed to overlook the transactions. (Experience of audit of Medical & Industrial Department) While reporting irregularities or defalcations direct to the head of local office, the Auditors must confine themselves to a plain statement of facts and these reports should not contain any adverse criticism regarding superior officers. All details necessary for a clear understanding of the case must however be reported to the head of office consisting (a) the rules infringed, if any (b) lacuna and defects in the rules and deviation from the established procedure if any, which facilitated the commission of the fraud (c) the officials responsible for infringement of the rule and departure from the established procedure (C&AG's Letter No-1367A&A-402/13 dated 15.11.1913).

4.35 Issue of objection statement and return back with replies: The audit inspecting staff will record all queries and objections disclosed by audit scrutiny on audit objection statement form (SY-327). The objection statements should be prepared in duplicate by carbon process and the first copy should be issued from day to day and not in lump sum after several days or towards the close of the inspection. As the each page is completed, it should be serially numbered and handed over to the head of office or the ministerial staff subordinate to him and his receipt obtained in a Transit Register in form SY-314. The objection statements issued in course of audit should be got back with replies on the same day or on the following day. In no case they should be allowed to remain with the local office beyond 3 days from the date of issue or the date of close of the audit whichever is earlier. If however, in any case it becomes absolutely unavoidable to leave the objection statements with the departmental authorities, only copies of objection statements should be left so that the original will always be available with the party from which the draft inspection report may be prepared in case the replies are not received in time (O/o No-WM-1-5/ 3878 dated 24.2.54). (b) If the replies of the audit queries are incomplete or inadequate, the pages concerned should be reissued to the local officer with a request to return the same with further remarks to clarify the point. The gazetted officers in course of their inspection should also impress upon the heads of the offices,

the paramount importance of returning the objection statements promptly to the Audit party. Every endeavour should be made by the local officers to settle the objections finally before returning the objection statements to the Audit Party. But the efficiency of AAO will largely be judged by having the objections cleared before he leaves by giving proper guidance to the inspecting staff, holding discussions with the head of the office and ensuring as far as possible rectification of the irregularities in their presence or at least by obtaining commitments to that effect on the objection statements. The last day of the audit should be mainly kept in reserve for discussions.

4.36 Settlement of outstanding objections of previous Inspection Reports: The first duty of the inspecting staff on commencement of audit will be to verify the actions taken on the outstanding paras of the previous Inspection Reports and the Test Audit Notes. For this purpose relevant files should be carefully studied and every opportunity should be given to the local officials to meet the points and if necessary correct lines should be indicated by giving proper guidance to the accounting staff and holding personal discussions with the head of the office. In all cases where the promised action has not been taken, attention of the head of the office should at once be drawn through a note, impressing upon him the paramount importance of early action in the matter. But in spite of best efforts, the result appears to be unsatisfactory and large numbers of items remain outstanding and they should be recounted in the current Inspection Report in a separate paragraph under the caption "previous Inspection Reports". At the same time, the matter should be reported to the Deputy Accountant General who will take it up with the government or the head of the department concerned. (Based on the C&AG's Letter No-1446/Rep/206/54 dated 4.12.54) The AAO should at the commencement of audit, notify to the head of the office that he is going to devote so many hours of a day solely for the disposal of the outstanding objections and suggest that suitable arrangements should be made to collect and put up the relevant papers to him in course of the audit. He should pursue the matter from day to day until all objections are suitably disposed off. The exact time devoted daily for the disposal of old objections should be specified by the Auditors in the weekly diaries (form SY-324). A statement showing the number of old objections at the commencement of audit, the number of objections removed during the audit and the balance left unsettled at the end should also be furnished by the AAO with reason of their non-clearance along with the draft Inspection Report. They should indicate in the statement whether the local officials cooperated with him for the disposal of old objection or not and the difficulties, if any, experienced by them in this regard.

In respect of objections regarding irregularities having money value which the members of audit party drop during the local audit, they should clearly indicate in the statement as to how the

objections were settled i.e. whether by recovery or by writing off the amount involved, quoting references to the treasury challan under which credited or government order of sanctioning the write off. This will enable the Headquarters Section to remove the objections from the Objection Book. Correctness of the replies furnished by the local office should invariably be verified before objections are dropped. The removal of objections without such verification amounts to failure of audit and will be dealt with as such. The State Government in consultation with the AG have prescribed two forms (Form I & II) or registers for watching the disposal of Audit Objections and Inspection Reports to be maintained in all the departmental offices. It will be the responsibility of the head of the office to see that prompt action is taken in disposal of the audit objections and Inspection Reports and the registers mentioned above are maintained properly. The Inspecting Officers should see during the local audit whether these registers are properly maintained and will offer suitable comments in respect thereof. (Govt. of Bihar FD Letter No-AR/19-53-29 FR dated 1.6.53; O/o No- 1351 (AA) dated 22.6.53). Settlement of outstanding paragraphs of the earlier inspection reports is one of the important duties of an Inspecting Officer and should be given adequate attention. The discussion and settlement of such items of objection in respect of office situated at the station visited by the audit party are not actually inspected by the party, should normally be done by the Inspecting Officer himself. (C&AG's Letter No-15 Admn-II/432 Admn-II/59 dated 9.1.1960)

Audit objection pertaining to the category of excess/over payment which awaits settlement till the recovery pointed out is effected, a draft para on such recoveries should be processed and note kept in the register of special points to be looked into at the time of next local audit to ensure that the recoveries have been fully made or still being made. Audit objections which are outstanding for want of decisions of the court, all such objections should be removed from the Register of Outstanding Inspection Reports/Para. Whenever the offices of the head of the department as Director of Agriculture, Director of Fisheries, office of the Engineer in Chief etc. are audited, a list of cases settled by the court from the date of previous audit to the date of present audit should be called for and a test check conducted to ensure that the court cases were pursued properly and no loss occurred to govt. due to negligence of the administrative authorities (Authority: C&AG's Circular No-8/Audit-II/90, No-800/Audit-II/64-89 dated 25.7.1990). A review of outstanding objections/paragraphs of inspection reports may be conducted on following broad lines. (i) Paragraphs which have lost significance with the passage of time may be dropped. (ii) Paragraphs relating to initial and subsidiary accounts in audit reports may be clubbed with or merged with the Para on the same points in the latest reports. (iii) Para which have been dealt with the subject

matter or where no specific action or rectification or improvements has been suggested may be dropped. (Authority O/o OAD (M) 137/87-88/130 dated 5.2.88 and C&AG's Circular No-22/TA-II/82, No-748/TA-I/45-82/Vol-II dated 19.6.82) Field parties in routine way ask for the present position of the previous inspection reports and then fill up the Performa-III of the DIR saying that no action could be taken to settle outstanding paras as previous inspection reports were not produced to audit. It has been ordered by the DAG that in future all cases of non production of old inspection reports should also be discussed with the head of the office and his comments obtained. A para thereon must also be incorporated in the DIRs. All cases of non production of old inspection reports should be brought to the notice of concerned Administrative Department with a view to ensure that the presence of the Audit Parties is utilized by local offices for settlement of outstanding audit objections. The up-to-date list of outstanding paras may be sent to our office/field parties,

While it is not possible to lay down any rigid set of principles for clearing the outstanding objections/paras as their settlement ultimately depends on merits of each case and should be dealt with extreme care and caution. The following guide lines may be kept in view for settlement of objections/paras which are pending in the old inspection reports. (i) Inspecting Officers/AAO should draft the paras regarding Test Audit Note and its compliance should be shown at the time of next audit instead of saying that compliance should be reported to the main office. (ii) Recovery of petty amounts falling within the powers of the waiver may be waived by the Inspecting Officer or proposed for waiver by the Deputy Accountant General/Accountant General after issuing suitable instructions to the officers concerned. (iii) The paras which are instructive in nature may be dropped provided the instructions are noted in writing by the department concerned. (iv) Paras on non-completion of minor records may be dropped if their completion is in the final stages and if the department gives an assurance in writing that the records will be brought up-to-date within a reasonable time. (v) Paras on procedural matters like attestation of some entries etc may be dropped when complied with or when department gives an assurance in writing that the defects will be removed within a reasonable time. (vi) Paras, which are more administrative in nature may be dropped subject to the noting of the correct procedure by the departmental authorities. (vii) Wherever adequate action has been taken by the department, the relevant paras will not be dropped. (viii) Paras pending for want of suitable sanctions/orders/approvals of higher authority may be dropped on receipt of such requirements. Paras may also be dropped in old cases where sanction of higher authority will be only a formality and there are no maladies. But a suitable report to the competent authority should be made simultaneously. (ix) In cases of recoveries due from govt. servants have been completed and the recoveries ordered by the competent authority have already been made

then the relevant paras may be dropped on the responsibilities of the department concerned. In such cases central office should be suitably informed of the position for watching the recoveries through the objection books maintained by the Headquarters Section.

4.37 Nominal Audit of Service Books and Leave Accounts of the non-gazetted staff: In accordance with the provisions contained in Paragraph 24 of the Secret Manual of Instruction (SMI), the inspecting staff should generally examine and test check the Service Books and Leave Accounts of the non-gazetted staff of the government offices and institutions visited by them with a view to ensure that they are kept in a satisfactory manner by (i) verification of Service Books and nominations of DCRG and GPF during local audit according to the provisions of Para 24 of the SMI. Local Audit Parties are required to examine the Service Books of the non-gazetted govt. servants employed in the office/institution visited by them to ensure that they are kept in a satisfactory manner. It has also been provided that checking of Service Book of all the members of the staff of an office should be completed in a cycle of four years as far as possible. (ii) Service Books are one of the most important basic records which are inter-alia required for determining the pensionary benefits of the govt. servants. It has, however, been noticed that the departmental offices are not taking due care in the maintenance of service books on recording of the entries therein. This is causing delay in finalization of the pension cases of the govt. servants at the time of their retirement and which ultimately results in undue hardship to them. (iii) The question of maintenance of Service Books and verification of the services rendered by the govt. servants came up for discussion in the meeting of the committee on simplification of procedures in pension payment. The committee felt that Accountant General (Audit) has an important role to play in regard to checking of these documents and records during local audit. The matter has been examined in detail and it has been decided that in addition to the existing quantum of audit the AG (Audit) should exercise during local audit the following checks in case of those govt. servants who are to retire within the next 12 to 18 months. (a) The Local Audit Party visiting an office should check the service books of all employees who are due to retire during the next 12 to 18 months even if the checking of these categories of cases exceeds the prescribed percentage of 25% checking of Service Books in a year. (b) While checking the service book the local audit party will ensure that the service book is complete in all respects, events affecting pension have been clearly spelt out along with the remarks of the competent authority, whether the period will or will not count for pension and there are no missing links. (c) The local audit party will also check that the nominations regarding death cum retirement gratuity, GPF etc. have been made by all the govt. servants who are to retire within the next 12 to 18 months and suitable note has been kept in the Service Books. Cases where

the nominations are not available be brought to the notice of the head of the office. (d) In order to exercise the check effectively the local Audit party would obtain a list of retiring government servants from the head of the office and enclose it along with the observations with the Draft Inspection Report. (CS No-(i) 4.87 (A) vide DAG's order dated 30.1.92).As Service Books will in future be the only documents for the verification of service for pension, it has been decided by the C&AG that adequate attention should be paid during local audit to the review of the Service Books. 25% of the Service Books should be selected so as to include the Service Books of all govt. servants who are due to retire during the next five years are checked. Service Books, so checked should bear on audit encasement duly signed (with date) by the officer-in-charge of the audit party. The check of Service Books should ensure that they are kept up to date and they contain a certificate of annual verification of services with reference to the acquaintance rolls etc, the entries in pay column should also be verified with reference to the office copies of pay bills to see that they agree and the pay and increments drawn have been allowed correctly to the individual from time to time for the period to which the check of service books relates. (Authority: C&AG's confidential Circular letter No-417/TA-17785-68 dated 21.3.69). The checking of payment that has not been made to a govt. servant beyond the date of attaining the age of superannuation or on the expiry of term of extension of service sanctioned by competent authority should also be conducted during local audit. (Vide C&AG's Confidential Letter No-928/Admn-11/349-61 dated 26.6.62) and (Authority: C&AG's Circular No-29-(Audit-11) 85, No-1010 (Audit-I) dated 2.7.85 and O/o No- OAD (M)-130/85-86/33 dated 2.8.85).

The leave account for percentage checking should be so selected that the accounts already checked on previous occasions may not be selected again leaving the other accounts altogether unchecked (C&AG's Letter No-584 Admn-II/331-52 dated 21.5.54). The objective of the above test check is to educate the local offices to maintain the leave accounts correctly and to discover any mistakes made as soon as possible with a view to their ultimate rectification. The leave accounts which are selected for checking should be checked in the presence of the establishment assistant so that he may pick up useful knowledge of leave accounts and also explain any entries in them which appear to be erroneous. The minimum rate of checking of Leave Accounts has been fixed at eight Leave Accounts by each man per day. This rate should be raised when the opening entries in many of the leave accounts have already been checked. The total number of leave accounts checked in a given period, should not, therefore, be less than the number calculated at the above rate. The AAO of the party is required to check the same number of leave accounts as an auditor besides general supervision of the work of the party. Every Leave Account selected for checking should be completely checked

and should bear an entry “Test checked up to (date up to which checked)” which should be signed in full with date by the person checking it. The Inspecting Officer if he is present on the spot or the AAO would see that all leave accounts checked have been signed in full. Irregularities discovered in course of checking of Leave Accounts in each office should be incorporated in the relevant Inspection Report or the Test Audit Note according to their merit. To enable the selection of Leave Accounts for checking, a Statement in the form indicated below should be obtained by the Audit Party from the office under inspection.

Name of the office

Sl. No.	Up-to-date list of non-gazetted govt. servant with name		Whether the Service Books (SBs) and leave A/Cs opened	Whether the person is likely to retire in the next five years	Whether the SBs and leave A/Cs are checked by the Audit Party previously
	Permanent	Temporary			
1	2	3	4	5	6

4.38 Performance Audit of selected schemes: In the course of inspection field parties should review the working of all Development Schemes during the plan period, if any such scheme is being executed in the office being inspected. A separate note should be sent to the Headquarters along with the Inspection Reports incorporating a brief review of the working of the scheme covering excess over estimate, delay in completion, short falls in achievements of targets, losses etc. Such review should be mentioned in the Col.5 (iii) of the title sheet of the Inspection Reports. If there is no such case the fact should be indicated against Col.5 (iii) in the title sheet. These notes on scheme received with the Inspection Reports should be transmitted by OAD (M) to the PA section. (Vide O/oNo-ECPA-2/36-510 dated 13.3.64).

4.39 Grants-in-aid and system of its payments: A grant may be paid for meeting the expenditure on certain specified objects in advance of the period to which it relates and before the actual expenditure for the period it can be ascertained. It may be based on an estimate of the probable expenditure for the period or on the actual expenditure of corresponding past period as modified by a careful forecast of any other circumstances likely to affect the expenditure of the period in question. In other cases grants are given to meet the whole or a part of the expenditure already incurred by the grantee. In case of the former category three principal processes involved are (i) Sanction of the grant (ii) Disbursement of the grant (iii) Utilization of the grant by the grantee. In case of latter category two stages of (i) and (ii) as above involved.

4.40 Central grants to State Government under five year plan: It has been decided by the C&AG of India that when conditions are attached to the utilization of grants in aid, audit cannot divest itself of the responsibility of seeing that conditions are fulfilled vide paragraph 3.5.4 of the MSO (Audit). In respect of development grants made by the Government of India to the State Govt. audit should, therefore, see in addition to conducting the usual audit of the expenditure incurred by the State Government out of the grants made by GOI, that the objectives for which the grants were made were actually achieved. For this purpose, audit should obtain necessary certificates and statements from the Administration and also conduct a local test audit whenever necessary. (Based on C&AG's Letter No-173 Admn-I/778-51 dated 3.2.53 and subsequently modified by Letter No-460-Admn-I-778-51 dated 11.8.54).

4.41 Audit of Bodies/Institutions receiving grants from the Consolidated Fund of India or any State: Audit of Bodies/Institutions receiving grants-in-aid for any specific purpose from the Consolidated Fund of India or of any state is governed by the provisions of section 15 of C&AG's (DPC) Act 1971 as reproduced (i) where any grant or loan is given for any specific purpose from the Consolidated Fund of India or of any State or of any union Territory having a legislative assembly to any authority or body, not being a foreign state or international organization, the C&AG shall scrutinize the procedure by which the sanctioning authority satisfied itself as to the fulfilment of the conditions subject to which such grants or loans were given and shall for this purpose have right of access to the books and accounts of that authority or body after giving reasonable previous notice to the body or authority. Provided that (1) The President or the Governor of a state or the Administrator of a Union Territory having a legislative assembly as the case may be, where he is of the opinion that it is necessary to do so in the public interest by order, relieve the Comptroller and Auditor General after consultation with him from making any such scrutiny in respect of any body or authority receiving such grant or loan. (2) Except where he is authorized so to do by the President, the Governor of a state or the Administrator of union territory having a legislative Assembly, as the ease may be, the Comptroller and Auditor General shall not have, while exercising the powers conferred on him by sub-section (1) above, right of access to the books and accounts of any corporation to which any such grant or loan as is referred to in sub section (1) is given if the law by or under which such corporation has been established provides for the audit of the accounts of such corporation by any agency other than the Comptroller and Auditor General. provided that no such authorization shall be made except after consultation with the comptroller and Auditor General and except after giving the

concerned corporation a reasonable opportunity of making representations with regard to the proposal to give to the right of access to the Comptroller and Auditor General to its books and accounts.

4.42 Scope of Audit of offices receiving grants-in-aid: Decisions regarding scope and extent of local audit in respect of grants in-aid sanctioned by government are contained in the Comptroller and Auditor General's Circular Letter No-867-Admn-II/62-53 dated 25th June, 1955 and C&AG's Letter No-I49-TA-1/50-69 dated 2nd March 1974 and the Government of India, Ministry of Finance (Expenditure Department) Memorandum No- F-II (39) E-H (A) 56 dated 04.01.57 the relevant paragraphs of CAG's letter dated 25.06.55 are reproduced.

4.42.1 Terms and condition of Grants-in-aid: Some of the correspondences on this subject resting with this office Circular Letter No-911/Admn-II/162-53 dated 30th June 1953 and reply thereto are as various suggestions have been received from the Accountants General for improving or increasing the checks being exercised by the Administration and Audit in respect of grants-in-aid sanctioned by government. These have been examined and the following decisions have been arrived at as: (i) **Utilization of grant:** Utilization of the grant for the purpose for which it was sanctioned, it has been suggested that the sanctioning authorities should be required to indicate what checks they have authorized in ensuring that the grants have been properly spent by the grantee and that a test audit should be conducted during local inspection to see that the procedure followed by the certifying authorities is adequate. Rule 148 of the General Financial Rules already provides that the sanctioning authority should prescribe statements, returns etc. to enable him to see that the conditions are fulfilled by the grantee. Paragraph 3.5.3 of MSO (Audit) read with note there under also provided to scrutinize during local audit, the methods by which the sanctioning authority gives the certificate of utilization of grants. In view of these provisions further lightening up of the procedure in this respect is not required. It seems necessary that a test-audit of the office of the sanctioning authorities should be arranged on some regular intervals. (ii) **Conditions attached to grants:** It has been suggested that the Administrative authorities should clearly specify the conditions attached to the grants. This requirement has already been enjoined in Rule 148 of the Central Government compilation of the General Financial Rules. The Pr. Accountant General will see that similar provisions are embodied in the State Government rules. (iii) **Refund of unspent balances:** It has been reported by an Accountant General that in number of cases the unspent balances of the grants have not been refunded in spite of repeated reminders. He has suggested mat specific provision should be made for the refund of the balances. It will be observed in this connection that Rule 161 of the Central

Government compilation of General Financial Rules already provides for the refund of the unspent balances of grants. If no corresponding provision exists in the State Govt.'s rules, the Accountant General may take up the matter with the State Government. Audit will watch whether the refund is duly made by the grantee as necessary vide paragraph 3.5.7 of MSO (Audit). (iv) **Quantum of Local Audit:** It has been suggested that extent and quantum of local audit should be increased as central audit has no means of seeing that the administration has exercised the necessary checks. Where Accountant General finds necessary the inclusion of some more offices in his programme of local audit, there should be no objection to the same. The quantum and extent of the local audit may be decided by the Accountant General himself. (v) **Provision in the sanction order:** It has been suggested that the provision in the sanction orders regarding inspection of accounts by the Indian Audit and Accounts Department in the case of grants of a capital nature and for specific purposes to institutions, the sanctioning order should contain a clause to the effect that if so required by the comptroller & Auditor General, the accounts together with the relevant papers of the Institution shall have to be produced for inspection by the Indian Audit and Accounts Department as necessary safe guard. It has been decided that the Accountant General should take up the matter with the state government.

As already stated in Para 2 of this office Letter No-911 Adnm-II/162-53 dated the 30th June 1953, a mere certificate from government or others to the effect that the money has been spent correctly for the purpose for which the grant was made will not suffice unless the checks to be exercised are fully laid down and there is evidence of the checks having been exercised. Where necessary, you may pursue the matter with the State Government and see that as far as possible the rules regulating the sanctions etc. of grants-in-aid are duly made and observed by the Administrative Authorities. It may be mentioned that many of the irregularities in connection with grants-in-aid can be avoided if the rules in Rule 148 to 151 of the Central Government compilation of General Financial Rules are strictly observed. The Accountant General may ensure that corresponding rules exist in the state codes also. Copy of the office Memorandum No-(FN-II)-39/E-II (A)/56 dated 04.01.1957 from the Government of India, Ministry of Finance (Expenditure Department).

4.42.2 Audit of grants-in-aid: The undersigned is directed to invite a reference to Rule 148 of the General Financial Rules which stipulates that in respect of audit of grants sanctioned by the competent authorities with specific conditions attached to their utilization, the sanctioning authority should satisfy itself that the grant in fact has been applied for the purposes for which it has been intended and a certificate to this effect has to be furnished to the Accountant General. While the certification of such utilization has been left to the departmental authorities and the Audit Officer

normally accepts the certificates furnished as adequate for the purposes of audit under paragraph 3.5.3 and 3.5.4 of MSO (Audit). The question has been raised whether in respect of substantial grants-in-aid for specific purposes, the Comptroller and Auditor General should not have an independent means of ensuring that the grants have been applied for the purposes for which they have been sanctioned without having a right to test check the accounts of the grantees if he so desires. The Government of India after consultation with the Comptroller and Auditor General of India has been now pleased to decide that the grants-in-aid in excess of Rs 1 lakh per annum recurring and Rs 5 lakh non-recurring should normally be sanctioned by the competent authorities with the specific condition laid down in the sanctioning orders of the institutions receiving grants should be open for a test check by the Comptroller and Auditor General at his discretion. The Comptroller and Auditor General of India has agreed that any audit in pursuance of these provisions will be undertaken in consultation with the administrative ministry concerned who will make the necessary arrangements with the institution for the conduct of such audit. The monetary limit prescribed above shall not, however, be treated as in any way fettering the discretion of Comptroller and Auditor General for approaching the accounts of the institution and in any special case he considers that an audit of the recipients books even when the amount is less, is called for. Even in respect of unconditional grants-in-aid government reserves the right to have the accounts of the recipient body audited by the Comptroller and Auditor General on their own initiative, if and when occasion demands, to satisfy them generally regarding the manner in which the affairs of the recipient body are being managed. Attention is also invited in Rule 149 of the General Financial Rules according to which every grant made for a specific object is mentioned therein unless declared as unconditional. (Circular with No-3222 (TM) dated 23.3.57)

CHAPTER-5

5.1 Inspection Reports and Test Audit Notes: The result of local audit and Inspection is communicated through Inspection Reports and Test Audit Notes as envisaged in Paragraph 6.1.16 of MSO (Audit). The Inspection Reports which includes only important points and serious financial irregularities are addressed to higher authorities while the Test Audit Notes are sent only to the local officers for necessary action.

5.2 Instructions regarding preparation of Inspection Reports: As soon as the objection statements are received back with replies from the head of the office inspected, suitable draft paragraph dealing with only one objection or group of similar objections should be prepared for the Draft Inspection Report and the Test Audit Note by the date of close of the audit or inspection. As the time allotted for each audit includes the time for drafting the Inspection Reports, the work should be so spread out as to allow for the above duty to be completed within the allotted time. The objection statement should also be carefully drawn up so that the task of drafting the report might be rendered easily complete the drafting of the Inspection Reports before they leave the station. The report should be shown to the head of the office concerned and also discussed with him, if possible. The fact of such discussion should be specifically recorded in the Title Sheet and if no discussion could be held, the reasons thereof should be specified. In any case, the signature of the head of the office inspected should be obtained on the draft report in token of perusal of the report and correctness of the fact contained therein.

5.2.1 Clear and concise Inspection Report: The Inspection Reports should be clear and concise as far as possible. Every paragraph should comprise of three distinct parts viz (i) the statement of facts (ii) the money value of the objections or its approximate value as calculated from the available data and (iii) the objection on the nature of irregularities in respect of rules and orders infringed, if any, and the action required for rectifying it. This arrangement may not necessarily be meticulously adhered to in every case but all the points must be distinctly stated. Special attention should be drawn to important matters such as persistent neglect and delay of verification of accounts, chaotic state of accounts etc. in separate paragraphs. It should be borne in mind that it is more important to affect a general lesson than to dwell at length upon a particular irregularity. Suggestive headlines should always be given above the different paragraphs in indication of the substance of the objection contained therein so as to encourage the busy officers to go through them. Here general headings such as 'Cash Book', 'Outstanding Revenues' etc do not indicate anything but 'Omission to enter

receipts/expenditure in Cash Book' or 'Loss of outstanding revenue' gives a definite idea and makes one's inquisitive to know more about the matter contained in the paragraph.

5.2.2 Non inclusion of insignificant points: The Inspection Report should not be made unnecessarily lengthy by including too many insignificant points because the bulky report often takes away much of its value. If a large number of irregularities are detected or the instances of a particular type of irregularities are numerous, only the most important points should be selected for the Inspection Report and the rest may be relegated to the appendices or the Test Audit Notes. It should be clearly understood that the efficiency of the inspecting staff will be judged by the quality of the materials in their Inspection Reports and not by the size thereof. Only serious objections which can be developed into draft paragraphs or those that requires recovery of money or regularization by sanctions or denote a system failure etc. should be included in the Inspection Report. The other objections could be incorporated in the Test Audit Notes to be watched and settled by the Departments themselves. (C&AG's Letter No-8/Audit-II/51-90 dated 3.1.91 and O/o OAD (M) 137/111/90-91/186 dated 21.3.91). Trifling matters which can be and have been set right on the spot need not be mentioned in the Inspection Report. However, if a number of similar points are noticed it may be desirable to mention the type of error or irregularities with one or more instances so that proper instructions may be issued for future guidance of the govt. servants concerned. It is desirable that statement and figures in relation to any defects or irregularities discovered should be based on clear documentary evidence. It is not sufficient to quote the rule or the order violated. The actual or possible effect of such deviation on the financial interests of govt. should be explained clearly. (Authority: C&AG's Letter No- 715/TA-I/106-81 dated 20.6.81 Circular No-30 /TA-1/1981) Objections of the same nature as want of payee's receipts, estimates, agreements, measurement books and relevant entries in stock and store register etc. should be grouped together as far as practicable. Where there are several departments in an office the objections relating to each department shall be shown separately. The objections, especially meant for part-I of the report, should be self contained in respect of all the matters with which they deal. The actual amount involved in each irregularity covered by the audit objection should be worked out as accurately as possible, and clearly stated in the paragraph. Vague suggestions such as 'loss or overpayment involved should be worked out and recovered' should be strictly avoided. If it becomes necessary to deal with any correspondence, the subject matter should be summarized as briefly as compatible with clear exposition. All details necessary for a clear understanding of each irregularity should be given including as (i) explanation of the transactions (ii) description of the nature and magnitude of the irregularity (iii) extenuating circumstances that might have existed (iv)

defect, if any, in the system which led to the irregularity and (v) remedial measures adopted and adequacy thereof.

5.2.3 Potential Para with supporting key documents: While editing the draft paragraphs for the annual Audit Report, the AG finds himself at a loss because of missing links in the facts and arguments set forth in the original IRs on which the paras are based and the information which is wanting, cannot be obtained except by a reference to the local records and the invariable consequence that the draft paras have either to be abandoned or their consideration postponed for indefinite periods. It is, therefore, impressed upon the inspecting staff that such a situation must not be allowed to arise and they must play the role faithfully. There must be precision about the happenings but the comments should be based on facts and not on inferences. The sequence of events should be carefully noted in order to complete the chain leading to the final conclusions and as far as possible the dates of occurrences should be allowed to tell the story. Where a rule or order has been violated, its substance and the actual or possible effect of the violation should be briefly explained. Audit is concerned with facts and not with the conduct of the officers, consequently the names of the officials personally responsible for any serious irregularity should not be disclosed in the Inspection Report. In cases of very serious derelictions of duty or embezzlement, the designation or status of the officer responsible should be mentioned, such cases will be very rare and audit should not take upon itself the duty of fixing responsibility for any such thing on any individual. Maximum key documents for supporting the facts should be collected as evidence for convincing the higher authority to persuade the facts. The key documents should be neatly referenced with finding in the proposed Draft Para.

5.2.4 Conclusions and references of the Para: The reference and conclusions drawn from the facts should always be pragmatic. Even when the evidence of a defalcation or fraud is very strong, the facts should be distinctly stated and the reference drawn should be properly guarded and qualified by phrases such as 'it appears to be' or 'may be thought to be'. In case of defalcation/fraud the paragraphs should be presented in such a detached and dispassionate form that the facts should speak more than the comments. Cases which are sub-judicial should not be mentioned in such a way as to prejudice the claim for the defence in the court of law. Lastly, the quasi-judicial nature of audit should be remembered and an endeavour should be made to present a just and impartial picture of the case in a clear and plain language. In framing the objections, austerity in comments, in-situations and offensive generalizations should be avoided. The facts and conclusions, if properly stated, should speak for themselves. The use of words such as 'fraud' or 'embezzlement' which denote crime should be avoided unless the crime has

already been established and substantial with key documents. It is most important to know that all words and phrases which are likely to cause resentment or unpleasantness are entirely eschewed. Each Inspection Report must contain a paragraph under the heading 'Last and previous Inspection Reports'. While recounting unsettled paragraphs of the last and previous reports in the current Inspection Report, the auditors should invariably quote the paragraphs and the number and year of the original Inspection Reports to which they pertain. Where recovery or regularization has been done, the up-to-date position should be explained against the paragraph concerned. Vague terms such as 'no action taken' or 'no paragraph fully settled' should be avoided. Each IR should also contain a paragraph regarding inspections done by the Executive Officers of the department concerned. Any important point revealed by the IRs of the departmental authorities should be suitably dealt with in the IRs and if no inspection was done, the fact in this regard should be stated. A statement of recoveries effected during the course of audit and the amounts held under objection in the IRs for recovery, should always be appended to the IRs giving reference to the relevant paragraphs. This should form the last paragraphs of part II of the Inspection Report. Every paragraph of the DIR should show a reference to the relevant item and page number of the objection statement on which it is based in the margin with in pencil. Sometimes the IRs contains references to letters and orders of govt. or other authorities which are not expected to be available in the head office. All such reference should invariably be supported by copies or relevant extracts from the letters or order concerned taken from the local offices.

5.2.5 General remarks regarding the state of accounts: The remarks about the general state of accounts of the office inspected should be recorded after proper appreciation of the facts disclosed in the body of the IR. Defects should not be recorded in general terms and all exaggeration of language should be avoided. In bad cases, the state of accounts may be stated as 'not quite satisfactory' and in other cases it may be stated that 'there is scope for improvement'. When anything is noted as not quite satisfactory the reasons should be stated in detail in the body of the Report. On the other hand, there may also be some cases where the state of accounts is found to be satisfactory or generally satisfactory. In such cases a declaration that the accounts are satisfactory would not be made as a matter of routine or in a mechanical manner. Such a declaration should be recorded only where the Inspecting Officer is thoroughly satisfied that the condition of the accounts really warrants such a compliment or remarks. Otherwise the inclusion of such remarks in the face of serious irregularities contained in the body of the report is most undesirable as the government/department concerned is thereby lulled into a sense of security. (Authority: CAG's Circular No-336/Rep/3-51 dated 16.6.1951).

5.2.6 Form of Inspection Report and Test Audit Notes: The Accountant General should not bear the responsibilities of facts and figures of Inspection Report because it is based on the information and reply supplied by the local offices and department. A suitable disclaimer in this regard requires to be enumerated in the Inspection Reports. The Inspection Report will comprise of three main divisions as (i) Part-I (Introductory), (ii) part-II (Section-A) and (iii) Part-II (Section-B) (iv) Test Audit notes. The idea behind this compartmentalization is to focus attention of govt. and the local authorities to notice the more important types of irregularities so that action may be taken at the earliest opportunity. The types of materials to be incorporated in each of the above mentioned divisions are briefly described here. The code of ethics may be attached with the IR and should be signed by the head of the Auditee Units.

Inspection Report Number-----/Year---

PART - I

INTRODUCTORY

- 1. Name of office audited:** Only the name and address of the office may be mentioned.
- 2. Scope of audit:** ‘The accounts for the period from ----- to ----- has been audited with detail checking of receipts and payment in the month of --- and ---. Testcheck of Service Books and Leave Accounts were also conducted under audit limitation’. In case of first audit or where accounts have not been audited since long, a brief history indicating the back ground and nature of the office/institution and objective of the developmental scheme, if any, being implemented should be mentioned. A complete list of the records and registers examined in audit should be given in appendix and reference may be made with this para.
- 3. General Financial Status of Accounts:** Brief description of major irregularities, if any and status of maintenance of accounts whether satisfactory/non satisfactory should be mentioned.
- 4. Whether the Draft Inspection Report was discussed:** The status of discussion with head of the office should be mentioned here and dated signature on discussion sheet mentioning the name of office audited, period of accounts, name of audit personnel and the duration of audit as well as list of DDO/Head of the Office during period of accounts should be obtained.
- 5. Inspection of accounts by departmental officer and Auditors of Finance Department:** The status of inspection by departmental officer and auditors of finance department along with pending paras of their Inspection Reports should be mentioned here.

6. Outstanding paras of previous Inspection Reports: Outstanding paras of previous Inspection Reports should be mentioned here.

7. Disclaimer: The report has been prepared on the basis of information and reply furnished and made available by the audited units and the office of the Accountant General (Audit) Bihar, Patna disclaims any responsibility for any misinformation or non-information on the part of audited unit.

PART-II

SECTION-A

Part-II (Section A) of the Inspection Report should contain only such objections as are either likely to find a place in the Annual Report of the C&AG or would result in considerable serious consequences to attract the attention of government or the head of the department. The objections under para of this chapter should be very carefully selected and properly developed in the light of general instructions contained in CAG's Manual of Standing Orders (Tech) Vol-II. Adequate care must be taken to make the objections self contained on the basis of indisputable evidence in respect of all matters which they deal with and to ensure accuracy of the information and every opportunity given to the departmental officers to explain their point of view to be suitably incorporated in the Report. All such objections should also be got expressly accepted or refuted by them in order to avoid subsequent disputes regarding the correctness or completeness of the facts. It is not enough to obtain the signature of the departmental officers on the draft report in token of discussion. They should be requested to give their concurrence or remarks on a separate sheet which should be sent to the Headquarter section along with the DIRs. The objective of this part is to keep indisputable evidence to show that all efforts have been undertaken that was possible to do.

All important irregularities involving recoveries, losses, embezzlement, execution of schemes and their results of working, farms and other production centres running at heavy loss, question of principle etc. should be embodied in this part of the Report. They should be arranged in the order of merit to distinguish from others involving greater importance likes: 1- Double payments. 2- Excess payments. 3- Losses, defalcation and embezzlements. 4- Irregular payments. 5- Expenditure in excess of sanction. 6- Irregularities involving heavy amounts in Grants-in-aid 7- Stock Account. 8- Results of working of schemes, if schemes/farms/others production centers are running at heavy losses. 9- Irregularities in works/purchases. All the above headings will be used only when there are irregularities of considerable amount of money. 10- Injudicious or defective agreements and consequent losses. 11- Other important matters. 12- Non production of Account records to

audit (Authority: AG's orders dated 09.09 1996) and AG (Audit) I-P-Misc- 545 dated 02-04-1996).

PART-II

SECTION-B

Para of this section includes the irregularities of comparatively less importance. Objections involving excess or irregular payments which are neither important enough for inclusion in Section-A of Part II nor can be waived under paragraph 7.1.13 of MSO (Audit). Repeated failures or intransigence on the part of an office to rectify procedural irregularities is difficult to make a clear demarcation, the objections to be included in this section should not be of more importance and it is essential for audit to pursue them and keep a careful watch over their rectification or compliance. All objections below Rs 10,000 should be included in the order like: 1- Double payment. 2- Excess payment. 3- Losses. 4-Irregular payments. 5- Expenditure without sanction. 6- Grants-in-aid. 7- Defects in maintenance of initial record of accounts as (a) Cash Book (b) Contingent Register (c) Bill Register (d)Treasury Pass Book (e) Register of valuables receipt and disbursement book. 8- Irregularities in works, purchases, procedures without involving financial implications and defects in sanction orders. Losses due to non-acceptance of lowest tender or purchase without sanction and other procedural irregularities should be dealt with in the paras of this section. 9- Irregularities in stock accounts.10- Irregular payment of pay and allowance and TA. 1- Defects in service books and leave accounts. 12- Appointment at an age exceeding the maximum age limit of appointments. 13-List of account records not opened or not maintained so far. There will be Discussion Note at the end of Part-II (Section B) in which the following information will contain:(i) The period of accounts audited. (ii) Names of Assistant Audit officers and Sr. Auditor/Auditors who conducted the audit. (iii) The duration of audit conducted dates from and to which the audit was conducted. (iv) Name and designation of the officer-in-charge of account during the period of accounts audited and covered present Inspection Report. (v) Name and designation of the Inspecting Audit Officer who supervised the audit. At the end of the Discussion Note the signature of the head of the office should be obtained in token of having seen and discussed the report.

TEST AUDIT NOTES

All other objections involving procedural defects and minor irregularities having apparently no financial implications which cannot be settled locally during the inspection and do not have merit of inclusion either in section A and B of Part-II of Inspection Report should be reported out in the form of

a Test Audit Note (Form SY-327) to be issued separately to the local office concerned. The Test Audit Note should be written out in duplicate and submitted to the Inspecting Officer/AAO as the case may be for initials. The forwarding memos of the Test Audit Notes will contain the request "The irregularities pointed out in the enclosed Test Audit Notes should be removed and the remedial measures suggested therein may be implemented as early as possible. No reply need to be given to the Test Audit Note but the compliance of the audit instructions should be shown to the next Audit party". One copy of the Test Audit Note should be made over to the office concerned and the other copy of the Test Audit Notes should be attached to the Inspection Reports for onward transmission to the OAD Headquarter section which will be forwarded to the AAO of vetting sections. These objections shall not be pursued from the Headquarters section but it will be the duty of the next Audit Party to verify the action taken thereon by the local office concerned and incorporate the outstanding items in the next Inspection Report.

5.2.7 Categorization and weightage of para in Inspection Reports: After conclusion of the report categorization of the para is made to be included in Part-II A and B of the Inspection Report as mentioned in **Appendix-2** and weightage are assigned to them as mentioned in **Appendix-3**.

5.2.8 Procedure for signing and endorsing the Draft Inspection Reports: At the end of each draft Inspection Report, the AAO should put his full and dated signature. When the Inspection Report is drafted by the Inspecting Audit Officer personally in accordance with the instructions contained in this manual, he should himself sign the report. In case of unsupervised and partially supervised audits, the officer responsible for editing the report should write on the left side 'edited' in the notes portion under his full and dated signature. **Title Sheet-** While submitting the draft Inspection Report to the Inspecting Officer or Head office, the Assistant Audit Officers will attach a title sheet of four performas as given in Appendix-5. This form has been designed to serve as a history card for each Inspection Report. Printed copies of such forms will be supplied by OAD Headquarter sections.

This office has to furnish details of cases of recoveries made at the instance of Audit during every year for incorporation in the Administrative Report of the department brought out by Headquarters office. The field parties should be directed to furnish the details of recoveries made at the instance of Audit in each office where the audit is being conducted and a statement in the Performa given below may be attached with the DIR of each office:

Details of Actual Recovery

1	2	3	4	5	6	7
Reference of Inspection Report	Name of Office/Deptt.	Nature of recovery suggested	Amount involved	Amount recovered	Reference to Office/Deptt. letter number and date of intimating recovery	Remarks

CHAPTER-6

6.1 Materials for Audit Report and Appropriation Accounts: The Comptroller and Auditor General of India consider that his Audit Report is the only document by which the achievements, usefulness and effectiveness of the Audit Department is judged by the Legislature and the general tax payer people. It provides the Legislature with a powerful weapon against irregular, extravagant and wasteful expenditure of public money. It is not only an evaluation of the regularity and propriety of governmental expenditure of a particular year, but it also indicates the quality of work, knowledge and efficiency of our organisation. In fact, it engages the constant personal attention of all members of the department on audit work. It is, therefore, important that cases which are likely having merit for inclusion in the Audit Report as enumerated in Para-7.2.14 in Annexure-II of C&AG's Manual of Standing Orders (Audit), should be segregated right from the time they come to our notice and their processing started forthwith, so that the final drafting of the paras is completed in the minimum time. In order to ensure this, the Principal Accountant General has ordered that while drafting/editing the inspection reports, the Assistant Audit Officer and the Inspecting Officer concerned should carefully examine Part-II of the Draft Inspection Reports and prepare separately the draft paragraphs in respect of all important objections which may ultimately find a place in the C&AG's Report. These paragraphs should be comprehensive and complete in all respects and in accordance with the detailed instruction given in the succeeding paragraphs and sent to the Headquarter Section along with the Draft Inspection Reports. Where the Inspecting Officer thinks that para of the Audit Inspection Report is not fit for incorporation in the C&AG's Report, he should enclose a memorandum to that effect with the Draft Inspection Report. It should be clearly understood that any omission in this regard will be viewed seriously and brought to the notice of the Accountant General for suitable action. The efficiency and ability of Inspecting Officers and Assistant Audit Officers would be judged solely by the value of such materials supplied for the audit report and the comprehensiveness with which such paras are drafted. (Paragraph-3 of the Comptroller and Auditor General's Circular No-1313(Rep) 202-54 dated 24.11.54, O/o No-3159 (HA) dated 31.1.57 and O/o No-OAD (M)-78 dated 18.10.57)

6.1.1 Non consideration of impractical materials for the Audit Report: The following broad consideration should be kept in mind while making a choice of the materials for inclusion in the Audit Report. Chapter-2 of C&AG's Manual of Standing Orders (Audit) requires, inter alia, that comments in the Audit Report should be confined to such matters as

are of real and practical concern to the Legislature. It is essential that we should abstain from taking such cases as far as possible as (i) Very old cases where it is very difficult to take any effective action or even to reconstruct the facts and circumstances in which the alleged irregularities took place. Ordinarily the matter should not relate to a period more than four years back. (ii) Cases where remedial measures have been taken including suitable disciplinary action where necessary, to prevent recurrence of such irregularities. (iii) Minor cases where no malafides or deliberate intention to circumvent procedures are involved. (iv) Cases which are sub-judicial and may be claimed for defence in the court of law. No useful purpose will be served by inclusion of such cases in the audit report. On the other hand, they unnecessarily add to the volume of the report and divert the attention of the Public Accounts Committee from the really very important questions on which all their attention should be focussed.

6.1.2 Types of irregularities for inclusion in the Audit Report: The irregularities, properly presented and considered to find place in Part-II (Section-A) of the Inspection Report, ultimately go to Audit Report. Some of the factual materials are illustrated here but selection of potential materials basically depends upon the intelligence and experience of Inspecting Officer of the audit inspecting party. (i) Any fraud in a monetary transaction, manipulation in store and accounts, losses due to negligence in purchase and disposal of stores or other property. (ii) Any appreciable loss of government money or property. (iii) Any serious irregularity connected with a contract or heavy purchase. (iv) Any extraordinary, in fructuous or apparently unnecessary expenditure such as (a) payment made as an act of grace (b) unnecessary payment of demurrage or rent and compensation for damage, consequent upon some executive failure (c) payments of heavy amounts which appear to be contrary to rules or terms of a contract. (v) Any advance or large claim which has been outstanding for long time. (vi) Unsatisfactory working of a Government commercial undertaking. (vii) Absence of administrative regulation or procedure to secure a proper and effective check on monetary transactions. (viii) Any irregularity connected with grants-in-aid such as (a) neglect of the conditions precedent to the grant by the sanctioning authority (b) non observance of the conditions of the grant laid down by the sanctioning authority by the grantee. (ix) Any important irregularity in the realisation of revenue (x) Sanction to write off an item of avoidable expenditure such as legal expenses incurred by government in a case in which government's interests are not directly involved. **Note**-Small losses due to fire in transit or other circumstances beyond the control of any responsible person need not be mentioned. In case of financial irregularities, the actual amount involved should invariably be stated as far

as possible but it should be borne in mind that it is more important to drive home a general lesson than to dwell upon a particular irregularity.

6.1.3 Inclusion of a synoptic statement of stores in Audit Report: According to provisions of paragraph 2.5.2 of MSO (Audit) the audit of the stores and stock accounts kept in any office or department of the union or the state, has to be conducted on consent basis. But with the introduction of Section-17 of the C&AG's (DPC) Act, 1971, the restriction imposed on the C&AG to audit the stores and stock account kept in any office/department only with the approval of the President/Governor has been removed and the C&AG has been vested with the authority to audit the accounts of the stores and stock accounts in any office/department. It is the responsibility of the local inspection parties to test checks the purchase of stores, their scale and issue etc and relevant accounts as a part of audit of expenditure.

In terms of Para-7 of the Headquarters Office Circular No-1897(Rep) 335-61 dated 31.8.1961, a synoptic statement containing opening balances, stores purchased and issued and closing balance in respect of all important stores accounts other than those relating to government commercial and quasi commercial department/undertaking etc, is required to be incorporated in a separate section of the audit report under the heading 'stores control'. Further instructions were also issued in Headquarters Office Letter No-1420 (TA-1)156-67 dated 15.5.67 that the synoptic statement should include only consumable or non-consumable articles purchased centrally by the head of the department for distribution to his subordinate offices. It was also clarified that plant and machinery, equipment and fixture which form part of dead stock besides office furniture should be excluded from the synoptic statement. The question whether the inclusion of the synoptic statement of stores in the Audit Report can all together be dispensed with or a certain monetary limit may be prescribed up to which it may not be necessary to include the stores held by the departments in the synoptic statement, was under consideration of Headquarters Office for sometime past. The "Stores and Stock" chapter in the State Audit Report (civil) at present gives a synopsis of store accounts of various departments followed by comments thereon. This synopsis gives the details of stores transactions in the major departments, inter alia, giving the nature of stores held, opening balances at the beginning of the year, purchases and issue during the year and the closing balances at the end of the year. The comments usually relate to accounting of stores, physical verification of stores, fixation of reserved limits, surplus stores, purchases in excess of requirements etc. The synopsis thus gives an idea of the magnitude of stores transactions and serves as a back drop against which subsequent comments have to be appreciated. Keeping in

view, the object and purpose of the synoptic statement of stores, it has been decided that it may continue to be incorporated in the audit report (Civil). The stores accounts should, however, reflect the total stores (other than furniture and dead stock already excluded) and should not be confined only to purchases made at the head of the department level. As regards monetary limit for including the stores accounts in the synoptic statement is yet under consideration. (Authority: C&AG's Letter No-1354(TA-I) 59-81 dated 7.11.81 (Circular No-45/TA-I/ 81).

6.2 Selection and presentation of materials for the Audit Report: Selection of materials, drafting and presentation of material for the report should be done in accordance with the general instructions contained in this Manual and the instructions contained in Para-4.51 of the Manual of Appropriation.

6.3 Processing of paragraphs in the Headquarter Office:Cases of important financial irregularities considered for the report may be received in the Headquarters Sections from two sources viz. (i) Inspection Reports prepared by the Inspecting Officers and Assistant Audit Officers in respect of important irregularities noticed by them during local audit and (ii) Intimation regarding losses and defalcations etc. received from local offices and government departments. These materials should be treated and processed in the Headquarters Sections in the manner indicated in the succeeding paragraphs.

As soon as the Inspection Reports are finally approved by the Deputy Accountant General (Inspection civil), the draft paras submitted by the Assistant Audit officer/Inspecting Officer as well as other important cases marked out for draft paragraph should at once be recorded in the 'Register of Draft paras' with sufficient details quoting the serial no. of the register at the top of the para. The relevant paragraph should be filed separately and examination started with a view to prepare a draft paragraph and make sure whether they are complete in all respect. Where any further particulars are found necessary for proper development of the para, the matter should immediately be taken up with the local office concerned as well as with the Assistant Audit Officer/ Inspecting Officer who has audited the accounts and edited the report. All correspondence relating to such cases should be demi official and given top priority. Regular reminders should be issued to avoid any delay in preparation and processing of the paragraphs on receipt of all necessary information for proper presentation of the case, draft paragraphs should be finalised within the shortest possible time and sent to Civil Report/Appropriation Audit (AA) Section by DP cell. The

latter will examine the paragraphs in accordance with the instructions received from the Comptroller and Auditor General from time to time and advise what further information is necessary before the case can be developed into a proper draft paragraphs for inclusion in the Audit Report. Cases emanating from the reports regarding losses, irregular sanction to write off, avoidable expenditures or payment of compensation, demurrage or rent etc. consequent upon some executive failure, should also be similarly processed and taken up at higher levels demi-officially with a view to ensure presentation of draft paras as expeditiously as possible. Special steps should be taken to reduce any avoidable delay.

6.4 Report to government: After approval of the draft paragraph by the Accountant General, the proposed draft paragraph along with relevant key documents should be sent demi-officially to the Administrative Departments of the State Government with a request to send their comments, if any, within six weeks from the date of receipt. Copies of the letters and draft paragraph should, at the same time, be forwarded to the Finance Department of the State Government for information. (Authority: Deptt. of Finance, Government of Bihar Memo No-(AR) 2/52/4982 dated 08.05.1952). After modifications as may be considered necessary by the Accountant General in the light of the explanations received within the prescribed time from the Administrative Department and the Finance Department of the State Government, the draft paragraphs in their form should be sent to the Civil Report/AA section for incorporation in the audit report. The final paragraph as approved by the Accountant General should also be communicated to the Administrative Departments and Finance Department of the Government.

6.5 Inadequacy of financial or accounts rules: Cases of inadequacy of rules or absence of administrative regulations sufficient to secure a proper and effective check on monetary transactions are subject matter for comments in the Audit Report vide Annexure-II of MSO (Audit). If such cases are approved by the Accountant General, they should be entered in the Register of Financial Irregularities and dealt with in the same manner. When there is much delay on the part of the local government in issuing any financial or accounts rules suggested by the audit, the fact should be suitably mentioned in the Audit Report, unless the Accountant General considers that the rules to be framed are not so important as to cause any serious loss of efficiency and he is satisfied that there will be no further delay. The causes of delay should be clearly stated especially in those cases where it would be unfair to comment without indicating the causes.

6.6 Outstanding audit observations and Inspection Reports:The materials relating to "outstanding audit observations and Inspection Reports" are to be supplied to AA section for inclusion in the civil Audit Report. These materials should be based on the annual or half yearly statement of outstanding audit observations and Inspection Reports to various departments. Reference to the number and date of the letters with which such reports were sent to the department should be mentioned as key documents to the materials supplied to AA section. This will obviate correspondence regarding details at a later stage. The para on "Outstanding observation" should be processed in the manner prescribed in C&AG's Letter No-273 (Rep) 782-75 dated 01.03.1979 (Appendix-7) and C&AG's Letter No-801(Rep) 82-75-II dated 12.06.79 (Appendix 8). (Authority: O/o No-AA (Rep) 80-81/173 dated 17.08.81).

6.7 Commercial activities: Synoptic statement showing the financial results of departmental undertakings has to be compiled by OAD section and submitted to AA section for inclusion in the C&AG's report. Further as desired by the C&AG of India a general comment on the working of these undertaking should be made and their profit and loss position, based on a study of the accounts and other connected records maintained by the departments should be indicated. The summarized financial results of departmentally managed commercial/quasi-commercial undertakings should be prepared in the following Performa:

Department

(Rs in lakh)

Sl. No.	Name of under taking	Period of account	Capital	Block assets	Sundry debtors	Profit & Loss

Information on the following points have also to be furnished to AA section by OAD central for suitable incorporation in the chapter on "Commercial Activities" in the report. (1) Undertaking where Proforma Accounts since inception has not been prepared. (2) Undertaking where proforma Accounts are in arrears. The total numbers of departmentally managed commercial/quasi commercial undertakings in the state were 43 as on 31.3.81. A list of such undertakings is given in **Appendex-4**.

6.8 The Potential Draft Paragraphs (PDP) Register: This PDP Register should be closed monthly with an abstract and put up to the Group Officers/Accountant General for review.

6.9 Non production of records: In the case of non production of records, the Inspecting Officers should discuss with the head of the offices specifically the matter regarding non production of records during local audit and incorporate the result of such discussion in the Discussion

Note and also incorporate a para on this subject in Part II-A of the IR (Authority: AG's Order dated 09.09.1996) and AG (Audit) I-P-Misc-545 dated 02-04-1996.

6.10 Test check of Inspection Reports by the Accountant General:The Group Officers should submit the IR Register to Accountant General for selection of IR in each quarter for test check.

6.11 Watching of quality of IRs by Accountant General:With a view to ensure high quality result oriented reports, the OAD (M) Sections should submit a bimonthly report on IRs without Part II-A paras/nil report to the Accountant General. The controlling section should submit a monthly report on IRs received during the preceding month to enable the Accountant General to select IRs for review. This item should be included in the sectional calendar of Returns for proper watch.

6.12 Delay in issue of Inspection Reports: A report on delay in issue of Inspection Report in respect of audit conducted in previous month should be submitted the AG through Group Officer on the seventh of every month. This should also be entered in the Calendar of Returns of AG's Secretariat.

6.13 Better functioning of DP Cell, Vetting Section/Report Section: With a view to ensuring proper co-ordination among aforesaid sections and better results, it has been decided that henceforth the Sr.AO, DP Cell should obtain in each month the number of Part II-A paras proposed by the vetting section and put up this position to the Group Officer. Similarly the OAD (M) sections should obtain a feed back about the quality of inspections carried out by the audit parties as per the programme finalized by them. These information should be utilized to examine possible changes in the composition of parties for inspections programme during the current or future quarters. The Audit Officer (Report) should also similarly keep contact with the AO, DP Cell to ensure smooth flow of the report material throughout the year. The Group Officers should closely monitor the work of their sections and ensure proper coordination between them and inter related sections. The Sr.AO (DP Cell), Sr.AO, OAD Headquarters, Sr.AO, Vetting Cells, Sr.AO (Report) should have a formal meeting every month under the chairmanship of each DAG and the outcomes of these meeting should be put up to the AG. The Group Officers should maintain a file in this regard through their secretariat.

6.14 Statement of Allotment and Expenditure: Statement of allotment and Expenditure obtained by the parties should be checked with reference to allotment register and government allotment letters. It should be critically examined and suitably commented upon.

CHAPTER-7

7 General principles and procedure of Audit of the accounts of the civil offices: The general principles and procedure of audit of initial accounts of civil offices are based on the rules and instructions made by the C&AG's of India and provisions laid down in MSO (Audit) and other appropriate codes issued by the C&AG. The primary objects of local audits and inspections are to ensure that the original data on which the accounts are rendered to the Audit Officer and on which audit work is based are correct and complete. All possible attention should therefore, be paid to this object of local audit and inspections. It should also be ascertained whether the Treasury Rules or Financial Rules are properly followed by the departmental officers.

7.1 Preliminary review: Immediately after taking up an audit all accounts registers and records for the entire period covered by the audit should be generally examined with a view to see that (i) they have been written up-to-date and are complete in all respects and susceptible to audit (ii) they have been maintained in accordance with the prescribed rules and (iii) the writings do not indicate any attempt to tamper with the records or to evade the requirements of rules. The recorded trail actions should be reviewed intelligently and the abnormal and doubtful features investigated in detail.

7.2 Audit of Cash Book: The arrangements for drawls of cash from treasury, realizations from other sources, their safe custody, disbursement and accounting of the cash should be generally examined with a view to see that they are in conformity with the prescribed rules. In addition to the above, it should also be seen that (i) The receipts of cash shown in the counterfoils of Receipts Books as well as the cash drawn from the treasury on bills have been properly accounted for. (ii) The receipts which should have been remitted into the treasury have been so remitted in full and without undue delay. **Note-** The checks indicated against (i) and (ii) above, should be conducted with reference to the original treasury records and to the extent prescribed in the secret memo of instructions on the extent of audit. The quantum has to be increased suitably in case of local audit of departmental offices (other than bodies or organizations such as Regional Provident Fund Commissioner etc. for which specific quantum of audit checks have already been prescribed) where there is no adequate internal check by an internal check organization set up for the purpose and where the standard of departmental control appears to be poor or the prescribed checks disclose any serious lapse or embezzlement (Authority: C&AG's Letter No-4120 (TA-I) 656-68 dated 10.10.68 and CAG's

Letter No-785 (TA-1) 656-68 dated 29.4.70). It would be adequate if the checks are confined to selected months only in the case of department/offices having effective internal checking machinery (Authority: C&AG's Letter No-1234(TA-1) 656-68 dated 3.7.70). (iii) All payments should be supported by vouchers complete in all respects. (iv) The cash book has been maintained properly and closed and receipt and payment sides are balanced to each other on the prescribed date. (v) All transactions have been entered in strict chronological order and that the postings are kept up-to-date. (vi) The totals are correct and the balances have been correctly worked out. (vii) The head of the office has furnished a certificate to the effect that he has verified the cash balance by actual count at periodical interval. (viii) The expenditure shown in the permanent advance column justified with the retention of the full amount of the permanent advances. (ix) No expenditure has been incurred in excess of permanent advance by spending from departmental receipts which constitutes a serious irregularity and (x) there is no tendency to keep an undue large cash balance in hand and that the cash in hand of the cashier is sufficiently covered by his security deposit, as required under rules 434, 435 of Bihar Financial Rules and chapter X of Bihar Boards of Miscellaneous Rules 1947 or other departmental codes and Manuals.

7.3 Audit of government takeover elementary/high schools: In addition to the usual audit check in course of local audit of accounts of elementary schools taken over by the state government under the provisions of Bihar non government elementary schools (taking over of control) Act 1976), the under mentioned points may be examined during the local audit and result thereof suitably incorporated in the draft inspection reports. (i) Under the provisions of the Bihar Government, elementary schools (taking over of control) Act 1976, all immovable and movable properties/assets of the school taken over by the government vested in the state and was deemed to have been transferred to it under Section-41 (i) of the Act. The assets and property of schools taken over by the government should include land, building, cash deposits in bank and treasuries, investments, moneys standing in the general provident fund/contributory provident fund of the teaching and nonteaching employees, stores, stock, teaching aids, laboratory equipments etc. During audit, it may be examined whether (a) All immovable and movable properties and assets of the elementary schools taken over by the state government under the act, have actually been taken over possession by the school/state and have vested in the state (b) Necessary legal formalities for transfer of immovable property from private hands to the state have been complied with and transferred to and vested in the state and have been taken cognizance of and recorded in the relevant

revenue records and records of schools. (c) All the transactions of the schools that were deemed to be transferred to and vested in the state have been fully and correctly accounted for under the proper head of accounts of the relevant government accounts. (d) The money standing to credit of provident fund of teaching and non-teaching employees of the schools taken over by the government under the act was also to be credited to the accounts of the government. The total of the government's/employee's contributions to the contributory provident fund of teaching and non-teaching employees of the schools plus interest accrued thereon was to be credited to the appropriate receipt head under Consolidated Fund of State. The actual position may be examined and comments made. (e) Besides above, the normal audit may be conducted very carefully after obtaining the actual sanctioned strength of the schools and carefully examine the date from which staff of schools were appointed before taking over by government and comments made. The similar points should be examined during the audit of the non-government high schools taken over by the State Government. (f) A check may also be exercised in respect of liability at the time of vesting. The vetting section while editing the draft inspection reports of such non-government schools would examine the performance of the field parties during local inspection and short comings, if any noticed in respect of the points as mentioned above in their reports may be brought to the notice of the Group Officer before it is approved for above instructions and if no such comment has been mentioned in the report, the matter may be taken up with the authority concerned and compliances may be watched from Headquarter. A report of such short comings may be put-up to the Group officer along with names and other details of the party personnel which conducted the audit of such schools during the last quarter and they may be asked to explain the reasons under which they could not make such comments in the reports. (Authority: O/o No- OAD (M) Conf/Edn-34 dated 20.1.86). The State Government have laid great stress on the procedure regarding verification of remittances with the original records of treasury or the bank as envisaged in rule 86 (v) of the Bihar Treasury Code Vol-I and have impressed on all drawing and disbursing officers, the importance of the strict observance of the above rule with a view to ensuring that all amounts shown to have been remitted to treasury or bank, have actually been credited.

7.4 Accounting of non government money: Where under any special sanction, a government servant deals with both government and non government money in his official capacity, the government money should be kept in a Cash Book quite separate from the non government money and the transactions relating to the later should be accounted for in a

separate set of books and kept entirely out of government account. It should, therefore, be seen in audit that the accounts of nongovernment money have been maintained in a set of books separate from the government accounts and that the government money has not been mixed up with but kept separate from the nongovernment money.

7.5 Audit of revenue receipts of government money: The various process and stages of collections and accounting of receipts should be intelligently examined with a view to ensure that there are no weak points in the system which may lead to commission of irregularities and leakage of revenue. The main points to be examined are mention here: (i) All sums are received and checked against demands; (ii) The demands are punctually and fully raised; (iii) Receipts in proper form are issued for all amounts received; (iv) The remissions granted are supported by proper sanctions; (v) All sums received have been brought to credit in Cash Books and the Subsidiary Registers and remitted to the treasury in full and without undue delay and (vi)The departmental receipts are not appropriated to meet departmental expenditures unless so authorized by the Treasury or the Departmental Rules.

It should also be seen that (i) Adequate rules and regulations have been framed for the imposition and collection of revenue, (ii) There is a proper Demand Register in which all demands falling due periodically under such rules and regulations are noted and their recovery watched and (iii) Where the demand is not ascertainable, receipts are issued by carbon process to parties paying money.

7.6 Audit of non tax receipts of government money: The Headquarters Office has stressed on the importance of audit of non tax receipts in respect of the departments such as agriculture, health, education etc. It has been desired that as much attention be paid to the audit of receipts of the aforesaid nature as to the stores and expenditure aspects in course of audit of offices of the said departments.

Accordingly it has been instructed that OAD field parties may draft paras in respect of receipts of 0202-Education, 0210-Medical and 0401-Agriculture and other administrative non-tax receipts items on the basis of objections raised in local audit and may prepare inspection reports in two parts, one for expenditure audit and other for receipt audit. (Authority: C&AG's DO letter No-813 (Rec-A IV) 74-75 dated 03.11.1976 and O/o No-OAD (M)-124/82-83/11/46 dated 18.10.82).

7.7 Audit of Receipt Books: The stock account of Receipt Books should be examined to see that: (i) The total number of blank Receipts Books received agrees with the indent or

requisition sent to the press or other authorities and that all such Receipt Books are kept under lock and key by responsible officer; (ii) The number of receipt forms contained in each Book is recorded on the covering page under the initial of a responsible officer and that all the forms are machine numbered; (iii) Only one Receipt Book is issued at a time to an individual officer and that too on return of the previous used Receipt Book; (iv) The issue and the return of Receipt Books are duly recorded and acknowledged; (v) Where a receipt form which has been cancelled has been available in both the original and the duplicate copies and (vi) The closing balance in the stock account has been verified by the head of the office by actually counting the number of Receipt Books in hand and a certificate to that effect has been recorded in the stock account. A similar verification should be done by Auditor of inspection parties as well.

7.8 Audit of expenditure: Before conducting audit of expenditure, all financial rules, delegating of powers and orders effecting expenditure should be carefully scrutinised with a view to see that they do not conflict with the financial and treasury Rules or orders of any higher authority. Thereafter all payments should be checked with vouchers and it should be seen: (i) that the sub vouchers for Rs 1000 or less which are not required to be sent to the Accountant General (A&E) office are kept on records after proper cancellation so that they cannot be used again; (ii) that the entries of payments in the account records have been properly vouched and initialled by the disbursing officer after proper examination; (iii) that there is proper sanction, either special or general, accorded by the competent authority authorising expenditure ; (iv) that the payment has been made to the proper person and it has been so acknowledged and recorded that a double payment on the same account is not possible; (v) that all stores purchased and paid for have been properly accounted for in the various stock and stores registers; (vi) that the changes do not exceed and rates or sales fixed under the rules or orders issued by a competent authority; (vii) that the expenditure has been incurred with due regard to financial propriety i.e. there is no waste or extravagance, supplies obtained are not in excess of requirements, the purchases have not been made at excessive rates and the expenditure has been incurred only for legitimate objects etc; (viii) that open competitive tenders have been invited as enjoined by the rules for supply of articles required for the public service and in case of non-acceptance of the lowest tender, the reasons therefore have been duly recorded in writing and the contract agreements have been promptly executed by the competent authority and (ix) that the expenditure on contingencies etc. are properly regulated according to the financial rules and they have not been incurred merely to

prevent the lapse of budget grant, there is no undue rush of expenditure towards the close of the financial year, and the charges incurred in one year have not met from the budget allotment of the next year.

7.9 Audit of Bill Register: In course of checking of the Bill Register it is required to see that: (a) It has been maintained in the prescribed form and the column provided therein have been properly filled in; (b) All bills drawn have been entered and the entries are duly endorsed by the drawing officer in each case under his dated signature in the register; (c) In case of bills endorsed to parties it is observed whether they have been entered in the register and a note to this effect has been made there in; (d) All bills have been drawn and treasury vouchers number and date have been noted; (e) In case of cancelled bills, a note to that effect has been made in the register and (f) All bills shown as cashed have been promptly accounted for in the Cash Book as well as subsidiary register, if any.

7.10 Audit of Contingent Vouchers: In addition to the points mentioned in paragraph 7.8, the inspection party should see that: (i) The sub-vouchers should contain pay orders signed by the competent authority and they are supported by the actual payee's acknowledgements with date of payment; (ii) The details given in the sub-vouchers agree with the entries in other registers or records maintained in the office e.g, the number of days for which witnesses are paid should agree with the number of days of attendance in court as noted in the witness register of the court; (iii) The details of the work should be mentioned up to the totals and the totals are mentioned in words as well as in figures; (iv) Each alteration in the figure has been attested by the authority authorizing the payment with dated initials; (v) The sub vouchers have been duly cancelled or defaced and (vi) Revenue stamps have been affixed to payee's receipts on all vouchers exceeding Rs 5000 and they have been defaced.

7.11 Audit of Contingent Register: The entries in the Contingent Register should be checked with sub-vouchers where available and the propriety of the expenditure scrutinised with reference to the relevant rules. It should further be seen that: (i) each entry is initialled by the drawing officer and they are correctly entered in the classification columns; (ii) the total of the entries of sub-vouchers agree with the total of the contingent bill drawn; (iii) the total expenditure during the year under each head of classification does not exceed the allotment noted at the top of the respective column; (iv) the details of stores and other articles purchased, as entered in this register for which no sub-vouchers are available, agree with those shown in the stock book or other registers or records maintained in the office to the

total of the bills drawn in contingent register and (v) the relevant rules of BTC and BFR have been properly observed.

7.12 Audit of Establishment Pay Bills: Passed and drawn pay bills should be checked with reference to the Register of Acquaintance Rolls and Cash Book maintained in the local office. In course of audit it should be observed that: (i) The names of the persons and drawl of their pay and allowances as shown in the acquaintance roll corresponding with their entitlement with reference to their pay and leave salary mentioned in the service book and leave account; (ii) The absentee statements were maintained against drawn bills; (iii) Proper acquittances exists in all cases duly stamped wherever necessary; (iv) Postal carbon receipts and money order acknowledgment exist in respect of amounts shown as remitted by money orders; (v) The thumb impression of illiterate payees have been properly attested by a responsible officer of the department; (vi) The amount remaining undisbursed for more than three months are refunded into the treasury with reference to the bill number, month of the pay and allowances and name of the persons; (vii) Where the amounts are withheld but drawn, references are quoted in the register; (viii) In case of payment through bank advice number and date should be maintained against disbursement; (ix) Certificate of disbursement as required under Rule 289 of BTC should be entered at the foot of the quittance rolls under the signature of disbursing officer and (x) Disbursement made have been duly accounted for in the Cash Book and the subsidiary register, if any.

In terms of C&AG's letter dated 24.4.82, the pay bills of gazetted officers whose pay and allowances are drawn on establishment bill without issue of pay slip by the Accountant General, nominal checks of these vouchers shall also be conducted during local audit in the same manner as conducted in respect of other establishment vouchers. Further Service Books for scrutiny in accordance with prescribed percentages ie 25% in case of annual audit, 50% in case of biennial audits and 100% in the case of audits of longer periodicity as the case may be, may be selected. Cases of fixation of pay on promotion/revision and increments sanctioned of the member of the establishment of the office during the period covered by audit should be checked. (Authority: O/o No-OAD (M)-129/ 1980- 83/45 dated 20.09.1982).

7.13 Audit of vouchers relating to over time allowances: Consequent upon transfer of audit of vouchers in respects of overtime allowances from central audit to local audit, OAD field parties have been directed to bestow special attention to the audit of vouchers of this nature. (Authority: Circular No-OAD-I/129/82-83/48 dated 15.07.1982).

7.14 Audit of scholarship payments: The Comptroller and Auditor General of India has ordered discontinuance of central audit of vouchers of scholarship payments with effect from first April, 1982 onwards, it has been ordered that the vouchers relating to scholarship payments should be checked as part of the audit processes during the local audit of departmental offices. OAD field parties may, in course of audit of departmental offices, undertake audit of payments of scholarships relating to one month in each financial year, even though payments would have taken place in different months. The field parties have also been instructed to ensure that a proper system exists in departmental offices for keeping a continuous record of all such payments and they have been received in full. (Authority: Circular No-OAD-I/129/82-83/50 dated 09.02.1983)

7.15 Audit of TA Bills: As the responsibility of Audit in regard to checks exercised by controlling officers in TA Bills has to be discharged by the occasional test check, audit should check a few specimen cases at the time of local inspection of government offices to ensure that the duties assigned to controlling officers are properly exercised by them and draw attention of controlling officer to any case that may come to notice in which the controlling officer did not discharge the responsibilities assigned to him. For this purpose the month of TA bills to be test checked, is selected by the OAD Headquarters section every year and intimated to the Assistant Audit officer/Inspecting Officer of the field party. (Based on C&AG's Letter No-478A-11/72/Admn-1/59 dated 08.05.1959)

7.16 Audit of Stores: In course of audit of stores accounts it is required to ascertain whether the departmental regulations governing purchase, receipts, custody, issue condemnation, sale and stock taking out of stores are well devised and properly carried forward. As regards purchase of stores, it should be seen: (i) That they are properly sanctioned, purchased economically required for the public service in accordance with any rules or orders made by competent authority and in particular the system of open competitive tender is adopted and the purchases are made from the lowest bidder unless there are recorded reasons to the contrary; (ii) That the rates paid agree with those shown in the purchase order/contract agreement made for the supply of the stores and (iii) That the purchase orders have not been split up to avoid the necessity for obtaining the sanction of higher authority required with reference to the total amount of the orders. Audit may call attention to cases of uneconomical purchase of stores and to any losses which may be clearly and definitely attributed to the defective or inferior nature of stores accepted and certified to be satisfactory in quality.

7.17 Audit of Store Accounts: The account of stores should be generally examined to see: (i) That they are kept in the prescribed form; (ii) The entries of receipts and issues are made regularly and supported by proper authority and acknowledged by the recipients and the balances of stock worked out are correct and tally with the physical presence of store; (iii) That the accounts of balances which were audited in the previous audit have been produced completely in all respects, any entries have not been tampered and balances of previous accounts have been correctly carried forward to the accounts under scrutiny with proper certificate of closing balances at the closing of the accounts;(iv)That the stores are periodically counted, weighed or otherwise examined by some responsible officials other than the custodian of stores or his subordinate wherever possible and verified with the balances in the stock books and necessary action has been taken to adjust the shortages noticed ; (v) That there is no unnecessary accumulation of stores and (vi)That adequate action has been taken for the disposal of surplus and obsolete stores.

In addition to the above, checks , information on the following points should also be collected: (a) In respect of stores stocked in excess of requirements leading to blocking up of government money, a list of such stores indicating the date of purchase and value should be obtained duly attested by the officer-in-charge; (b) Copies of rules/orders requiring for fixing the maximum limit of stock by the competent authority should be obtained; (c) As regards the basis on which the maximum limits are prescribed, copies of the government orders detailing the basis should be obtained as well as the actual manner in which it is prescribed should be ascertained from the departmental officer in writing; (d) Where no basis has been prescribed by any authority, the average of the actual consumption during the previous three years may be taken as the fair basis and the quantum of the surplus stock worked out.

Note-Although the overall position of stock may be considered as satisfactory, some of the stock remaining stagnant and unmoving, thus resulting in the blocking of government money may be ascertained comprising the overall stock. This aspect should be carefully borne in mind while conducting this audit.

7.18 Audit of Tenders and Contract: (a) The inspecting staff should particularly see that the tenders have been invited after proper publication of notice for all heavy purchase of stores. The original tenders should be examined and compared with the comparative statement. In case of agreements finally accepted, cases of alteration of figures, overwriting and unauthorized alterations of the tendered rates or other terms specified in the tenders

should be especially investigated and the result mentioned in the inspection report. (b) The inspecting staff should also see that the indenting officers have been consulted wherever necessary.

The files for contract agreements should be scrutinized to see: (i) That the tenders are invited in the most open, transparent and public manner and satisfactory reasons are recorded for accepting a tender other than the lowest; (ii) That contracts are executed either on standard forms or on special forms prepared in consultation with the law officers of government and that the terms are precise and definite and there is no ambiguity or misconstruction therein;(iii) Contracts are sanctioned by the competent authority and that the terms once entered into are not varied without special and proper sanction; (iv) In case, where a formal written contract is not made, it should be seen that the order for supplies or for execution of works is not given without at least a written understanding as to price or rate at which payment is to be made; (v) In respect of payments under contracts, it should be borne in mind that VAT is a tax on sales and not on purchases and there is nothing in the law to make this necessarily payable by the purchaser. Therefore local audit has to see that VAT has been paid only when it is payable, wherever VAT is paid by government on the purchases made and the relevant contract of purchase includes a specific provision for the payment of VAT and the purchase has been made on favourable terms by government vis-a-vis other contending suppliers. (Authority: C&AG's Endorsement No-2434/Admn-I/628-64 dated 18.12.1954 and No- 1230-Admn-II 628-54 dated 28.6.55)

7.19 Audit of Security deposits:It should be seen that: (i) Security is taken in accordance with the rules from all persons entrusted with the custody of cash or stores; (ii) The security deposits are covered by a proper bond or agreement setting forth the condition under which the security is held; (iii) Government paper tendered as security is taken at its face value or market price whichever is less at the time of its deposit and that a readjustment is made if there is subsequent appreciation or depreciation in values as prescribed by rules; (iv) The register of receipts and disposal of security deposits is properly maintained, all entries since last audit are correct and acknowledgements of depositor for return of securities exist in all cases; (v)The register as well as the securities are examined at least once in a year by a responsible officer of the department; (vi)Either the securities or the acknowledgements of their authorized custodians are produced for inspection as required under the security Manual; (vii) The post office savings Bank Pass Books are hypothecated to the head of the

office and are kept in his custody. (VIII) The documents submitted for security deposit must be verified from the issuing Bank/Post Office before final acceptance.

7.20. Audit of deposit transactions: In the light of CAG's instructions, OAD field parties have been directed to ensure exercise of thorough and proper audit checks of deposit transactions which might have taken place during the period under audit in course of local audit of all offices including treasuries. (Authority: O/o OAD (M) 24/85-86/35 dated 5.3.86 and C&A G's Letter No- 644(Audit-I) 141-85 dated 16.5.85)

7.21 Audit of permanent advance: Paragraph 3.12.21 of the C&AG's Manual of Standing Orders (Audit) requires that Permanent Advances held by the local offices should be checked occasionally in order to see that the amounts held by the various disbursing officers are not in excess of their normal monthly requirements. In any case where the amount of the permanent advance is found to be in excess of the normal monthly requirements, the inspecting staff should, mention in their Inspection Reports in a separate paragraph and facts and figures should be quoted in support of the objection. (Circular No- OAD (C)-3 dated 14.1.55)

7.22 Audit of Stamp Account:It should be seen that: (i) The account has been maintained properly bringing all receipts and issues; (ii)The physical balance has been verified periodically and agrees with the book balance and (iii)The service postage stamp have been used only for strictly official purposes.

7.23 Audit of Log books relating to government vehicles: A list of Lorries, staff cars, jeeps etc. in the use of office inspected should be called for and it should be ascertained whether rules and regulations in respect of their use have been framed and approved by government. It should also be examined whether these rules and regulation are adequate and whether they are being observed in actual practice. The log book and other connected records should be scrutinized to see that (i) they are maintained in accordance with the rules prescribed; (ii) effective control is exercised over the use of the vehicles and the consumption of petrol; (iii) the vehicles have been used under proper sanction for authorized purpose and (iv) recoveries have been correctly and promptly effected in cases where the vehicle have been used for non-official purpose. The "Staff Car Rules" issued by the Government of India and the Rules issued by the State Government may be referred to for guidance. It has been decided by the Government of Bihar that government's jeeps should not be used by officers for attending office and if they do so, they must pay for it at the prescribed rate.(Authority: Government of Bihar, Revenue Depts. Letter No-C/F-20/00/66-2715 dated 23.09.1966 and OAD -C-66)

7.24 Register of Telephone and Trunk Call: In local audit it should be seen that all trunk calls have been booked under proper authority and these have been paid without delay, in the case of private calls, necessary recovery has been made and credited to the government and the receipts may be traced with the Cash book. Further, the bills may be checked with trunk call register to ensure that all trunk calls have been recorded and overcharges have not gone unnoticed.

7.25 GPF Accounts for class IV staff: Where the departmental offices are entrusted with the maintenance of GPF accounts of their class IV employees, these accounts are required to be checked cent-percent during local audit. It should be seen that (i) Accounts have been opened in respect of all the class IV employees who have joined within one year service; (ii) The rate of subscription is not below the minimum rate prescribed by government and that the subscription is regularly recovered and credited to proper accounts; (iii) Each entry in the account is attested by the head of the office; (iv) The advances/withdrawals sanctioned are in accordance with the Rules; (v) Recoveries of advances and interest thereon have been effected correctly; (vi) The annual interest credited to each account is correctly worked out; (vii) Nominations have been obtained from all the subscribers and they are in order, they have been accepted by the head of the office and kept in safe custody; (viii) Cases of final withdrawals are checked thoroughly and it is ensured that the payment has been made accurately to the party concerned and proper acquaintance obtained; (ix) The monthly return of debits/credits and the annual return of interest figures are sent to the audit office through the head of the department; (x) The account slips indicating the opening balance, credit during the year, interest accrued, withdrawals if any and the balance as credit at the end of the year, have been issued to the subscribers and their acceptance obtained. (GOI/MF (E) Letter No-F/52 (9)-EV/60 dated 27.7.60 and C&AG's Letter No-1369 (Admn-I) 80-60 dated 27.7.60 and O/o No-1219 (Admn-1)11/85-61 dated 4.8.61).

7.26 Register of Festival Advance: The detailed accounts of Festival Advances granted to Government servants are maintained by the departmental offices. It should be seen that: (i) The account is maintained in a register in the prescribed form and that all the columns of the register are properly filled in; (ii) The advances are recovered within the prescribed number of instalments and (iii) The balances as on 31st March are reconciled with the balance as per the books of audit office.

7.27 Mortgage Bonds: The agreement bond and the insurance policy affected by the officers of central and state government to whom advances for the purchase of motor vehicle/other conveyances are sanctioned should be checked locally. (CAG's Letter No-4041-Tech/Admn-I/77-7A-II/64-K dated 13.10.65).

7.28 Check of fixation of pay of Government Servant: In accordance with the decision (C&AG Letter No-117-TA-1/785-63 dated 21.03.1968) the correctness of pay and increments drawn by government servants from time to time should also be checked in service books selected for scrutiny during local audit. In this connection the following instructions were issued: (a) Pay fixation arising out of general revision of pay scale will be checked by special pay fixation parties constituted for the purpose. Such pay fixation need not, therefore, be checked in local audit by OAD parties; (b) The fixation of pay of non-gazetted posts in respect of officials officiating as gazetted officers and pay fixation done by audit office while admitting supplementary claims or on any other occasion need not be checked, only pay drawn thereafter is required to be checked; (c) A certificate should be recorded in the service book to indicate that pay allowed from time to time (period to be mentioned) has been checked.

7.29 Audit of Works Expenditure: In course of audit of works expenditure Audit has to broadly work to ascertain the accurate accounting as per actual work done.

7.29.1 Analysis of estimate: In course of analysis of estimate it is required to be observed that: (i) The estimates have been prepared and sanctioned by a competent authority; (ii) The unit rates of the sanctioned items of estimate do not exceed than those allowed in the PWD or other government offices executing works in the same or neighbouring localities; (iii) The rates paid are in accordance with contracts and in cases where they are not covered by contracts do not exceed the market or the scheduled rates; (iv) Where rates for finished works are allowed to contractors, the value of any materials, carriage and incidental charges etc. are not charged to government but to be paid by the contractor concerned; (v) No financial aid is given to a contractor beyond agreed upon in the contract; (vi) In cases where contractors are allowed labour rates only, work is carried out by daily labour arrangements and exercising detailed control over transactions relating to materials only. (vii) The material received from dismantling old structures, etc. are correctly accounted for and are properly utilized in the work or suitably disposed of to the best interest of government; (viii) There is no undue delay

in completing the work and (ix) The excess over sanctioned estimates are investigated and sanctioned by the competent authority.

7.29.2 Losses caused by careless or dishonest accounting in work expenditure: Losses are often caused by careless or dishonest accounting in expenditure relating to works. Although audit has no approach to the actual state of affairs and its hold on a well planned fraud is very limited. Such cases may come to light by an examination of the records and with a view to see that there are no cases of the nature indicated below: (i) Commission to claim money due from a contractor or to afford credit in the accounts when it is realized; (ii) Exorbitant rates in estimates for works; (iii) Allowance of full rates to contractors when the contracts rates is for both labour and materials but the materials is supplied by the department and is charged to the estimate; (iv) When a rate for a certain kind of work (brick work etc) is fixed on the assumption that the required materials will be available at a certain rates, allowance of full rate to the contractor when the department supplies the materials at a lower rate; (v) When the issue rate of stock is below the market rate, issue of more materials to the contractor than are actually required for the works; (vi) Incorrect measurement for a work or measurements paid for twice and; (vii) Charges to work of departmental labours supplied to contractor instead of recovery from him.

7.29.3 Checks on irregularities in accounting: The aforesaid list is obviously not exhaustive. A few checks to be exercised to detect the irregularities of the foregoing types are indicated below. (i) Take up a few estimates and test check the rates by comparison with the schedule of rates; (ii) When an item of stock appears as issued to a contractor, its value is in the ordinary course debited to the contractor's ledger account and chances of non-recovery are thus obvious. But in cases where the stock is shown as issued direct to work, it should be seen by reference to the work bill of the contractor, and also with reference to the accepted tender and agreement if necessary, whether the rate allowed is for labour only or for labour and material both. If for labour, then the contractor has been paid in excess by an amount equal to the value of the materials. The same test should be applied where materials are transferred from one work to another without being issued to a contractor or when materials are directly collected for a work and not passed through stock; (iii) Suppose that the rate of brick work has been accepted at Rs 900 per hundred cubic feet on the basis of that the bricks will be available at Rs 350 per thousand. Now if bricks are issued to a contractor for stock at the book value of Rs 300 per thousand and the full rate for brick work is paid to him at the same time, it is obvious that the contractor is getting the increased value of bill at the expense

of the department. In this case the value of the bricks should have been recovered from the contractor at the higher rates of Rs 350 per thousand adjusting value of bricks supplied from department. To detect such cases, the rates of the some of the principal materials as shown in the Analysis of Rates should be compared with the stock rate and if the latter are found to be lower, a few test cases should be examined to see whether the higher or the lower rate has been recovered from the contractor for the materials issued; (iv) To take a concrete case suppose 4000 bricks are issued to a contractor for a particular work at a rate which is lower than the market rate but it is found that only 2000 bricks are actually required for that work. It is true that the value of all the 4000 bricks is recovered from the contractor at the book rate but the contractor makes an unearned profit by selling the extra 2000 bricks in the open market at a higher rate. In a few test cases of articles of which the market rates are higher than the stock rates, an attempt should be made to find out the quantity required as shown in to analysis of rates. Where more than the necessary quantity has been issued to a contractor, in such cases the matter should be discussed with the Engineer in-charge who is the best judge of the quantity of materials required; (v) See that there is record in the Measurement Book of measurement by a higher officer of the department; (vi) The cost of departmental labour is sometimes omitted to be recovered from the contractor though employed on his behalf. To detect this, some test cases should be investigated where the nature of the work done by departmental labour (e.g. for rectifying defects of work) would indicate that it is possible in connection with work done by the contractor; (vii) To prevent excess payments through muster rolls, see that the quantity of work done is properly recorded and the outturn is commensurate with the cost incurred on the basis of the muster rolls; (viii) When materials are collected for buildings etc, they are not borne on any site account till the main work has been started and there may be loss on account of depreciation or other reasons. When, therefore, such collections are noticed, it should be ascertained whether adequate arrangement have been made for safe custody of the materials, and if any delay in their issue is anticipated, it should be considered, the materials should not be brought on to the stock return.

7.29.4 Audit of Measurement Books (MB): In course of scrutiny of MB it should be observed that: (i) The books are maintained in accordance with the prescribed rules; (ii) The arrangements in effect for taking measurements and for checking measurements by superior officers of the department in accordance with rules and for recording the results of measurements are not such as to indicate laxity of control and leave room for malpractices;

(iii) The pages containing the measurements are scored out by a diagonal line in red ink and that the abstract of measurement bears a reference to the number and date of vouchers of payment; (iv) The dates of measurement of any out-station work are traceable in the travelling allowance bills of the official concerned; (v) All previous payments made on the particular work are deducted from the final bill; (vi) Check a fair proportion of the calculation of the detailed measurement ; (vii) See that a proper register is kept for watching the issue and return of the Measurement Books; (viii) See that the measurements have been recorded in a chronological order, for example it is noticed that the measurements on page 100 of a measurement book were recorded after those on page 101, it would be obvious that page 100 left blank for certain period and this practice may lead to serious irregularity; (ix) See that blank pages or portion of page left blank have invariably been crossed out and cancelled over the signature of the holder of the book in order to avoid the possibility of fraudulent entries at some later date. A careful scrutiny of those points has, in practice, led to the detection of fraud and over payments. If numerous instances of such irregularities are noticed, the most flagrant of them should be especially brought in the Inspection Report. The standard measurements if any, on the basis of which either estimates are prepared or payments are made should be examine to see that (i) They are certified as fully checked by some responsible officer and (ii) They are brought up-to-date from time to time and that additions and alteration in the books are approved by a responsible officer of the department (iii) When a payment is based on standard measurements, there should be a certificate by some responsible officer to the effect that the whole of the work (or the portion of the work charged for in the bill under examination) has been executed as per standard measurements and that it has not previously been billed for in any shape.

7.30 Audit of Muster Rolls (MR):In course of audit of MR it should be observed that: (i) The attendance is taken daily and record of attendance is checked at intervals by a responsible officer; (ii) The disbursements of wages are not entrusted to officials of low standard as a rule; (iii) The officer making the payment is not the same as that controlling the labours; (iv) A record is kept of the progress of work done by labour and that the cost is not so largely in excess of the value at current rates as to indicate either loss to government or need for closer financial control; (v) all thumb impressions of illiterate payees are duly attested and (vi) the certificate of disbursement at the foot of the muster rolls has been dated signed by a responsible officer.

7.31 Audit of Grants-in-aid: The rules for the sanction and payment of grant-in-aid are contained in the different departmental codes and manuals i.e. the Education Code etc. The financial principles regulating those grants are indicated in rules 340-345 of the Bihar Financial Rules (corresponding to rules 206-211 of the General Financial Rules). The Financial Powers of the various authorities sanctioning grant-in-aid are contained in part IV of the Compendium of Financial Delegation and embodied in the respective departmental regulations. The general principles and procedure for the audit of grants-in-aid are laid down in paragraphs 3.5.1 to 3.5.12 of MSO (Audit). The points enumerated below are intended to serve as guiding instructions only and are not meant to be exhaustive. The audit staff entrusted with the work should exercise their discretion in detecting or pursuing other irregularities or points which might strike them in the course of performance of their duties.

7.31.1 Audit of sanction to grants-in-aid: In course of audit of grants-in-aid, it is required to be observed that: (a) Every order sanctioning a grant should specify the object for which it is given and conditions attached to the drawl, payment or utilization of the grant; the object should generally conform to the principles of propriety, unless specific rules exist governing particulars of grants i.e. discretionary grants etc. (b) The order should specify if the grant is recurring or non-recurring and whether it should be paid in instalments. (c) Audit should see that (i) The authority sanctioning the grant has been invested with the power of sanction by rules or a general or special order of Government (ii) The sanction is definite and thus need no reference either to the sanctioning authority itself or to any other higher authority (iii) That the grant has been sanctioned for a public purpose or for objects specified in the rules regulating the specific class of grants and the reasons for the grant are recorded in the files of the sanctioning authorities; (iv) That the amount sanctioned is not prima facie more than the occasional demands. This envisages an examination of the primary records e.g. audited statement of accounts furnished by the grantee. It should, therefore, be examined as to how the grant sanctioned has been assessed. This examination may require consultation of relevant files in the office of the sanctioning authorities. The Comptroller and Auditor General's instructions are that a decision regarding file audit should be taken at the level not below the rank of Deputy Accountant General (Inspection civil).

7.31.2 Audit of expenditure of grants-in-aid: In course of audit of grant in aid it is required to observe that (i) there is no advance withdrawal of grant-in aid in anticipation of sanction or for avoiding lapses of budget grant or unauthorized diversion of the fund. (ii) Where the rules require that the grant should be drawn on the authority of the Accountant General on the

counter signature of the higher authority then the drawls conform to the prescribed conditions, e.g. withdrawal in instalments, prior fulfilment of certain conditions or in accordance with the scales etc. (iii) That the bills have been prepared in proper form, correct classifications have been recorded on them, and the drawls have been made in accordance with rules. (iv) Where the grant is conditional of specification of the particular objects on or the time within which the money has to be drawn and spent, audit should see that the conditions are fulfilled. The statement and certificates of the executive authorities to the effect that the conditions have been fulfilled by the grantee are given on or attached with the relevant vouchers. (v) Where the grantee is required to furnish a statement of expenditure to a particular officer e.g. the Accountant General or the sanctioning authority, it should be seen that this has been done. (vi) When a time limit has been fixed by the sanctioning authority, it should be seen that the grant has been spent within that period and in other cases within a reasonable period and that any portion of the amount which is not ultimately required for expenditure is surrendered. (vii) See that an utilisation certificate has been furnished by the sanctioning or disbursing authority within a reasonable time or by the fixed date. (viii) See that the grant was not drawn and placed in deposit for future utilization in order to avoid lapse of budget provisions. (ix) See that the Register of grants prescribed in the Government of India, Ministry of Finance, Memorandum No-F-III (I) E-II (A)/57, dated 14.3.57 has been maintained and the procedure prescribed therein regarding issue of sanctions, preparation and counter signature of bills has been properly observed (Based on Circular No- OAD-G-49 dated 6.5.57). (x) See that there is evidence on record to show that administrative checks over the correctness of the utilization certificate have been exercised (xi) See that records are available to show that the grantee has fulfilled all the conditions e.g. achievement of targets and objects for which the grant was made. (xii) Where the grant is for execution of a work e.g. construction of a school building, audit should see that the grant paid was utilized for that work and that the completion certificate has been furnished by the grantee. There should, be administrative arrangements to inspect the progress of work at some stage of the construction after the work is completed. The work should be locally, inspected by a technical expert who should certify that the expenditure incurred in the work was not less than the estimated expenditure on the basis of which the grant was sanctioned. (xiii) See that the departmental control over expenditure on grants-in-aid is adequate and there is arrangement for watching surrender of unspent balances and for enforcing such surrender. (xiv) Where different sanctioning authority made grant for the same purpose audit should see that there is proper

arrangement for sending copies of sanctioning orders by one sanctioning authority to another to avoid overlapping of grants. (xv) See that the grantee has spent the grant with due regard to economy and there is no wastage or extravagance. (xvi) Apart from the above, the Audit party should also exercise the other usual checks prescribed for the audit of expenditure. (Based on O/o No-3004 (HA) dated 26.6.57 and 3006 (HA) dated 27.6.57).

7.31.3 Important irregularities: In course of audit of grants-in-aid important irregularities to be observed as (1) Grants-in-aid drawn from treasury are not accounted for in Cash Book but retained in hand for indefinite period without being disbursed, utilized and refunded to the treasury. (2) Conditions of grants were not fulfilled and the amounts were spent without any planning and estimate. The expenditure was made without following the usual financial rules of government and departmental control to safeguard the economy. (3) Cash book was not maintained properly, transactions were not brought to account as soon as they took place and proper check has not been exercised by the head of the institution. Details of expenditure were not recorded. (4) Utilization certificate was not furnished and the utilization of the grant was not checked up. (5) Actual payee receipts were not available for audit check in proof of the payment. (6) Scale of expenditure was not approved as a condition of grant and purchases were made without calling for tender or obtaining quotations. (7) Stock register of books, maps and furniture, purchased out of the grant was not maintained. (8) Contingent register was not maintained properly. Payment made without obtaining completion certificate of work and technical scrutiny. (9) Grant sanctioned for one year was utilized in another year without obtaining sanction. (10) Large amounts were drawn from the treasuries during the month of March evidently to avoid lapse of grants. In some cases sanctions to individual works were accorded in the course of the next financial year or were yet to be issued. (11) Statement of expenditure on schemes for which grants-in-aid was given, was not submitted to audit punctually in many cases. (12) Amount drawn in a year for execution of work, were not utilized during that year and the amounts were re-deposited into the treasuries. (13) Certain works were left incomplete because the anticipated public contribution was not forthcoming. In certain cases, the amounts of the grant was drawn and spent but the construction is reported as still to be undertaken. (14) Defective maintenance of register in respect of flood relief. Stock Books of articles of clothing and rice purchased for relief was maintained. No account was kept of a large amount of grant transferred/paid to a local body for relief-work. (15) Diversion of grant from one head to another without previous approval of authority sanctioning the grant. (16) There are a few cases in which the amount of the grant sanctioned

was much in excess of the amount that could be utilized during the course of the year and where the unspent balance was subsequently allowed to be utilized in the following year. (17) Certain local bodies and institutions, have not surrendered the unspent balance of grants. (18) Overlapping of grants and duplicate sanctions. (19) Miscellaneous irregularities in the accounts of works e.g. improper maintenance of muster-rolls, payments of final bill in advance of the execution of work or without detailed measurements, expenditure in advance of requirements, avoidable and unauthorized expenditure and execution of works on the basis of revised estimates which have not been sanctioned etc.

7.32 Audit of accounts of certain welfare/development schemes: Accounts records and registers not specifically mentioned in the preceding paragraph or in the chapters dealing with the audit of the accounts of the particular office or institution should be examined to see: (i) That they are maintained in accordance with the prescribed rules and serve the purpose for which they are designed; (ii) That they are kept up-to-date and they are periodically reviewed by a responsible officer of the department; (iv) Apart from above, any other checks as the occasion demand, should also be exercised.

Various schemes covering a wide range subjects and involving huge expenditure taken up by the Central and State Governments for implementation under different programme and the importance of probing the schemes with a view to high-lighting the deficiencies and weaknesses in their implementations by the inspecting officers and members of field parties have been instructed to see during local audit of concerned State Government Offices. The records pertaining to the schemes may, therefore, be scrutinized adequately and commented upon in the inspection report. A list of the schemes pertaining to the subjects covered under Social, Economic and General Sectors being implemented in Bihar is given here. 1. Schemes under DRDA: IAY, MNREGA, SGSY, SGRY, BRGF etc. 2. District Agriculture Office: ISOPAM, MICROMODE, RKVY, Soil and Seeds Testing Laboratory, KisanBhawan, Dry Land Farming Development Programme, Command Area Development Programme etc. 3. Civil Surgeon & Health Society: Health Care Services, Special New Born Care Unit (SNCU), Neo Natal Stabilization Unit (NSU), Mobile Medical Unit (MMU), Reproductive Child Health (RCH) to control Infant Mortality Rate (IMR) to 3 per cent, Maternal Mortality Rate (MMR) to 0.1per cent and Total Fertility Rate (TFR) to 2.1 per couple, Family Planning, JBSY, Immunization, Control of Malaria, Filariasis, TB, Leprosy, Blindness, Kala-Zar and Aids etc. 4. District Education Office: Primary, Secondary and Higher Education, SSA, Mid Day Meal, Cycle and Uniform Schemes in schools, Removal of

Adult Literacy Programme etc. 5. District Office: Law and Orders, Land Reforms, Rehabilitation of Bonded Labors, Development of SC/ST, All Weather Rural Roads under PMGDY, MMGSY, IRDP, NABARD, other State Schemes executed by RWD and Urban Road Development by RCD, Supply of drinking water to all, Allotment of house sites to poor and downtrodden families, Slum clearance Programme, Public Distribution System, Development of Small and Village Industries (Handloom and Handicrafts) etc.

7.33 Submission of accounts by Treasuries, Public Works Division/Forest Division: The accounts should be timely submitted by the treasuries/public works Divisions/Forest Divisions and if not timely submitted the reasons should be got investigated by the Inspecting Officers during their periodical inspections of these offices and if needed, the results of their efforts may be incorporated in the Inspection Reports. Whenever submission of accounts by the Treasury Officers to the AG (A & E) are delayed abnormally, in that case field parties have been instructed when they visit the treasuries for verification of debits and credits of the office audited to see how far the monthly accounts have been submitted by that Treasury to the extent inspection work will continue and be completed as usual but in such cases where treasury verification cannot be conducted because of heavy arrears in the compilation of treasury accounts, the inspection report will invariably include a paragraph to that effect. This procedure will continue until further instructions are received from the Headquarters office. (O/o No-OAD (M)-C/Patna-106 dated 23.7.92) and O/o No-WA-4/Misc-225 dated 24.7.92).

7.34 (A) Verification of the Service Books and nomination for DCRG, GPF etc: It has been decided that in addition to the existing quantum of audit, the AG (Audit) may exercise checks in case of those Government servants who are to retire within the next 12-18 months during local audit as: (i) The local audit party visiting an office should check the service books of all employees who are due to retire during the next 12-18 months even if checking of these categories of cases exceeds the prescribed percentage of 25% checking of service books in a year; (ii) While checking service books, the local audit parties will ensure that the service books is complete in all respect; (iii) The local audit party will also check that the nomination regarding the DCRG and GPF etc. have been made by all the Government servants who are to retire within the next 12-18 months and suitable note has been kept in the service books; (iv) In order to exercise the checks effectively, the local audit party would obtain a list of such retiring government servants from the head of the office and enclose it along with the observations with the Draft Inspection Report. (C&AG's Circular No-

29/Audit-11/85, No- 1010/Audit-I/ dated 2.7.85 and O/o No-OAD (M) 130/85-86/33 dated 2.8.85).

7.34 (B) Treasury verification: Verification of withdrawals and remittances shown in the records of DDO with reference to treasury schedules is an essential element of audit inspection. Treasury verification has to be done most carefully. Withdrawals from treasury relating to a particular DDO are to be noted from the treasury schedules and these should be checked up against the bill book and cash Book of the DDO. In respect of remittances, the process should be reversed i.e. verification of remittances has to be collected from the Cash Book and Remittance Register and should be verified with treasury schedules, Bank Scroll and Treasury Cash Book. Thus the verification should be conducted carefully and its result suitably commented upon.

7.35 Audit of Jails: While conducting the audit of jails, the audit parties should see that the articles coming in and going out of the jails are entered in the gate registers maintained in the jails. They should cross the blank space either at the top or at the end of each page of the gate register falling within audit scope. (Authority: O/o No-OAD (M)-70, Dated 02.12.1986). However, the general instructions governing the audit of expenditure are also contained in Chapter-2, Section-II of MSO (Audit) 2nd Edition 2002. These instructions have to be borne in mind and carefully applied in the audit of expenditure in addition of above instructions so as to yield practical and material results,

7.36 Auditing Standard: The auditing standards of the International Organization of Supreme Audit Institutions (INTOSAI) have been adopted with due consideration of the Constitution of India, relevant statutes and rules for the auditing standards framed by Supreme Audit Institution of India (SAI). The auditing standards consist of four parts as (i) Basic Postulates (ii) General Standards (iii) Field Standards (iv) Reporting Standards.

7.36.1 Basic Postulates: The Basic Postulates are basic assumptions, consistent premises, logical principles and requirements which help in developing auditing standards and serve the auditors in framing their opinions and reports, particularly in cases where no specific standards apply. The SAI should comply with the INTOSAI auditing standards in all matters that are deemed material. The SAI should apply its own judgment to the diverse situations that arise in the course of government auditing. With increased public consciousness, the demand for public accountability of persons or entities managing public resources, have become increasingly evident so that there is a need for the accountability process to be in

place and operating effectively. Development of adequate information, control, evaluation and reporting systems within the government will facilitate the accountability process. Management is responsible for correctness and sufficiency of the form and content of the financial reports and other information. Appropriate authorities should ensure the promulgation of acceptable accounting standards for financial reporting and disclosure relevant to the needs of the government and audited entities should develop specific and measurable objectives and performance targets. Consistent application of acceptable accounting standards should present the fair presentation of the financial position and the results of operations. The existence of an adequate system of internal control minimises the risk of errors and irregularities. The legislative enactments would facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit. All audit activities should be within the SAI's audit mandate. SAIs should work towards improving techniques for auditing the validity of performance measures. SAIs should avoid conflict of interest between the auditor and the entity under audit.

7.36.2 General Standards: The General Standards are common to auditors and audit institutions. The auditor and the institutions must be independent, possess the required competence, exercise due care and concern in complying with these auditing standards. This embraces due care in planning, specifying, gathering and evaluating evidence, reporting findings, conclusions and recommendations. The general auditing standards for the audit institutions require that they should adopt policies and procedures to recruit personnel with suitable qualifications, develop and train employees to enable them to perform their tasks effectively and to define the basis for the advancement of auditors and other staff, prepare manuals and other written guidance notes and instructions concerning the conduct of audits, support the skills and experience available within the audit institutions and identify the skills which are absent, provide a good distribution of skills to auditing tasks and assign sufficient number of persons for the audit with proper planning and supervision to achieve its goals at the required level of due care and concern their independence materially.

The auditor must possess the required competence and exercise with due care and concern in complying with the auditing standards. The auditor should at all times maintain absolute integrity and devotion to duty and not disclose information obtained in the auditing process to third parties, either orally or in writing.

7.36.3 Fields Standards: The field standards applicable to all types of audit. The auditor should plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner. The work of the audit staff at each level and audit phase should be properly supervised during the audit and a senior member of audit staff should review documented work. The auditor, determining the extent and scope of the audit, should study and evaluate the reliability of internal control. In conducting regularity (financial) audits, a test check should be made of compliance with applicable laws and regulations. The auditor should design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities and illegal acts that could have a direct and material effect on the financial statement and the regularity of expenditure. In conducting performance audits, an assessment should be made of compliance with applicable laws and regulations when necessary to satisfy the audit objectives. The auditor should design the audit to provide reasonable assurance of detecting illegal acts that could significantly affect audit objectives. The auditor also should be alert to situations or transactions that could be indicative of illegal acts that may have an indirect effect on the audit results. Competent, relevant and reasonable evidence should be obtained to support the auditor's judgment and conclusions regarding the organization, programme, activity or function under audit. In regularity (financial) audit and in other types of audit when applicable, auditors should analyze the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with. Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on financial statements.

Any indication that an irregularity, illegal act, fraud or error may have occurred which could have a material effect on the audit should cause the auditor to extend procedures to confirm or dispel such suspicious. The regularity audit is an essential aspect of government auditing and this type of audit assigns to SAI to make sure by all the means put at its disposal that the state budget and accounts are complete and valid. This will provide parliament and other users of the audit report as assurance about the size and development of the financial obligations of the state. To achieve this objective the SAI will examine the accounts and financial statements of the administration with a view to assure that all operations have been correctly undertaken, completed, passed, paid and registered.

7.36.4 Reporting Standards: The reporting standards apply equally to all reports with variations in the scope of the reports. On the completion of each audit assignment, the

Auditor should prepare a written report setting out the audit observations and conclusions in an appropriate form and its content should be easy to understand, free from ambiguity and supported by sufficient, competent and relevant audit evidence and be independent, objective, fair, complete, accurate, constructive and concise. The auditor should issue the reports in a timely manner for use by management, legislature and other interested users. The audit report may be presented on other media that are retrievable by other users and the audit organisations. Retrievable audit reports include in electronic formats and internet.

With regard to audit of financial statements, the auditor should prepare a report expressing opinion on the fair presentation of the financial position of the audited entity in the financial statement. Form and content of this report and the nature of opinion is discussed in the following paragraphs. With regard to fraudulent practice or serious financial irregularities detected during audit or examined by audit, a written report should be prepared indicating the scope of audit, main findings, amount involved, modus operandi of the fraud or irregularity, accountability and recommendations for improvement of internal control system, prevention of fraud and detection measures to safeguard against recurrence of fraud/serious financial irregularity. As regard to Performance or Value for Money Audits, the report should include a description of the scope and coverage of audit, objective of audit, area of audit, main findings in respect of the efficiency, economy and effectiveness including impact aspects of the area which was audited and recommendations suggesting for the improvements needed. Regarding regularity audits, the auditor should prepare a written report which may either be a part of the report on the financial statements or the value for Money Audit or a separate report on the tests of compliance of applicable laws and regulations. The report should contain a statement on the results of the tests to indicate the nature of assurance i.e. positive or negative obtained from the tests. Reporting standards constitute the framework for the audit organization and the Auditor to report the results of audit of regularity or performance audit or expressing his opinion on a set of financial statements. These standards are to assist and not to supersede the prudent judgment of the Auditor in making audit observations, conclusions and report. The reporting embraces both the Auditor's opinion on a set of financial statements and the Auditor's report on regularity, performance or Value for Money Audit and also the reports prepared on periodical inspection of the records of an audit entity.

7.36.4.1 Follow up of Audit Reports: Adequate, prompt and proper follow up action by the entity in light of audit conclusions projected, will enhance the effectiveness of audit and

promote public accountability. It is required that system and procedures should be in place and implemented for securing appropriate conclusions and preventive follow up action on audit reports. Audit reports are submitted by the Audit Organization to the appropriate officials of the audited organization. Copies are also sent to other officials who may be responsible for taking action on audit observations and conclusions. However, the report is not a public document till it is presented to the legislature. In subsequent audits and otherwise, the Auditor should examine and report whether satisfactory action was taken on the audit reports.

7.36.4.2 Internal controls: Auditors should report the scope of their work on management controls and any significant weakness found during the audit. Reporting on management controls will vary depending on the significance of any weaknesses found and the relationship of those weaknesses to the audit objectives. In audits where the sole objective is to audit the management controls, weaknesses found of significance to warrant reporting would be considered deficiencies and be so identified in the audit report. The management controls that were assessed should be identified to the extent necessary to clearly present the objectives, scope and methodology of the audit. In a performance audit, auditors may identify significant weaknesses in management controls as a cause of deficient performance. In reporting this type of finding, the control weaknesses would be described as "cause".

7.36.4.3 The form and content of audit opinion and report: The form and content of all audit opinions and reports are based on the following general principles: (a) **Title-**The opinion or report should be preceded by a suitable title or heading, helping the reader to distinguish it from statements and information issued by others. (b) **Signature and date-** The opinion or report should be properly signed. The inclusion of a date informs the reader that consideration has been given by the auditor with effect of events on transactions about which the auditor becomes aware up to that date. (c) **Objectives and scope-**The opinion or report should include reference to the objectives and scope of the audit. This information establishes the purpose and boundaries of the audit. (d) **Completeness-** Opinions should be appended to and published with the financial statements to which they relate but performance reports may be free standing. The auditor's opinions and reports should be presented as prepared by the auditor. In exercising its independence, CAG may acquire information from time to time which cannot be freely disclosed in the national interest. This can affect the completeness of the Audit Report. In this situation the auditor should consider the need to make a report,

possibly confidential and sensitive material in a separate unpublished report. (e) **Addressee-** The opinion or report should identify those to whom it is addressed as required by the circumstances of the audit engagement and local regulations or practice. This is unnecessary where formal procedures exist for its delivery. (f) **Identification of subject matter-**The opinion or report should identify the financial statements in case of regularity audits or area in the case of performance audits to which it relates. This includes information such as the name of the audited entity, the date and period covered by the financial statements and the subject matter that has been audited. (g) **Legal basis-** Audit opinions and reports should identify the legislation or other authority providing for the audit. (h) **Compliance with standards-** Audit opinions and reports should indicate the auditing standards or practices followed for conducting audit, thus providing the reader with an assurance that the audit has been carried out in accordance with generally accepted procedures. (i) **Timeliness-**The audit opinion or report should be available promptly to be of greatest use to readers and users, particularly those who have to take necessary action. The general principles for guidance are mentioned in audit of expenditure. (j) **Accurate and complete evidences-** (i) That a proper voucher complete in all respects and in the manner from where one is prescribed, exists in support of every item of expenditure and bears evidence of due scrutiny of the claim and 'Pay Order' by the Head of the Office concerned. (ii) That full detail of each item of expenditure is either recorded on the voucher itself, or is available in reliable and recognized subsidiary records; (iii) That the expenditure incurred does not contravene any financial rules and procedure laid down by the Government and all pre-requisites to the incurring of expenditure have been complied with; (iv) That there is provision of funds for the expenditure duly authorized by competent authority; (v) That expenditure is in accordance with a sanction either special or general properly accorded and is incurred by an officer competent to incur it; (vi) That expenditure sanctioned for a limited period is not incurred beyond that period without further sanction; (vii) That the rules regulating the method of payment have been duly observed by the disbursing officer; (viii) That payments has, as a fact, been made and has been made to proper person and that it has been so acknowledged and recorded in connected records that a second claim on the same account is impossible; (ix) That the charge is correctly classified and if a charge is debit to the personal account of a contractor, employee or other individual or is recoverable from him under any rule or order it is recorded as such in a prescribed amount; (x) That payment have been correctly brought to account in the original accounts; (xi) That

the expenditure has been incurred with due regard to financial rules and in conformity with the canons of financial propriety, e.g. supplies in excess of requirements have not been obtained, the purchases have not been made at higher than reasonable prices and the expenditure has been incurred only for legitimate objects etc; (xii) That the rates paid for work done or supplies made are in accordance with any scale or schedule prescribed by the competent authority; (xiii) That the sub vouchers and acquaintances not required to be sent to Audit Office are on record and are cancelled or so defaced after payment in such a way that they cannot be used again to prefer a second claim and are not destroyed before the expiry of the period of preservation; (xiv) That the expenditure was not been incurred to prevent the lapse of budget allotment or that the charges incurred in the year have not been met from the budget allotment of the next year.

CHAPTER-8

Scope and Extent of Audit of Pay and Accounts Officer (PAOs)/Drawing and Disbursing Officers (DDOs) under the Departmentalized System of Accounts

8.1 System of payment under departmentalization of accounts: The departmentalisation of accounts of the Ministries/Departments of the Government of India was completed on 1.10.1976. Under the departmentalised system of accounting all payments are, as a general rule, made by the PAO after pre-check except in case of bills paid by the DDOs with cheque drawing powers vested in them. In the later case, the DDOs render accounts duly supported by vouchers to PAOs who exercise post checks.

8.2 Local audit of Pay and Accounts Office: Local audit of Pay and Accounts office should be directed towards test checking the adequacy and efficiency of internal checks and efficiency and effectiveness of working of systems. The quantum of check prescribed for local audit parties are indicated in the Annexure to C&AG's special letter No-943/TA-I/147-81 dated 14.8.81 read with Letter No-1023/TA-I/147-81 dated 28.8.81. These checks are grouped under the categories as: (I) Checks to be exercised on the transactions relating to the month selected; (II) Checks to be exercised in respect of cases and records, covering the period since last inspection; (iii) Checks to be exercised for examination of the efficiency of the working of internal audit units; (iv) Review of control records.

The inspection party, in course of the annual audit of PAOs, would take care for a critical review of the first three categories referred to above for a horizontal inspection of all the control records in the pay and accounts offices under each Ministry. Inspection can be undertaken once in three years with advantage for an in depth examination.

8.3 Audit of Grants-in-Aid under departmentalised system of accounts: At present audit of sanctions to the payments of grants-in-aid is conducted in the main office and audit of effectiveness of expenditure is conducted in the office of the sanctioning authority. For this purpose PAOs can be asked to give voucher wise details of the grants paid in a year so that audit can be done with advantage in the office of the sanctioning authority under section 14 and section 15 of C.A.G. (DPC) Act.

8.4 Audit of contingencies: Audit of contingencies can be effective only by an intelligent scrutiny of the transactions with reference to the purchase files and other related documents available in the offices of the DDOs. A list of important and heavy transactions under

contingencies should be prepared from the records of the PAO during local audit for further audit of transactions. In view of the dispersal of the records in the PAOs and DDOs for the same type of transactions a sequential local audit of PAOs as far as possible would be preferable.

8.5 Cheque drawing powers of DDOs: DDOs with cheque drawing powers act on behalf of PAOs in discharge of their functions. The folios of cheques paid and original vouchers are kept with PA Office concerned. Hence the checks to be exercised during local audit of these offices will be of limited scope and confined to the following: (i) Verification of the correctness of the net amounts drawn and shown in the pay bills register or office copies of the paid vouchers for the selected month with the amount noted in the counter foils of the cheques; (ii) Verification of the entries in the Cash Book and other relevant records with reference to the amounts noted in the office copies of the vouchers, (iii) Verification of the entries relating to the paid cheques in the copies of bank scrolls received by the D.D.Os from the bankers with die amount noted in the counterfoils and (iv) Check other accounts records maintained by the DDOs with cheque drawing powers.

8.6 Duration of audit: The duration of audit of PAOs has been fixed at 12 to 15 days and that of DDOs with cheque drawing powers at three to five days for limited purpose of checking of accounts records maintained on behalf of the PAOs. The system of local audit of AAOs and DDOs with cheque drawing powers by peripatetic parties should continue. The periodicity of audit of Pay &Accounts Offices should continue to be annual while the drawing and disbursing offices may be audited biennially or triennially or lesser frequency depending upon the nature of work or volume of transactions. The existing composition of audit party i.e. double AAO party for audit of PA Offices and single AAO party for audit of DDOs with cheque drawing powers and the existing quantum of supervision will continue. (CAG's Letter No-943/TA-I/147-81 dated 14.8.81 and Circular No-36/TA-1/1981)

8.7 Verification of withdrawals by the DDOs without cheque drawing power: Prior to departmentalisation of accounts, withdrawals of bills made from the treasury by an office taken up for local audit were verified with original vouchers available in the Audit Office and for this purpose all the vouchers paid in selected months in respect of drawing officer used to be taken from Headquarters by the Inspection Parties for being traced in the initial records. After departmentalisation of accounts, the paid vouchers are not available in the Audit Office but will be finally recorded with PAOs concerned who will retain in their possession not only

the vouchers paid by them but also the vouchers sent by DDOs having cheque drawing powers. A question, therefore, arises how audit could satisfy itself about the initial records of drawing officer concerned. For this purpose the following instructions were issued by the Headquarters office: (i) In the case of DDOs with cheque drawing powers, the counterfoils of cheque will be available with them, though the paid foils and the original vouchers would have been sent to and recorded by the PAO concerned. In these cases, the net amounts drawn as shown in the office copies of the vouchers should first be compared for the selected month with the amounts noted in the counterfoil of cheques and after their tally with the entries in the cash books and other records should be verified with reference to the amounts noted in the said office copies. In order to verify that the amounts in the paid foils of cheques are not different from the amounts noted in the corresponding counterfoils, the entries relating to the paid cheques in the copies of bank scrolls received by DDO should be verified with the amounts noted in the counterfoils. If these checks are carried out carefully, audit can be reasonably satisfied that all the amount drawn by the DDOs have entered in his initial accounts. Any serious or important discrepancies noticed during any of the foregoing check should be promptly reported by the inspection staff to the PAO concerned for immediate investigation and report, apart from making the usual mention of such cases in the Inspection Report. Before the local audit of a cheque drawing DDO is taken up, PAO concerned should also be asked to inform audit, before the commencement of the audit or during its progress, any cases of discrepancy, defect or irregularity noticed by him in the course of his check of the bank scrolls with paid cheques and of the original vouchers received from the drawing officer. If there are cases in which cheques have been drawn by the PAO and sent to the DDO for disbursement, a list of such cases during the period taken up for audit, should also be obtained from the PAO for being traced in the initial accounts of the DDOs; (ii) In the case of DDOs without cheque drawing powers, the payments will be made by cheque issued by PAOs directly. It will be necessary in these cases to obtain lists of cheques issued by the PAOs along with all relevant particulars for the period covered by audit in order to enable the local audit party to verify whether all these cheques have been accounted for in the initial records of the drawing officer; (iii) The request for information, list of payments etc. from the PAO should be made in a reasonable time before the audit is due to commenced; (iv) In carrying out these checks, though audit may be restricted to a test audit of the transactions of a month or two, the information about the actual months selected for detailed audit should not be divulged to the PAO or the DDO; (v) In cases where the DDO proposed to be audited and

the PAOs concerned are under the jurisdiction of different Accountant General, the information etc. for the audit of the DDOs in terms of the foregoing may be directly obtained from the PAO concerned without routing such requests through the Accountant General in charge of the audit of PAO. (C&AG's Circular No-226/TA-I/75-76 KW VI dated 23-3-78).

8.8 Checking of final payment cases of Provident Fund under departmentalized set up:

The question whether under the departmentalised set up, which has its own responsibilities for internal check, it is necessary to conduct a cent percent check of final payment cases of provident fund during local audit. It has been decided that in period of two years to come, test check of correctness of the final payments including payments of residual balances in the provident Fund Accounts may be conducted to the extent only of 50%. In case the test check reveals alarming trends, the Ministries will have to be advised about the deficiencies and the ineffectiveness of internal check/audit and a request made for re-check of the payments made as a result of the test check conducted by inspection parties. (C&AG's Letter No-347/TA-II/37-75 dated 22.031979).

CHAPTER-9

Audit of Government transactions in Public Sector Banks

9.1 Audit of Various Transactions in Public Sector Banks: The public sector banks (State Bank of India and Nationalised Banks) have been authorized to deal with the following categories of government transactions: (1) Public Provident Fund scheme; (2) Collection of National Defence Fund; (3) Pension payment of /Defence, Railway and Civil pensioners of Central and State Government; (4) Receipt of Direct and Indirect Taxes; (5) Deposit Scheme of Provident, Superannuation and Gratuity Funds; (6) Annuity and Compulsory Deposit.

9.2 Audit of Public Provident Fund: Audit of Public Provident Fund will be conducted with reference to the general rules prescribed for the audit of General Provident Fund transactions enumerated in the MSO (Audit). Further in local audit, in addition to the check of relevant records (right from application for admission to the Fund till the stage of final refund of the amount) maintained in the branches of the State Bank of India, the individual transactions should be test checked with reference to the periodical statement of credits and debits under the scheme already received in the Audit offices. This check should be conducted to the extent of prescribed percentage of the number of accounts in each branch whether conducting government business or not. Local Audit will specifically be directed to verify: (i) The correctness of the amount of interest allowed with reference to the rate prescribed for the purpose. (ii) The signature of the officer of the bank who authorised the payment. (C&AG's Letter No-2015/TA-I/325-68 dated 10.11.1970).

Branches of the State Bank of India may be divided in three following categories for the purpose of audit of transactions pertaining to the public Provident Fund scheme: Category I-Those having more than 5000 accounts; Category II-Those having more than 1000 but not more than 5000 accounts; Category III-Those having accounts up to 1000. In respect of branches falling under category I, the audit may be conducted once in a year, for category II once in two years and in respect of category-III, once in 3 years. The quantum of audit would be more or less on the scale prescribed for Employees Provident Fund Organization as laid down in the Annexure to C&AG's office circular No-4222/ TA-I/13-66 KW (i) dated 28.12.67. Audit of Public Provident Fund transactions in the selected banks should be undertaken as far as possible in one spell along with the audit of Annuity Deposit, Compulsory Deposits etc. (C&AG's letter No-1503/TA-I/325-68-Vol-II dated 8.6.71).

9.3 Audit of National Defence Fund Account: Audit of transactions relating to the National Defence Fund in branches of the State Bank or its subsidiaries conducting government business will be subjected to local audit at the time when audit of those institutions is undertaken in connection with the work done by them on behalf of the State Government as agents of the Reserve Bank. The accounts of the fund will however be locally audited annually. At least 5% of the branches of the State Bank of India in the state should be subjected to local audit in connection with the transactions of NDF. If the number of branches conducting Government business and subjected to local audit in normal course in a year falls short of 5% of the branches of the State Bank in the state, additional branches of the bank should be selected to bring up the number to 5%. (C&AG's Letter No-855-Tec/Admn-1/688-Admn1/62 dated 21.2.64).

9.4 Scheme for payment of pension of Central Civil Pensioners by Public Sector Banks:

The scheme for payment of pension of Central Civil Pensioners by Public Sector Banks was introduced in the State Bank of India with effect from 1st February 1977. The following Public Sector Banks were selected for disbursement of such pensions: 1- State Bank of India. 2- Central Bank of India. 3- Punjab National Bank. 4- Bank of India. 5- United Commercial Bank. 6- Allahabad Bank. (GIMK (DEA) Letter No- F/10 (23)-B (TR)/76 dated 30.12.76)

9.5 Audit of Public Sector Banks making pension Payments: Para-23 of the scheme of disbursement of pension by Public Sector Banks issued by the Ministry of Finance vide their OM No-F/10 (23)-B (TR) 176 dated 11.6.76 provides that the accounts records and registers maintained in the branches of the Public Sector Banks and also in the link branch making pension payments, shall be open to audit by the C&AG of India or any person appointed by him on his behalf. The accounts records and registers maintained in the branches of the Public Sector Banks and also in the link branches making pension payments may be locally audited by the Accountant General. The following checks are to be exercised while conducting local audit of the public sector banks making pension payments: (1) Local audit should be done in such a way that it supplements the checks exercised in central audit while doing so it should be ensured that the provisions of the scheme are strictly followed by the Public Sector Banks. Such a check may, inter alia, include the following points particularly: (a) Income-tax is deducted at source, wherever required and certificates of tax deduction are issued in April each year. (b) Payment is made only up to the date of death of the pensioner and any over payment made has been recovered and refunded to govt. (c) Payment of life

time arrears of pension has been made only to the heir of the pensioner. (d) When a pension ceases to be payable the PPO is returned by the paying branch to the TO through the link branch after making necessary entries in the PPO as well as in the records of the Bank. (2) In addition to the above checks with reference to the provisions of the scheme the following checks may also be applied: (a) No amendment or changes is made in the PPO by the Bank itself; (b) The correct amount of pension has been credited to the pensioner's account on the basis of the PPO issued by the AG (A&E) and received through treasury under proper authorization; (c) The amount claimed by the link branch of the Public Sector Bank: from Government on account of pension payments agrees with the total amount credited to the accounts of pensioners. Half yearly audit may be done in the initial stages and audit of one month pension payments may be conducted during such half yearly audit. (Authority: CAG's Circular Letter No- 2795-TA- 11/187-76 dated 24.12.76).

9.6 Audit of pension paid to Defence and Railway Pensioners through Public Sector Banks: The audit of the records of the public sector banks in respect of Defence and Railway pensions should also be conducted by the Civil Accountant General, the object being that one single authority should conduct the audit of records in respect of pensions paid through public sector banks to pensioners of all the categories. Accordingly, along with the audit of civil pensions paid through public sector banks, the records in respect of pensions paid to Defence and Railway pensioners may also be checked. For this purpose checks and quantum of audit as prescribed in C&AG Circular dated 24.12.76 reproduced in the foregoing para may be applied. (Authority: C&AG's Circular No- 2604/TA-11/242-76 dated 4.11.78).

9.7 Periodicity and quantum of check: In partial modification of instructions contained as above, it has been decided by the Comptroller and Auditor General of India that the records etc. of the paying branches of the public sector banks making pension payments may be checked once in three years in local audit. The checks to be exercised in local audit may be the same as prescribed in Note-2 below paragraph 64 of Secret Memorandum of Instructions (SMI) regarding extent of audit during inspection of treasuries in addition to checking whether the scrolls sent to the link branch for claiming reimbursement from the government, through Reserve Bank of India have been correctly prepared. The checks prescribed above, will be a general review and a detailed test audit of one month vouchers (each individual payment indicated in the scroll) as prescribed in Note-2 below paragraph-64 of SMI may be done. The records etc. of link branches relating to claim to reimbursement

from the Reserve Bank of India in respect of pension payments may be checked once in a year with a detailed test audit of scrolls for two months. The entitlement of staff may be worked out at the rate of two party days for a paying branch and three days for each link branch for conducting local audit of public sector banks. As regard staff for head quarters, calculation may be made on the basis of one Auditor for 3 parties. These instructions will apply to State as well as Central pensions paid from the public sector banks. (C&AG's Secret Circular No-252/TA- 11/34-78 dated 3.3.80).

9.8 Audit of pension payments under central and state government schemes: The local audit of pension payments by the public sector banks; both under the state and central government schemes should be conducted by the same party so that multiple visits by different audit parties of public sector banks may be avoided. In cases where audit of state pension and central pensions is being conducted by two different Accountants Generals, the audit party of the Accountant General who is responsible for audit under Central Government scheme may also check the records of these branches in respect of pension payments made by them under the state government schemes. For the branches which are making payment under a single scheme, the state AG will continue to check the records under the state scheme and the central AG will check the records of payments made under the central government scheme. The local audit parties, who will be required to check the records of both categories of pension payments i.e. those pertaining to the state and the central schemes will be allowed four party days for each link branch and three party days for each paying branch. Other parties dealing with only one category of pensions will be allowed three party days for each link branch and two party days for each paying branch.(CAG's Letter No-1453/TA-11/98-80 dated 26.11.80).

9.9 Direct Taxes: The Government of India introduced a scheme for receipt of Income Tax and other direct taxes by nominated Public Sector Banks in addition to the Reserve Bank of India/State Bank of India with effect from 1.4.76 initially in eight metropolitan cities of Ahmadabad, Bangalore, Greater Bombay, Calcutta, Delhi/New Delhi, Hyderabad, Kanpur and Madras and later extended to another 66 centres including Patna and Muzaffarpur towns in Bihar with effect from 15.11.76 and the remaining 296 cities/towns with effect from 1.4.77. An objection was raised in Civil Audit that the DDOs of district and sub divisional hospitals have not deducted income tax at source from bills of the medicine supplier. It was clarified that the relevant provisions of the Income Tax Act apply only in relation to works

contracts and Labour contract and will not cover contracts for sale/supply of goods. (O/o No-IC (M) 124/90-91/145 dated 7.1.91). Revenue Audit parties which audit the Income Tax receipts and refunds of the Income Tax offices will continue to conduct the test check of collection of revenues, classification of revenue and working of treasury units. The Outside Audit Parties will conduct a test check of the records maintained by the designated main branches of the banks mentioned in para-19 of the Memorandum of Instructions issued by the Reserve Bank of India (RBI) to ensure that the direct taxes received by the Bank according to the scrolls maintained in the designated main branches, have been actually remitted to Reserve Bank for credit to the Government account. It has not been found necessary to audit the records of the receiving branches of the banks, but if any suspicion arises in any particular case, the credit may be traced in the records by a reference to the Reserve Bank/State Bank of India concerned. For the purpose of calculating the staff requirements, three party days for each designated bank may be adopted. (CAG's Letter No-2039/TA-III/73-76 dated 18.1.78).

Extract of para-19 of the memo of instructions issued by the RBI is as below: Copies of the stitched scrolls without challans together with the third copies of the forwarding letters under which the two remaining copies of scrolls and challans are sent to the agency bank will be preserved by the designated main branches of all receiving banks for scrutiny by the officers of the Income Tax Department and the CAG of India until the expiry of such period as may be indicated by the Reserve Bank in consultation with the central govt.

9.10 Indirect Taxes:With effect from 1.4.77 the Government of India introduced a scheme for receipt of Central Excise and other indirect taxes by nominated Public Sector Banks in addition to the RBI/SBI. The Revenue Audit Parties which audit the Central Excise and Customs receipt and refunds in the central excise collectorateetc will continue to conduct the test check of collection of revenue and classification of taxes etc. The OAD parties will conduct a test check of the records maintained by the designated main branches of the banks mentioned in para-40 of the memorandum of instructions issued by the RBI to ensure that the indirect taxes received by the banks according to the scrolls maintained in the designated main branches have been actually remitted to the RBI for credit to Government of India account. It has not been found necessary to audit the records of receiving branches of the Banks but if any suspicion arises in any particular case, the credit may be traced in the records with reference to RBI/SBI concerned. (CAG's Letter No-2588/TA-11/194-78 dated 27.12.78).

Extract of Para-40 of the Memo of Instructions issued by RBI is given below: Copies of the stitched scrolls without challans together with the copies of the forwarding letters under which the remaining copies of scrolls and challans are sent to the local banks will be preserved by the link branch of all receiving banks for scrutiny by the officers of the Central Board of Excise and Customs and the CAG of India until expiry of such period as may be indicated by the Reserve Bank in consultation with the Central Government.

9.11 Special deposit scheme for non-government Provident, Superannuation and Gratuity Fund: The Government of India introduced a special deposit scheme for the benefit of Non-government Provident/Superannuation/Gratuity Funds under Ministry of Finance Notification No-16 (i)-19-75 dated 30th June 1975. The deposit under the scheme can be made at any office of the RBI and SBI or its subsidiaries or any nationalized bank. The detailed accounts of the individual subscribers are maintained by the Deposit Office. The local audit of such accounts shall be so organized to ensure that the accounts of all deposits are checked over a span of four or five years. The inspecting parties when they visit branches of State Bank of India and its subsidiaries in connection with the audit of Deposit Accounts maintained at these Banks. Branches of Reserve Bank of India may be visited annually. In respect of special deposit transaction occurring in the Public Sector Banks, audit may be conducted on a selective basis. For this purpose, the branches of the Public Sector Banks, in a state may be divided in following three categories: Category I- Those having more than 500 accounts; Category II- Those having more than 100 and less than 500 accounts and Category III- Those having up to 100 accounts. In respect of branches falling under category I the audit may be conducted once in a year, for category II once in two years and in respect of category III once in three years. For this purpose, the number of accounts maintained by each branch of the Public Sector Banks in the state or under the audit jurisdiction of the Accountant General may be ascertained from the head office of the Bank.

9.11.1 Correctness of refunds/repayments: The local audit party should specifically verify the correctness of the refunds/repayments and interest payments. It will be ensured during local audit that: (i) The repayment/refund of deposit does not exceed the original credit; (ii) The repayment/refund has been made in accordance with the provisions of the scheme; (iii) Where refund of the deposit is made before the due date, it has been made only in the circumstances mentioned in clause-9 of the Government Notification dated 30.6.75 (iv) The amount of deposit refunded on becoming repayable on termination of the scheme has been

paid in five equal annual instalments vide clause- 11 of Ministry's Notification dated 30.6.75. The payment of interest on deposits which would be a charge on the consolidated fund of India, has been correctly worked out with reference to the rate of interest prescribed under the scheme. Calculation of interest should be checked in respect of a prescribed percentage of the total number of accounts maintained in a receiving office. In addition, records maintained in connection with the special deposits in the individual branches of the Bank should also be subjected to a general review during local audit and each item of deposit received should be verified with reference to the entry in the ledger maintained by the deposit office and the receipt issued to the depositor in Form "B" prescribed in the notification. (Authority: C&AG's Letter No- 524/TA-1/71-75 dated 14.6.76). In absence of challans in form "B" the entries made in the ledger maintained by the Deposit Office may be verified with reference to the bank conducting government work. (Authority: C&AG's Letter No- 383/TA-1/9-81 dated 30.3.81)

9.11.2 Revised Instructions: In terms of C&AG's office Circular No- 524/TA- 1/71-75 dated 14.6.76, Audit of Special Deposit Accounts maintained at the Branches of State Bank of India is taken up as and when they are visited by the Inspection Parties for existing items of work. Similar accounts maintained in the Branches of Reserve Bank of India are audited annually, while the audit of the special deposit transactions accruing in the Nationalized Banks is conducted on a selective basis according to the instructions contained in C&AG's Circular No- 2795/TA-11/186-76 dated 24.12.76. The audit of Public Sector Banks (SBI and its Subsidiaries and Nationalized Banks) making pension payments is to be done half yearly. Since the Inspection Parties would be visiting the Public Sector Banks half yearly for the audit of pension payments, it may be ensured that the audit of other items of work due for audit at that time is also completed by the same Inspection Party during its half yearly visit to the Public Sector Banks. (C&AG's Confidential Letter No-1019/TA-I/71-75 dated 23.10.78)

9.12.1 Procedure of local audit of Public Sector Banks handling receipts and payments on behalf of various Ministries and Departments under departmentalization of accounts: Under the departmentalization of accounting system, receipt and payments of each Ministry/ Department of Government of India are handled by the Public Sector Banks (PSBs) including SBI and its subsidiaries banks nominated for the particular Ministry/Department by the Reserve Bank of India in accordance with the Memorandum of Instruction issued by the RBI for the guidance of PSBs concerned as reproduced in Appendix-3 of the Hand Book of

Accounting Instructions. In para-29 of these instructions, provisions have been made for a percentage audit of transactions under the scheme and the manner in which the audit is required to be conducted in the branches of the PSBs for this department. The procedures that may be followed for the audit of the transactions in these banks on government accounts shall be as prescribed here. (i) The bank will also be audited by their own auditors who are expected to cover the transactions relating to govt. The scheme does not provide for an internal audit by the organization of the Controller General of Accounts. The scope of scrutiny by the auditors of the Indian Audit and Accounts Department should therefore take into account these factors. (ii) Since the PSBs are discharging more or less like the treasury functions, the inspection should be on the lines of treasury inspection in accordance with the general principles contained in chapter 13 of the MSO (Audit) and Section-VC of the Secret Memorandum of Instructions regarding the extent of audit. (iii) All PSBs conducting government business should be inspected annually by the Civil Inspection Parties. The primary object of inspection by the Audit Department would be to assist the Banks/Government in establishing a system of strict working in accordance with the prescribed rules. It is thus intended to supplement and not to replace the auditing or inspecting arrangements already in existence in these Banks. The audit inspection cannot check generally more than that the rules prescribed by the government apart from any other special enquiries which the government desire. (iv) It will be observed during local audit that (a) the procedure observed at the PSBs transacting government's business meets all requirements of audit and that the accounts are properly maintained, (b) credit scrolls and chalans are being dispatched in time and afforded to the Ministry/Department or other offices or government concerned without any delay, (c) the specimen signatures of all DDOs are properly recorded and accepted by the bank officials before they make payment, (d) the procedure for dealing with cheques, the encashment thereof subject to the limitations of assignments, letters of credit etc. should be examined to ensure that the rules are complied with. The civil inspection parties which visit branches of PSBs including SBI and its subsidiary banks in connection with the audit of Public Provident Fund Accounts, Special Deposit Accounts and Pension Payment should also be entrusted, as far as possible, with the audit of the accounts of these banks, transacting govt. business so as to avoid multiple visits to banks. (CAG's Letter No-349/TA- 17222-78 dated 24.4.1979).

9.12.2 Summary report of objections regarding local audit of Public Sector Banks: In the case of audit of Public Sector Banks including State Bank of India and its subsidiary banks

handling receipts and payments on behalf of various Ministries/Departments, a copy of the Inspection Report may be sent to PSBs inspected with a copy to the Head of the Office/Link Office of the branch inspected. In cases where a particular bank having transactions with the departments/office of the various Ministries, a half yearly lists of outstanding paras of the Inspection Reports may also be furnished to the Ministry of Finance instead of sending a copy of the report to the administrative Ministry of Finance (Banking Department) in terms of instructions contained in paragraph 7.1.9 of CAG's MSO (Audit). (C&AG's Letter No- 59 Q/TA-II/93-80 dated 17/22.5.80).

Note-1 Separate reports regarding audit of pension payments made by banks may be prepared in respect of each category of pensioners i.e. Central Civil, Defence, Railways and State and may be sent separately to the different authorities concerned instead of sending a consolidated report to the Ministry of Finance (Banking Division). The copies of the report may be sent to the authorities indicated against each besides being sent to the concerned branch of the bank and their Head Office/Link Office. 1. Central Civil Pensioners- Controller General of Accounts. 2. Defence pensioners- Controller of Defence Accounts (Pension). 3. Railway pensioners- Deputy Director Finance (Accounts) Ministry of Railways, Railway Board, New Delhi. (CAG's Letter No-1470/TA- 11/93-80 dated 15.11.80 issued in partial modification of instructions contained in CAG's Letter No-590/TA-11/93-80 dated 22.5.80).

Note-2 Reports relating to audit of Public Provident Fund Account and Special Deposit Scheme at the State Bank of India, its subsidiary banks and other Public Sector Banks may be sent to the Controller of Accounts, Ministry of Finance in addition to copies being sent to the concerned branch of the Bank. The Inspection reports relating to reconciliation with Public Sector Banks/Reserve Bank may be sent to the concerned Controller of Accounts and Pay and Accounts Officers with a copy to the Reserve Bank Deposits group of CAG's office. (C&AG's Letter No-210/TA-I/235-79 dated 27.2.81 issued in continuation of Letter No-1470/TA-11/93-80 dated 15.11.80 vide Note-1 above).

Note-3 Reports relating to audit of Direct and Indirect taxes collected at the branches of the SBI, its subsidiary banks and other Public Sector Banks may be prepared separately and sent separately to different authorities concerned instead of sending a consolidated report to the Ministry of Finance. Copies of such reports may be sent to the authorities indicated as under in addition to copies being sent to the concerned designated branch of the bank. (1) Receipts relating to Income Tax and other indirect taxes- Chief Controller of Accounts, Central Board

of Direct Taxes. (2) Receipts relating to Central Excise and other indirect Taxes- Chief controller of Accounts Central Board of Excise & Customs. (C&AG's Letter No-233/TA-11/27-81 dated 22.2.81 issued in continuation of Letter No- 1470/TA-11/93-80 dated 15.11.80 vide note - 1 above).

9.13 Audit procedure regarding National Development Bonds:The scheme for sale of National Development Bonds (NDBs) by the branches of Nationalized Banks, State Bank of India and its subsidiary banks acting as issuing officer was introduced in August 1977 and was discontinued on 1.5.81. The accounting procedure finally decided to be effected from 1.4.81. The audit is, therefore, to be conducted in respect of receipts and payments up to 31.3.81 and those after 1.4.81. Instructions for the audit arrangements in regard to receipts and payments up till 31.3.81 will be issued by the Comptroller and Auditor General on receipt of information from the Reserve Bank of India in regard to the exact procedure followed by the issuing branches and link branches of Public Sector Banks in regard to receipts and payments of NDBs prior to 1.4.81. In regard to the transactions after 1.4.81, the procedure prescribed by the C&AG of India may be followed: **(a) Issuing Branches-**In accordance with the accounting procedure prescribed by the Govt. of India, the issuing branches will send daily scrolls separately for receipt and payments along with supporting vouchers (encashed bonds) in case of payments to the link branches concerned and each branch of the bank will assign running serial number to the daily scrolls separately for receipt scrolls and payment scrolls. Audit parties, therefore, need not visit the issuing branches for the purpose of audit which can be more effectively carried out in the office of the link branches as referred to in **Appendix-5. (b) Link Branches-** Each link branch will maintain a suitable register to record the daily receipts and payments separately as advised by the issuing branches under its jurisdiction as the daily receipts and payments accruing in the link branch itself acting as an issue office. The link branch will consolidate all these receipts and payments and send an advice in the prescribed form enclosing statement Inspection Report and /statement IP of receipts and payments separately to the concerned office of the Reserve Bank of India. In the case of link branch not having an account with the concerned office of the Reserve Bank of India, the amount received will be remitted or payment will be got reimbursed by means of a draft. The scope of audit of the transactions in the link branches may be as under (1) the entries in the register maintained for recording daily receipts and payments should be examined to see that there are no omissions or delay in reporting all credits/debits by the issuing branches of the bank (2) the transactions should also be traced in

the office copies of the statement of IR and IP which is sent to the Reserve Bank of India or in case the link branch has no account with the Reserve Bank of India, the amounts remitted or payments reimbursed by means of draft (3) the register regarding the custody, receipt and issue of NDBs should be scrutinised to ensure that the closing balance in stock has been duly verified quarterly by the authorities concerned. The entries in the register may also be verified with reference to the quarterly statements received from issuing branches. (c) **Procedure in the Reserve Bank of India-** Each office of the Reserve Bank of India will check the serial number of statement IR and IP received from each link branch under its jurisdiction in order to ensure that there are no missing statements. Each office will also maintain a suitable register for keeping a daily record of bank-wise and state-wise break up of total receipts and payments on the basis of statement IR and statement IP received from the link branches under its jurisdiction. The Reserve Bank of India will prepare a daily consolidated statement viz. Statement-2R and statement-2P separately for receipts and payments. Necessary adjustments will also be made by the Reserve Bank of India. The scope of audit of these transactions in the office of the RBI concerned may be as under (1) One month's transaction recorded in the register of daily receipts and payments may be checked with the statement of IR and IP received from each link branch under its jurisdiction (2) In respect of the receipts and payments it should be seen that necessary adjustments have been made by the RBI offices to the Accounts of the Public Sector Banks concerned without any delay (3) It should be seen that the transactions are traceable in the daily main scrolls furnished by each office of the RBI to the PAO concerned (4) It may be verified during the course of audit that the amount remitted to the RBI or the adjustment carried out by the RBI agree with the total amount of NDBs issued by the issuing branches of the bank. One additional day for each link branch and two days for each office of the RBI may be allowed for the audit of the transactions relating to NDB to the audit parties visiting the branches of Public Sector Banks in connection with the audit of pension payment and receipt of Direct and Indirect taxes in the banks. (C&AG's Letter No-1505/TA-1/247-80 dated 1.12.81 and Circular No-51/TA-1/81).

Note The State Bank of India including its subsidiary banks and certain nationalized banks has nominated their branches in various states as link branches for the purpose of the scheme of National Development Bonds. These link branches will be responsible for proper accounting of receipts and payments in respect of NDB occurring in the bank branches. (RBI

Central Office Letter No-CO/SS/45 B/77-78/3418 dated 2.2.78 and 3657 dated 21.2.78). A list of link branches in Bihar under the jurisdiction of RBI, Patna is given in Appendix-12

9.14 Audit of projects financed by World Bank:In order to facilitate issue of audit certificates where necessary, audit parties have been directed to scrutiny on the very first day of local audit of an office to ascertain whether any expenditure relating to project financed by the World Bank/IDA is also involved, if so, adequate care should be taken to proceed with the audit and to offer comments in a manner so that comments/objections on irregularities noticed in expenditure relating to the World Bank/ IDA projects can be clearly distinguished from those in respect of expenditures of other nature. In respect of offices which are found to be operating world Bank/IDA financed projects an indication to this effect must be given in the part-I "Introductory" to the Draft Inspection Reports as well as in the title sheet. (Authority: Circular No-IC (M) 140/83-84/9 dated 9.11.83).

CHAPTER-10

Commercial Audit of Government/Departmental Undertakings

10.1 Nature of accounts of government/departmental undertakings: There are certain numbers of government/departmental undertakings which maintain proforma accounts including inter alia, manufacturing accounts, Trading account, Profit and loss accounts and Balance Sheets. In addition to government/departmental undertakings, there are numbers of autonomous organizations. These all are under the audit jurisdiction of OAD which, though not commercial in nature, maintains accounts more or less on commercial principles. Some of the important records maintained by the organizations are journals, Ledgers, Trial balance, Receipt and Payment Accounts, Income and Expenditure Accounts and Balance Sheet.

10.2 Audit of government/departmental undertakings/autonomous organizations: Detail instructions for the procedure relating to audit of certain specified records and transactions pertaining to commercial organizations are given in Manual of Commercial Audit published by the Director of Commercial Audit. These instructions can be adopted for the advantage of audit of government/departmental undertakings maintaining proforma accounts along with the regular government accounts as well as for the audit of autonomous organisations following the double entry system of accounts on commercial lines.

CHAPTER-11

Inspection of Public Debt Office RBI, Patna

11.1 Nature and scope of Public Debt Office: The Public Debt Office at RBI, Patna was established on 11.4.60 with a view to facilitate the issue and management of the Bihar Zamindari Abolition Compensation Bond to the intermediaries in the state of Bihar in accordance with the provision of the Bihar Land Reforms Act, 1951. Full-fledged Public Debt Office was functional with effect from 9.10.61 and the audit of the accounts of the Public Debt Office should be conducted annually after the close of a financial year. The details of audit checks to be applied as per instructions for the Inspection of Public Debt Offices by the Indian Audit and Accounts Department issued by the Accountant General, Central Revenues are reproduced below. (Authority: AGCR's Letter No- IM-24-10/1670 dated 9.10.61) A copy of the report should be sent to the Accountant General Central Revenue as soon as the audit is completed.

11.2 Nature of transactions and general checks to be applied in Local Audit of the Public Debt Office: In respect of various transactions general checks to be applied as below.

11.2.1 Receipt and disposal of blank border forms of Promissory Notes, Stock Certificates, Bearer Bonds etc: It is required to observe that all border forms received from the India Security Press, Nasik have been brought to account in the register of sealed covers and thereafter to the Packet Register of Border Forms (ii) that the forms shown as withdrawn from the packet register have either been brought into account in the safe account register of printed border forms for local use or dispatched to other Public Debt Offices (iii) That the balances of forms in stock have been physically verified at prescribed intervals by competent authority; (b) For Printed Border Forms it is required to see (i) That all the printed forms received have been brought into account in the safe account register and the skeleton forms ledgers (ii) That the issues from the Safe Account Register tally with the relative entries in the Indent Register or Indent-Slips and the daily entries in the Issue Registers and those in the Register of Spoiled Forms (iii) That the spoiled forms are destroyed under a certificate of competent authority (iv) That the balances of forms in stock have been physically verified periodically by the competent authority.

11.2.2 Issue of New Loans (including conversion of old loan to a newly floated loan): It is required to see (i) that the total balance of the entire loan in the central ledger kept by the Central Debt Section, Bombay is correct and agrees with the corresponding figure intimated to the Accounts Officer concerned (ii) that the amount of the new loan accounted for in the local ledger of each Public Debt Office is correct and agrees with the abstract from the Central Ledger received from the Central Debt Section (iii) that the securities tendered for conversion, have been cancelled from the Issue Register and the Interest check Register or Index cards in the case of stock certificates and that the interest on the old security has been paid only up to the date of its presentation for conversion or such other date as has been prescribed in the New Loan Notification. It may also be seen for administrative point of view (i) that there has been no abnormal delay in the issue of the scrip to the parties concerned after the receipt of applications in the Public Debt Office (ii) that each application received from a treasury was accompanied by a certificate from the Treasury Officer that the amount of the issue price of the loan applied for had been credited to Government account (iii) that acknowledgement have been obtained for the scrip forwarded to the treasury officers and the branches of the State Bank of India or other Banks acting as agents of the Reserve Bank of India (iv) that where the loan has been oversubscribed, partial allotments have been made according to the orders of the competent authority on uniform basis (v) that

the sums refundable as shown in their Register of Applications agree with those actually refunded as shown in the Refund Warrant Register and (vi) that the Indemnity Bond has been obtained in respect of Subsidiary General Ledger Account.

11.2.3.1 Interest payment against Government Promissory Notes: It is required to see that the Promissory Notes in respect of which interest was paid was outstanding in the Issue Register and that the principal on which interest calculated was correct and the fact of payment was noted in the relevant page of Interest Check Register.

11.2.3.2 Stock Certificates: It is required to see (i) that the total amount of principal on which interest was paid for a particular half-years agrees with the balance outstanding in the issue register as well as in the public debt office ledger (ii) that the total amount of interest as shown in the Register of Interest Warrants was correct as calculated on the total amount of principal at the percentage rate applicable (iii) that the relevant interest cages on the back of the Index Cards have been duly filled in and initiated (iv) that interest warrants are duly posted to the registered holders in time as indicated in paragraph 115 of the Public Debt Office Manual; (v) that when interest warrants were received back undelivered, the fact was noted in the Index Cards and Interest warrant Register and further issue of interest warrants was stopped until the claim has been readmitted; (vi) that the total of the Trial Balance Sheet is correct and agrees with the Public Debt Office Ledger balance at the end of the particular half year.

11.2.3.3 Deposit Receipts and Nontransferable Stock Certificates: The same checks are required as in the case of stock certificates and in case of a Deposit Receipts. It should be further seen that the relative Government Promissory Notes duly stamped with the words "Deposit Receipt Issued" is held in the custody of the Public Debt Office and that necessary remarks have been recorded in the Issue and Interest Check Registers and in the case of non-transferable stock certificates it should be seen that a "Stop" record is made in the Issue and Interest Check Registers against the relevant Promissory Notes to avoid double payment of interest.

11.2.3.4 Subsidiary General Accounts: It is required to see (i) that the balance on which interest was paid was correct and that the fact of issue of the interest draft has been recorded in the account (ii) that the interest was not paid before the date on which it become due.

11.2.3.5 Bearer Bonds: In addition to the check prescribed in the case of interest on Government Promissory Notes it is required to see that the Bearer Bond Coupons have been so defaced as to make a second use of the same impossible. In addition to the checks

prescribed above in respect of the different classes of transaction, the general checks should also be applied to see that no intermediate cages in the Interest Check Register or the Index Cards are left blank and the interest has not been paid beyond the date of redemption. In cases where interest has been paid without deduction of income tax, the fact of production of exemption certificate has been noted in the Public Debt Office records.

11.2.4 Renewal (including consolidation and subdivision), conversion of one form of security into another form of the same loan and re-enforcements:

11.2.4.1 Renewal or Conversion of Security: It is required to see (i) that the account adjustments where necessary, have been correctly made; (ii) that the securities tendered were cancelled from the Issue Register and Interest Check Register or Index Cards (in the case of Stock Certificates); (iii) that the new Notes or certificate issued in exchange were duly entered in the Issue Register and the Interest Check Register or Index Cards and were not in excess of the value of the securities tendered; (iv) that in the case of subsidiary General Ledger Accounts the amount withdrawn (debit) or added (credit) agree with the corresponding securities issued or cancelled; (v) that the particular half year from which interest on the old securities is to cease and on the new ones to accrue has been correctly indicated in the Interest Check Registers or Index cards and (vi) that the correctness of the endorsements on the back of cancelled notes has been examined by the Public Debt Office.

11.2.4.2 In case of re-enforcements: It is required to observe (i) that account adjustments have been made where necessary to correct the balances under the subsidiary heads in the ledger; (ii) that the transactions have been duly recorded in the connected Issue Register; (iii) that the necessary advices about change of enfacement have been duly sent to the Treasury Officers or the Public Debt Office concerned.

11.2.5 Payment of securities tendered for discharge: It is required to see (i) that the securities have been cancelled and noted as such in Issue Registers and Interest Check Register or Index cards; (ii) that interest has not been paid beyond the date up to which it was actually due; (iii) that all securities certified for discharge by the Public Debt Office have been noted in the Cash Payment Register; (iv) that in case where payment order was not recorded on the security itself (e.g. lost notes) the amount paid was correct; (v) that the balance of loan has been reduced from the books of the Public Debt Office and (vi) that the reduction of the balance has been duly communicated to the Accounts Officer concerned for verification of the debits in accounts

11.2.6 Stoppage of securities in r/o lost, stolen, disputed or unclaimed and writing off value of unclaimed securities may be dealt as mentioned here.

11.2.6.1 In case of stoppages of securities in respect of lost, stolen or disputed: It is required to see (i) That the securities stopped or notified for being stopped have been duly marked as such in the respective Issue Registers and Interest Check Register or Index cards; (ii) That orders of the competent authority are obtained before the 'stop' is removed and (iii) That the public Debt Offices and Treasury Officers concerned are duly informed of the notice of stoppage as also the removal of the same.

11.2.6.2 In case of unclaimed securities: It is required to see (i) That the securities included in the Unclaimed Register have been duly stopped in the respective Issue and Check Registers or Index Cards; (ii) That if they were written off to revenue they were cancelled from this Issue Register and Interest Check Register and that the loan balance was reduced accordingly; (iii) That if the claim was readmitted, the fact of issue of a new security, if it related to a current loan, was noted against the old security and the number of the new security entered in the relevant Issue and Check Register or Index Cards and the loan balance increased accordingly and if it relates to a discharge loan, the fact of issue of the payment order has been noted in the Issue and the Index Check Registers and (iv) That the certificates of periodical verification of the unclaimed securities held in custody has been duly recovered in the Register of Unclaimed Securities.

11.2.7 Writing off all outstanding balances of loan after lapses of 20 years from the date of discharge:It is required to see (i) That the voucher for writing off the balance of the loan was drawn up properly and posted correctly in the Day Book and Ledger and the remark "Cancelled and credited to Revenue" has been recorded against the securities as required under Para 158 of the PDO Manual; (ii) That in case of claims subsequently readmitted and the orders of the competent authority were obtained, the fact of the issue of the payment order was noted in the Issue and Check Registers and the remark "Cancelled and Credited to Revenue" existed against the items in the relative Issue and Interest Check Registers or Index Cards. In this regard Para 6.1.38 and 6.1.39 of MSO (Audit) may also be referred to.

CHAPTER-12

Audit of Bodies/Authorities and Autonomous Organization including Corporations etc.

12.1 Audit of bodies and authorities: After enactment of the Comptroller and Auditor General (Duties, Powers and conditions of service) Act, 1971 effective from 15th December 1971, the scope of audit of accounts of bodies and authorities receiving financial assistance in the form of loan and grants from the state and central government has undergone with a significant change. Audit of the accounts of these bodies and authorities is conducted under section 14 and 15 of the Act. The scope and extent of audit under these sections and the detailed procedure to be followed for such audit has been indicated in Comptroller and Auditor General's secret Letter No-1109/TA-I/RGL/161-75/KW dated 18.11.78 which has been reproduced in **Appendix-6**. Section 15 of C&AG (DPC) Act has been reproduced in **Appendix-7**.

12.2 Audit of Autonomous Organization: Audit of Autonomous Organization including Corporations established either by acts of the state legislature or under law made by parliament may be audited under the provisions of section 19 or 20 of the C&AG (DPC) Act and do not come under the audit purview of section 14 and 15 of the said Act. The comprehensive circular of the Comptroller and Auditor General of India containing instructions for audit of such autonomous organization are reproduced in **Appendix- 8**.

CHAPTER-13

Procedure and Standard of Auditing

Government auditors are required to equip themselves adequately with the conceptual skills necessary for audit and the Auditing Standards prescribe the norms of basic principles and practices to be followed during audit. The Auditing Standards governing the audit work have to be supplemented by the guidelines, standing orders and manuals of C&AG of India. Some of the essential requirements regarding audit work contained in Auditing Standards are reproduced below for guidance of staff engaged in audit work.

13.1 Audit Objectives: The broad aim of audit is to safeguard the financial interests of the state and to uphold and promote public accountability for sound and economical financial management practices. Audit assists the legislatures to exercise financial control over the executive government by bringing to light cases of wastefulness, failures, system-weaknesses, deficiencies and the circumstances leading to infructuous expenditure.

13.2 Audit Planning: The Audit Organization and the Auditor should plan the audit work to ensure high quality of audit in a timely, economic, efficient and effective way. Before audit planning, the Audit Organization and Auditor should sufficiently understand the internal control and accounting system of the entity in terms of their reliability, fidelity and integrity and determine the nature, timing and extent of audit tests to be performed. The audit plan should be properly guided and directed to ensure that the objectives of an assigned audit task should be clearly set out and audit staffs receive appropriate directions, guidance and supervision so that the audit task should be properly performed and audit objectives achieved. Audit and supervisory work should be timely completed to ensure conformity with auditing standards, audit programmes followed as approved unless any justified deviation is authorized, audit conducted with due professional care and the working papers and evidence adequately supporting the audit conclusions to prepare meaningful report as planned.

13.3 Regularity and technicality Audit: In course of conducting transaction audit, the Audit Parties should ensure compliances of laws, rules, regulations, procedures etc. effectively. It is an essential and inherent function of Audit to bring to light not only cases of clear irregularity but also every matter which in its judgment appears to involve improper expenditure or waste of public money or stores, even though it may not be in violation of the provisions of the laws, rules and orders. Such audit extends beyond the formality of the expenditure to wisdom, faithfulness and economy.

13.4 Performance Audit or Value for Money Audit: In comprehensive reviews of the working of the projects/programmes of organizations, test should be made to scrutiny how far the expected results in terms of their goals and objectives have been achieved from the use of available resources of money, men and material. This audit is varyingly known as Efficiency-cum-performance/Economy, Efficiency and Effectiveness (three E's) Audit or value for Money (VFM) Audit.

13.5 Audit of Receipts:In audit of government revenue receipts such as taxes, duties and other levies, the Auditor should satisfy himself that the rules and procedures in that behalf are designed to secure an effective check on the assessment, collection and proper allocation of revenue and are being duly observed. The Audit Party should see that the internal procedure adequately secures correct and regular accounting of demands, collections and refunds. No amounts due to government are left outstanding on its books without sufficient reason and the claims are pursued with due diligence and are not abandoned or reduced except with adequate justification and proper authority.

13.6 Audit Evidence: Professional care should be exercised for specifying, gathering and evaluating evidences during audit. Sufficient, competent and relevant evidences should be obtained to support the audit conclusions regarding project, programme, activity, transactions etc. being implemented in the organization.

13.7 Field Audit Report: On completion of audit work, the Auditor should prepare a report with contents easy to understand and free from vagueness or ambiguity. Information supported by sufficient and competent audit evidence, independent, objective, fair, complete, accurate, constructive and concise should be reported in Field Audit Report.

13.8 Follow up of Audit Reports: Adequate, prompt and proper follow up action by the entity in the light of audit conclusions projected will enhance the effectiveness of audit.

13.9 Accountability: Draft audit reports should be submitted by the audit organization to the appropriate officials of the audited office with the copies to other officials who may be responsible for taking action on audit observations and conclusions, however, the report is not a public document till it is presented to legislature.

Chapter-14

Integrated Audit of Department

14.1 Audit objectives and scope: Integrated audit of a department will involve examination of the efficiency and economy in functioning and significant activities against the backdrop of its mandate and policies. This audit will be a combination of the traditional financial audit and efficiency-cum-performance audit and involve examination of the quality of financial management including soundness and appropriateness of internal control systems in its key areas of activity and audit of Value for money (VFM) or Economy, Efficiency and Effectiveness (3Es) covering management and delivery of programmes and services. For effective integrated audit, a clear understanding of the mandate of the department is essential. The main focus of the audit effort will be to examine and comment upon the extent to which the department is functioning within its mandate while trying to achieve its goals and objectives. The thrust should, therefore, be at centre around the evaluation of the performance of the department with reference to its mandate as envisaged in the allocation of business rules. At the same time the linkages between the different tiers of the department namely the Secretariat, the Directorate and the Field Units should be clearly established and evaluated. In order to achieve the desired results within a given time frame, it will be necessary to identify the department's significant areas of activity for detailed examination based on a clear understanding of its organisational structure and characteristics in their totality. The audit objectives in respect of each significant activity should be defined as clearly as possible so as to facilitate the determination of the audit criteria or standards and benchmarks against which the department's performance can be evaluated for arriving at appropriate audit conclusions. Clarity in audit objectives will also ensure to focus and concentrate on the more significant aspects of the entity and its operations in order to avoid wastage of precious audit resources.

14.2 Different Stages of Integrated Audit: Integrated audit of a department may involve the following stages. (i) Survey of the department's mandate and activities and identification of its significant areas of activity for detailed examination. (ii) Definition of audit objectives for each component in as clear terms as possible and of the standards and benchmarks for formulation of the audit criteria. (iii) Development of the detailed audit programme for collection and examination of evidence indicating inter alia time schedules, distribution of work, supervision strategy etc. (iv) Arriving at decisions on the format for reporting the

significant audit conclusions and formulation of recommendations. (v) Normally, the period covered for the purpose of integrated audit would be three years.

14.3 Approach to Integrated Audit: Under this approach wider comprehensive audit of government department is necessary along with review of schemes and programmes undertaken by the department. This audit will also require the adoption of new audit methodologies and techniques including the use of electronic database and even use of Computerised Auditing Techniques (CAT) wherever computerised systems are in use on a large scale. Integrated Audit of a department may ideally begin at the level of the government and the directorate and should be preceded by a detailed study to obtain an integrated view of the department on the matters as stated here. (a) Objectives of the department (b) Rules of business (c) Annual administrative reports (d) Annual action plans (e) Budget documents (f) Performance budgets (g) Plan documents (h) Central as well as State schemes implemented by the department (i) Policy initiatives taken by the department (j) Reports of Parliamentary Committees if any and other external agencies (k) Internal manuals. In addition information gathered from the accounts of the department concerned and from the central audit of vouchers as well as audit findings pertaining to the department should be carefully studied and issues identified for further examination. Drawing and Disbursing Officers in the department should be selected for detailed audit based on this information. During Central Audit, a database of all contingent vouchers of the department should be prepared and analysed. Sanctions issued by the department may also be collected and a database should be prepared for further analysis with reference to the corresponding vouchers. Inputs available in the A & E office such as monthly civil accounts, appropriation accounts, appreciation notes sent to Government, lists of unadjusted abstract contingent bills and 'nil' payment vouchers, lacunae noticed in the paid vouchers, accounting errors etc. should be made use of for the identification of issues to be examined by the audit teams entrusted with integrated audit. For this purpose, the Accountant General (Audit) should interact extensively with the Accountant General (A&E).

14.4 Conduct of Audit: Before taking up the field inspection for integrated audit, the Accountant General should meet the Secretary and explain about the scope and purpose of the integrated audit and the objectives sought to be achieved. The Secretary may be requested to arrange a presentation of the department's main activities to facilitate better understanding of its mandate, objectives and functions. Similarly, a detailed and wide-ranging discussion

should be held with other sufficiently senior personnel of the department that should also be attended by the members of the audit teams. Thereafter audit of the selected DDOs may be taken up simultaneously by deputing the requisite number of audit teams. Each of these teams or parties may be provided with the information that had emerged from the central audit as well as audit at the levels of the Government and the Directorate.

14.5 Audit scrutiny of budget formulation: Apart from examining the current practices and procedures relating to budget formulation and adherence to the relevant rules and instructions issued in this regard by the Finance Department, the aspects described here could also be examined for possible comment. (i) Adequacy of the rules and instructions relating to the formulation of budget and revised estimates, responsibilities of different functionaries and shortcomings, if any. (ii) Adherence by the DDOs to the time schedules prescribed for submission of estimates. (iii) Extent of scrutiny exercised by the Directorate and the Department on the estimates furnished by the DDOs and the justification furnished in support of original estimates and estimates of additional requirements. (iv) Adequacy and effectiveness of the role played by and the involvement of the administrative Secretary and Head of the Department in formulating the departmental budget and the extent to which designated responsibilities are discharged by them. Besides, the quality and reliability of the budget estimates could be assessed by in-depth scrutiny of few estimates with reference to the actual expenditure.

14.6 Audit scrutiny of financial management: Financial rules provide that the Head of the Administrative Department should exercise effective control over expenditure. The aspects described here could be looked into by the Audit in this context. (i) Systems and arrangements available for determination of allotment of funds to various drawing and disbursing officers and their timely release and the adequacy of these arrangements. (ii) Arrangements for communication of allotments to the DDOs, the Accountant General and the Treasury Officers concerned. (iii) Machinery for exercising control on expenditure and monitoring on expenditure incurred by field units and its adequacy. (iv) Timely receipt of monthly expenditure statements from the DDOs, arrangements for their documentation and analysis and the extent to which these are utilised for the purpose of exercising effective control over expenditure. Statistical information may also be compiled for inclusion in the review on (a) the number of DDOs and others from whom the monthly statements were to be received (b) the total number of expenditure statements due in a year and (c) the number of

statements actually received. The reasons for their non-receipt or belated receipt may also be analyzed and deficiencies in the relevant systems and procedures highlighted. (v) Review of as many Plan and Non-Plan schemes implemented by the department as possible to focus attention on (a) unconscionable or persistent delays in release of funds to the DDOs for implementation of the schemes (b) instances of withdrawal of funds in anticipation of requirements (c) irregular diversion of funds and arrangements available centrally for control over utilization and prevention of diversions (d) arrangements for monitoring expenditure on schemes and their adequacy (e) rush of expenditure towards the close of the financial year and (f) instances of drawl of funds to avoid lapses of grants and their irregular retention outside government accounts. (vi) Unusual or extraordinary items of expenditure. (vii) Outstanding loans and advances to departmental personnel and outside parties and adequacy of arrangements for their pursuance and settlement. (viii) Aspects relating to Appropriation Audit and analysis of reasons for excesses over voted grants and charged appropriations, savings in grants and appropriations and surrenders. (ix) Reconciliation of departmental expenditure with that accounted for by the Accountant General and its impact. Non-adherence to the procedures prescribed in this regard and its adverse consequences may also be highlighted.

14.7 Audit of grants to autonomous bodies/non-governmental organizations etc: Grants provided by the department to various autonomous institutions, non-governmental organizations etc. should be examined with a view to ascertaining whether (i) the department has evolved systems and procedures to regulate the release of funds and to monitor their utilization and these are adequate to safeguard against miss utilisation and other irregularities and (ii) the systems and procedures are appropriate and adequate for the achievement of the department's objectives

14.8 Programme Management: Audit may examine the arrangements and machinery in place for the formulation, planning, implementation, monitoring and evaluation of various schemes and projects and frame appropriate comments from the perspective of three Es or VFM Audit. For this purpose a few major schemes may have to be examined in detail at the micro level. Availability of proper and adequate documentation in respect of various schemes may also be looked into and appropriately commented upon.

14.9 Personnel Management: Audit may examine the arrangements for manpower planning assessment of requirements and utilisation of manpower, procedures for creation of posts,

transfer and rotation policies, overstaffing, delays in provisioning, assessment of training needs, expenditure on training and utilisation of trained manpower etc. The detailed principles and guidelines dealt with Manpower Audit may also be duly kept in view.

14.10 Inventory Management and Control: Some of the major contracts and agreements entered into by the department and its field units for purchases and supplies may be scrutinised to highlight deficiencies in systems and procedures, irregularities in purchases, instances of purchases being resorted to without adequate justification or even in the absence of actual requirements resulting in unutilised inventories etc. Adequacy of the arrangements for inventory management and control may also be examined and commented upon.

14.11 Internal control: Integrated audit should comprehensively and in a focussed manner comment on the quality of internal control exercised by the department at Secretariat, Directorate and field units' level in the spheres of financial management, programme management and personnel management. For this purpose Audit will need to ascertain whether (a) adequate control mechanisms have been prescribed (b) these are appropriate and adequate and (c) such controls as are available are in fact operative and functioning.

14.12 Accountability aspects: Audit should examine and comment upon the arrangements for securing and enforcing accountability at different levels of the department with particular reference to the availability of appropriate internal control mechanisms in all areas of its functioning and utilisation of these mechanisms in a manner that facilitates the achievement of the overall goals and objectives of the department.

14.13 Results of audit: Results of these audits may be summarised and if necessary, another spell of audit may be arranged at the Government and Directorate levels. In framing suggestions or recommendations based on the results of audit, the governing principles prescribed in this regard in the Auditing Standards should be scrupulously adhered to and after the conclusion of the audit, the Accountant General should write demi officially to the Secretary of the Department briefing him the main findings of audit with proposal and request for a discussion thereon. Any recommendations or suggestions should be included in the Audit Report after discussion with the Secretary. For giving wider coverage and emphasis involved in integrated audit, professional approach is required that concentrates on highlighting only the significant findings of comprehensive nature in the report and avoids trivia. If this is not kept in mind, the report may turn out to be a loose collection of disparate

audit observations that do not present a complete picture of the department or provide any insights of its functioning and fail to evoke the interest or engage the serious attention of legislators, policy formulators, the press or the lay readers.

Chapter-15

Department Centric Audit

15.1 Nature and scope of Department Centric Audit: Approach of department-centric audit is to facilitate and enable assurance oriented comprehensive audit of government departments mainly aimed at audit of State Government Department but equally relevant for Central Government Expenditure and Revenue Departments also. Department based audit of Finance Ministry/Finance Departments can be incorporated within the scope of sections 13 and 16 of C&AG (DPC) Act, 1971 in which focus could be made on the issues of (i) Resource Mobilization (tax, non tax and borrowing), (ii) Resource Allocation (Budgeting) and (iii) Aggregate Fiscal Discipline (debt and deficit).

15.2 Comprehensive Audit: Comprehensive audit under department-centric audit approach would mean simultaneously conducting financial audit, compliance audit and review of operational performance of the department and its unit in a top down manner. This framework facilitates operationalization of Financial Attest Audit Manual (Financial Audit) to comment on the extent of reliability of the financial reporting which is the primary responsibility of Audit. It enables compliance audit in more structured way to comment on how well financial resources and other sources are safeguarded by pointing out the incidence and extent of deficiencies in such compliance. Review of operational performance involves measuring the extent of achievement to which service delivery objective or other operational objectives were achieved. Comprehensive audit would also mean that a department is covered in its entirety including PSUs, industrial/mining units and autonomous bodies in addition to the DDOs. Transaction audit and performance audit of PSUs and Autonomous Bodies get integrated in this approach. It would help to see to what extent the related PSU or Autonomous Body meets the mandate of the department and whether continues to be relevant. PSUs generally are found under Economic Services and Autonomous Bodies under Social Services. It also facilitates comprehensive audit of PRIs/Local Bodies through vertical (Devolution of Funds) and horizontal (Implementation issues) integration of related information and audit findings. Audit under this approach is independent examination of records of financial and related activities of an entity using generally accepted auditing practices in order to provide intended users with information, conclusions or opinions based on sufficient appropriate evidence on whether the entity has achieved its service delivery objectives or similar operational objectives with economy, efficiency and effectiveness; it's

financial reporting was reliable and resources (resources acquired/created through financial resources) for which it is responsible or entrusted with were safeguard from loss, embezzlement (act of dishonestly appropriating or secreting assets by those to whom such assets have been entrusted), misuse (use wrongly) and waste (use carelessly, extravagantly, without purpose) etc. Review of internal controls are also conducted or carried out with substantive testing under department centric audit.

15.3 Principle: Department-centric audit is an integrated audit of a department covering financial, compliance and performance audit. Department-centric audit is guided by four principles. (i) **Audit planning:** It involves covering a significant number of DDOs under a department viewing them as independent units with resources, power and responsibility and at the same time as a part of the organisational structure of the department that contributes to fulfil department's operational mandate, overall responsibility to safeguard resources and reliable financial reporting. (ii) **Review of internal control:** Review of internal controls and substantive testing is carried out simultaneously to identify the incidence and extent of deficiencies /deviations/violations etc. in the service delivery for which the department is created to fulfil a particular mandate. (iii) **Review of accounting/financial reporting, compliance and operational performance:** Review of internal controls and substantive testing is carried out distinctly for three streams of accounting/financial reporting, compliance and operational performance. They respectively seek to achieve major objectives of reliable financial reporting, safeguarding resources and fulfilling mandate of the department.(iv) **Audit findings:** Audit findings/observations in Inspection Reports would be with reference to each set of controls serving sub-objective, objective and major objectives in three distinct streams and labelled by the Inspecting Officer and tagged suitably as illustrations of deficiencies in financial reporting, compliance and performance aspect of DDOs. IRs would continue to be issued to DDOs in a suitable format that would reflect its functioning in three streams. IRs would feature only those observations to which corrective action lies at the DDO level. Deficiencies/Irregularities of similar nature across the DDOs would be aggregated to prepare a Consolidated Inspection Report (CIR) or Management Letter to be issued to HOD/CCO level. Consolidated Inspection Report of each major department is a potential standalone Audit Report.

15.4 Planning for Audit of a Department: Audit of a department requires one set of audit party consisting of 3 to 5 parties depending on the size of the department, number of DDOs,

expenditure involved and nature of operations and availability of manpower. Applicable system of risk analysis and sample selection could be used for selection of DDOs. Advice for Statistical Sampling can be obtained from the Department's Nodal Group Officer or Statistical Adviser at Headquarter. The test check sample for the audit parties visiting the DDOs would be limited to April onwards and expand progressively during the course of year. The availability of vouchers for Central Audit Parties in main office would follow the same pattern. General review for the purpose of compliance audit and operational performance would cover two years ending preceding March with a test check of any selected months in that period. It may extend backward till the year of last audit only on need basis where the nature of transaction has caused pecuniary loss to government and needs to be measured. Central Audit Parties (CAPs) can play crucial role in Financial Audit and Compliance Audit of the vouchers of the department that are not taken up under department centric audit plan in that year and AGs would derive assurance from CAPs for such departments while certifying the Finance and Appropriation Accounts.

15.5 Execution of Department-centric Audit: The full advantage of Department-centric audit can be achieved only when all important aspects of the functioning of a Department/CCO are examined in audit through review of related internal controls and substantive testing covering of all the three streams of audit viz, financial, compliance and performance being fully aware of their relationships.

15.6 Coordination, supervision and Audit Conclusions: Since the Department-centric audit seeks to draw department wise audit conclusions, it is important that it receives higher level supervision of AGs at the stage of planning and group officer level at all levels of execution. It also needs good coordination between Lead Audit Party and Local Audit Parties and in turn with Central Audit Parties. Responsibilities of the Lead Audit Party include planning the audit of department, entry conference, preparation of detailed guidelines, coordinating the execution of audits of DDOs by LAPs, itself conducting audit of assigned DDOs, office of CCO and HOD, conclusions of findings, preparation of Draft CIR, management letter and exit conference. Conclusions should be drawn on the basis of substantive testing covering of all the three streams of audit viz, financial, compliance and performance under proper practice and guidance of auditing standards.

15.7 Reporting of Audit Findings: Findings arising out of audit of DDOs will continue to be issued as IRs. Deficiencies of similar nature across the department may be aggregated to

prepare a consolidated Inspection Report (CIR). This report may be in three different streams of Financial, Compliance and Operational Performance Audit. Each type of audit findings in the CIR is indicative of failure of a control. The check list prepared by Lead Team for the purpose of field audit should capture all the important controls in three streams separately and the general review of files and test check of transactions in the field audit would be with reference to the check list step by step. If incidence and extent of a particular deficiency is low, it would mean that particular control exists and was exercise well. This assurance might become input to the legislature for allocation of resources to that Department and even change in policy. CIR or Management Letter is an intermediary product between IR and AR. It is meant to be issued by AG to the secretary. CIR would be annexure to the Management Letter or in lieu of Management Letter depending on the size of the Department and volume of audit output.

Chapter-16

CAG's Audit and Social Audit

16.1 Nature of CAG's audit and Social Audit: Although the CAG has been conducting performance audits of socio-economic developmental programme of the Central and State Governments over the last four decades, but this has gained renewed emphasis with the introduction of new performance audit guidelines on international best practices. The new performance audit methodology envisages more structured planning to identify governance-centric issues, closer interaction with the executive at all stages of the audit process of planning, execution and reporting and use of new methods for gathering audit evidence such as beneficiary/stakeholder surveys, physical inspection, audio visual recordings, statistical sampling etc. CAG's audit is an external audit on behalf of the tax payers. The Union and State Legislatures, through their respective legislative committees on public accounts and public undertakings, discuss the matters brought out in CAG's Audit Reports and make recommendations to the executive for appropriate management action. In a broad theoretical sense therefore, CAG's audit itself is a social audit. Yet, in its commonly perceived sense, CAG audit remains a government process largely confined to government officials and government auditors. Social audit, on the other hand, in its current connotation, seeks to make the audit process more transparent and seeks to take audit findings to a wider public domain of stakeholders, users of the government schemes, services and utilities. The demand for social audit has grown in recent years due to the steady shift in devolution of central funds and functions relating to socio-economic schemes to the local tiers of government like Panchayati Raj Institutions (PRIs), Urban Local Bodies (ULBs) and other special purpose agencies set up by the government for implementation of specific schemes.

16.2 New Accountability Concerns: The shift in devolution of funds and functions towards PRIs and ULBs has been the result of the 73rd and 74th amendments to the constitution and the recommendations of the XIth and subsequent Central Finance Commission. Central Government has been entrusting the implementation of various socio-economic developmental schemes to PRIs/ULBs/Autonomous Agencies/Societies and direct transferring of funds to them with facilitatory involvement of the concerned State Governments. Such fiscal allocations have effectively remained out of the State legislative and administrative accountability loop. From the audit point of view, the shift in government expenditure to PRIs, ULBs and other agencies/societies has given rise to a new situation. The

CAGs audit jurisdiction over such entities is nebulous compared to his jurisdiction over traditional government departments. Statutorily audit of local self government institutions is a state subject and the primary (external) audit of PRIs and ULBs is with the Director Local Funds Audit (DLFA) with the designated auditors as specified in the State laws with the exception of West Bengal, Bihar and Jharkhand. Also the scheme guidelines of some of the flagship socio-economic programme of the government do not provide adequate clarity with regard to audit of the programme by the CAG. Further, despite the joint physical verifications with departmental authorities and beneficiary surveys, the primary focus of the CAG's performance audits remains in most cases, processes within governmental agencies with the actual verification of outputs and outcomes being only of secondary focus. The prime reason for this is our audit methodology and evidence requirements in order to ensure the credibility of our audit findings as well as manpower constraints. In other words, we neither verify every rural road or employment generation scheme for every household in a Gram Panchyat due to the limitations of manpower, nor would we accept unauthenticated oral evidence except as supplemental to our core audit evidence.

16.3 Role of social audit: A task group constituted for recommendation of role of social audit studied the social audit practices of Gram Sabhas and civil society organization and explored the modalities of assimilating social audit concepts and techniques in to the audit of CAG of India within the framework of the existing mandate. The Group deliberated the issue of positioning of social audit within the three basic categorization of audit viz. financial, compliance and performance audit as its own distinct type. The classification of the type of audit is determined in the context of the audit objectives with reference to the generally accepted auditing standards. The objectives of social audit revolve around empowerment of the beneficiaries and directly affected stakeholders of the public sector programmes in matters of planning, implementation, delivery of services, appraisal, corruption and frauds, impact etc. The social audit procedures provide a voice to the people to participate and to be heard. Above all, social audit provides close to complete transparency to the entire gamut of programme management and renders the impact sustainable. It enables the people to view the decision making process and criteria adopted for various elements of the programme.

16.4 Strengths of Social Audit: Focus on outputs in social audit process, the directness of its inquisitions and the instantaneous interface and interlocution it provides among the beneficiaries and stakeholders of social sector programmes, has its unique strengths. The task

group noted that social audit provides an opportunity to plug a long felt gap in the audit process and techniques used by our department. It provides the strongest and irrefutable direct evidence for inputs, processes, financial and physical reporting compliance, physical verification, assurance against misuse, fraud and misappropriation and utilization of resources and assets. In addition, social audits also provide a forum for strengthening the democratic process in governance and grievance redressal. Social audit provides the most important link between oral and documentary evidence and offers a means of securing accountability of the managers of public sector programmes and renders the monitoring and appraisal mechanism of multi-perspective and transparent.

16.5 Synergy and Partnership between Social Audit and CAG's Audit: The task group is of the opinion that recognizing the social audits that afford an opportunity to strengthen the micro level scrutiny of the programme planning, implementation and monitoring, it should be brought into the mainstream of auditing by the Indian Audit and Accounts Department as an essential process and tool in all the performance audits of social sector programmes. It can also be placed in the mainstream of compliance audits of the social sector programmes to assist verification of compliance to the rules and assurance against frauds, corruption and misappropriation. Further, it can facilitate association of CAG's auditors with local fund auditors and Gram Sabhas in certification of accounts of local governments. A protocol may be established for sustainable ongoing partnership with the major social audit organizations within the country and their findings used in developing the findings and conclusions as a standard procedure in all audits of the social sector programmes. In turn, the synergy protocol should also provide for assistance in capacity building of the social audit groups and encouraging social audits in the States where it has not taken off in a significant manner.

16.6 Recommendations of the task force:

16.6.1 Social audit strengthens and adds depth to CAGs' audits: Social audit strengthens and adds depth to CAGs' audits and should be mainstreamed into our processes for audit of all social sector programmes. This should cover not only MNREGS for which a social audit process has been mandated but also other social sector programmes like NRHM, SSA, ARWSP etc.

16.6.2 Synergizing of social audit and CAG's audit: Synergizing of social audit and CAG's audit should be undertaken not only for our performance audits (All India/Central/State) but

also for regular compliance audits. Oversight of key social sector programmes cannot be restricted to performance audits at intervals of 3-5 years or so but should include persistent and regular compliance audits of such programmes for providing regular feedback to policy makers at the Centre and State. The synergizing of social audit and CAG's audit could be divided into three aspects of inputs for our audit planning and implementation, incorporation of findings of social audits, and incorporating social audit tools in our compliance and performance audits.

16.6.3 Inputs for our audit planning and implementation process: Social audit reports of civil society groups/gram Sabhas could be used as inputs for the risk assessment and prioritization of units for compliance audits and the audit sample for performance audits. Further, points revealed by social audit reports could be investigated through rigorous scrutiny of relevant records at various levels.

16.6.4 Incorporation of findings of social audits: A summary of the social audit reports of Gram Sabhas and civil society groups could be incorporated either to provide a different perspective or to strengthen/supplement our audit findings in our performance audit reports & due credit should be given to the social audit agencies involved. Social audit groups may be encouraged to move beyond MNREGA to cover other critical social sector programmes e.g. NRHM, SSA, Public Distribution Scheme, Rural Water Supply etc.

16.6.5 Framework of coordination and cooperation: A formal framework of coordination and cooperation may be devised covering the (i) mutual communication of the audit plans and their synchronization (ii) audit concerns/objectives in the compliance and performance audits and (iii) the dovetailing of their work and reports into our report may be developed to serve as internal guidelines while utilizing or extracting from their work as per their own work programmes, the ownership reference must be indicated.

16.6.6 Incorporating social audit tools in CAG's compliance and performance audits: (a) Our audit teams could participate as observers in Gram Sabha meetings and provide necessary inputs therein; this would not, in the opinion of the task group, compromise our independence and integrity. As far as possible, we could synchronise our compliance and performance audit schedules for the sampled units with the programmes for social audits (to the extent feasible). (b) Our audit teams should conduct surveys of beneficiaries to ascertain their feedback on the extent of achievement of intended outputs and outcomes. This could be

done either individually by our audit teams or in association with social audit groups. “Authentication” of such findings by departmental representatives should not be necessary in order for such findings to be acceptable as credible audit evidence. To what extent the feedback from beneficiaries can be relied upon is something that will have to be considered as part of our audit reporting, and will not be necessarily improved by ensuring the signature of departmental representatives? (c) Whether, for reasons of resource constraints, we are unable to conduct beneficiary surveys of specific programmes as part of our performance audits, we could encourage social audit groups to cover such programmes. (d) Joint physical inspections (with Departmental representatives) of the assets created would also add considerable value to our compliance and performance audit findings. (e) Where social audit by the Gram Sabha or other user groups/local committees is mandated for specific programmes and has not been carried out in units within our audit sample, this should be suitably highlighted in our audit report.

16.6.7 Sharing of Inspection Reports on Social Sector Programmes: As per the RTI Act, we are mandated to disclose our inspection reports to the public on demand. Further, Section 4 of the RTI Act enjoins the proactive disclosure of information by Government agencies. In this connection, it is necessary to make available through the CAG/AG’s websites full details of all our inspection Reports (as well as replies received thereto) at least in respect of all social sector programmes initially. From our experiences at the Jan Sunwais and Sammelans, the findings being discussed and debated are in many cases quite similar to our IR paragraphs. Making available our IR findings would enable these to be acted upon further in social audit meetings. This would be an additional mechanism to our traditional process of ensuring public accountability through departmental and legislative channels and would not, in the opinion of the task group, adversely affect our normal reporting processes.

16.6.8 Separate Directorate: Considering the progress made by the civil society groups and Gram Sabhas in Andhra Pradesh and Rajasthan and the initiative taken by these State Governments in setting up separate directorates for social audit, we may, as a first step, synergize our audit of social sector programmes like MNREGA, ARWSP etc. with social audit. (x) A coordination committee consisting of officers from Report Central, Report States and selected officers nominated by AG may be established for mainstreaming the social audit, gather information, draw and monitor plan for synergy and interact with the civil society organizations. The coordination committee should meet at least once in six months to review the work and evolve improved procedures.

16.6.9 Coordination Committee: Active encouragement may be provided by us to promote entities in the field of social audit in those states where it has not taken off in any significant manner. National and State level seminars may be held with multi perspective participation to highlight and disseminate the social audit efforts.

16.6.10 Capacity Building: (a) IAAD can prepare easy audit training modules in local languages which could explain the basic process such as sanctions, accounts keeping vouching of expenditure, measurement of assets and services etc. Those could be disseminated through dynamic usage of Information & Communication Technology (ICT), civil society groups, workshops organized directly at RTIs/RTCs or at other external venues by identified knowledge institutions. (b) Besides preparing and disseminating easy audit training modules, IAAD could provide a platform for brainstorming and knowledge sharing through workshops and seminars to all manners for persons involved in the social audit process, including the beneficiaries of the programme. (c) IAAD personnel at all levels too need to be sensitized to various ground realities with which social programmes are taken up at the grassroots and are administered at various other levels outside the pale of official documents. This could be done by deputing IAAD personnel at all levels to social audit sessions (Jan Sanwoois) associating with knowledge and civil society institutions and/or academic institutions who have an active social work agenda built into their academic curriculum.

16.6.11 Strengthening of Local Fund Audit: The Local Fund Audit Acts of most State Governments do not specifically provide for CAG's audit of ULBs and PRIs, although provisions for test check and Technical Guidance and Supervision (TGS) by CAG have been made through executive instructions of the State Governments. CAG's audit of ULBs and PRIs in all three forms (certification, compliance and performance) should be placed on a firm legislative footing. Since funds for most social sector programmes are directly and indirectly being provided to PRIs and ULBs for implementation of such programmes, such a legislative mandate would strengthen our audit access. The Civil Audit and Local Bodies Audit functions are being discharged through separate functional channels within IAAD. While for performance audit of social sector programmes, the Civil Audit Offices generally do obtain access to the relevant records of PRIs/ULBs in respect of such programmes, the accounts of the local tiers of government are not open for CAG's scrutiny, this is important since PRIs and ULBs receive huge funds from the Central and State Government for a multiplicity of programmes, and the chances of diversion of funds for other purpose and

irregularities in expenditure are high. Further compliance audit of such programmes would normally devolve on the LB Audit Offices, and their access to records is severely restricted. An improved legislative mandate would simplify such access problems.

16.6.12 Uniformity of social audit arrangements across social sector programmes: While formal social audit arrangements have been provided for in MNREGA other programmes like PDS, ARWSP, NRHM etc. have various arrangements for grass-root level monitoring and accountability. For example, programmes of the Rural Development Ministry require monitoring and reporting by a Vigilance and Monitoring Committee at the village level, while Village Monitoring Committees are provided for under NRHM. We could take up the matter with the GOI for ensuring, as far as possible, uniformity of social audit/monitoring arrangements at the village level for all social programmes so that arrangements for community participation are better institutionalized.

Chapter-17

Audit Quality Management Framework

17.1 Operationalization of Audit Quality Management Framework: The Comptroller and Auditor General of India has approved an Audit Quality Management Framework (AQMF) for Indian Audit and Accounts Department as **Annexed-A**. This Framework includes all the elements and instruments related to audit quality that provide an assurance of quality in the audit function. The orders and guidelines of AQMF have been circulated by the O/o C&AG Letter No- 172 Audit (AP) 37-2008 Dated: 04.06. 2009

17.2 Nature and Scope of Audit Quality Management Framework: Framework of AQMF has been prepared in the backdrop of the Audit Quality Assurance Guideline brought out by ASOSAI. A Task Force underwent into the extent of these guidelines and recommended adoption of an umbrella framework for Audit Quality Management (AQMF) which would map various existing Key Instruments to be employed (KIEs) for audit quality assurance viz. the C&AG (DPC) Act, Auditing Standards and some of the Manuals and Guidelines issued with main Audit Quality Management Elements (AQMEs). The Framework identifies the policies, practices and guidance on the five broad parameters of the quality management processes viz. (i) leadership and direction (ii) human resources management (iii) audit management (iv) clients and stakeholder relations and (v) continuous improvement. The quality framework has been developed in such a manner as leaves ample scope for incorporation of the best practices in future and lends itself to continuous up gradation in respect of new audit methodologies and practices develop. All the five broad parameters of quality management processes referred as above have been further divided into various Quality management elements (QMEs), for example in the case of parameter on ‘audit management’ the QMEs include audit planning, staffing for audit, conducting of audit, evidence, documentation, reporting etc. The operationalization of AQMF will involve issue of appropriate internal instructions to various Functional Wings and in turn by each Functional Wing to field offices under their control to ensure appropriate customization of the AQMF with each stream of audit viz. Civil, Commercial, Defence, Railway, Revenue etc.

17.3 Level of audit related literature: During the course of implementation of the instructions a clear hierarchy of audit related literature will be established as mentioned here. **Level I-** The Constitutional provisions and the C&AG (DPC) Act and Regulations. **Level II-**

Standards and generic manuals/guidelines that have been brought out by Audit Wing and have universal application. **Level III-** Supplementary manuals of instructions and guidance and practice notes that each Functional Wing may bring out clearly drawing upon and expounding upon Level I and II literature/standards and **Level IV-** The local manuals/circulars/orders which each office may bring out to supplement Level III literature.

17.4 Reviewing, reformulating and integrating of literatures: Respective streams of audit like civil, defence, railways, commercial, revenue, scientific, local bodies etc. as well as field audit offices are required to formulate and elaborate internal instructions in accordance with the principles outlined in the framework as indicated. While reviewing, reformulating and integrating all technical literature in the above manner, parentage and grand of each manual, guidance/practice notes and circulars/instructions will be clearly delineated against the higher levels of literature/standards as indicated above. Change in a KIE should be made or a clarification issued only by the authority that has brought it out in the first place and no change in a KIE should be in conflict with a corresponding KIE of higher level. Thus, where a change constitutes a deviation from a standard or generic manual/guidelines issued by Audit Wing, no circular etc. for effecting such a change should be issued without the concurrence with the Audit Wing. As far as possible, all future changes or revisions in manuals/guidelines etc. should be communicated by the authority that has issued the original manuals, guidelines, etc. through correction slips only instead of through random circulars, instructions etc. The action required as above may be completed by 31st March by Audit Wing and the Functional Wings at Headquarters Office and by 30th September by all field audit offices. For the purpose of ensuring adherence to this target date, the Functional Wings and field offices are required to draw out a plan of action with definite time lines. Any additional human resources if required for this purpose may be carefully identified and assigned exclusively for the task within the existing staff.

17.5 Annexure-A: Guidelines and Extent of Audit Quality Management Framework

17.5.1 Introduction: The process of managing audit quality is a means of ensuring that audit is planned efficiently, executed effectively and the audit product meets the benchmarks of the department and the needs of clients and stake holders. This guideline attempts to list out steps to be taken at different stages of the audit process in a generic manner so as to ensure quality of audit. Building of these aspects into the audit cycle at all stages and all levels would enable us to move from an emphasis on quality control of an individual audit product to one of

continuous quality assurance. The broad objectives of quality assurance are to ensure that (i) Controls are in place at all stages of the audit cycle including planning, execution, reporting and follow up (ii) Controls are properly implemented (iii) In built mechanism to review and update the controls exists constantly.

17.5.2 Five Major Elements: While the framework brings out various measures required to ensure quality control and assurance in audit, this has to be read with and supplemented by auditing standards, existing audit manuals, guidelines and instructions to have a complete and exhaustive description of auditing principles, processes and practices followed in different streams of audit like civil, defence, revenue, commercial, railways, scientific etc. Being an evolving document, the framework lends itself to continuous upgradation in line with the technological changes and development of new methodologies and practices. AQMF governing the SAI should generally consist of five major elements of ‘leadership and direction’, ‘human resources management’, ‘audit management’, ‘client and stakeholder relations’ and ‘continuous improvement’. In public audit, quality management involves a system composed of the audit organization, the auditors and the audit process, all working together to produce outputs that fulfil the requirement of its stakeholders and the general public. Continuous improvement in the quality of audit by focusing on the needs of clients and stakeholders is the underlying principle behind the audit quality management system or framework. It is essential that SAI should have quality management policies & procedures in place and should ensure that these policies and procedures are subject to a review mechanism.

17.5.3 Reasonable assurance about the quality audit work and results of audit: The present framework attempts to concentrate largely on measures and procedures carried out within the audit process that would provide a reasonable assurance about the quality of audit work and the results of audit. It covers all audit products and results of audit from audit notes, inspection reports and management letters to audit reports sent to the government and finally presented to legislature. The framework or the basic structure also includes quality practices and measures to be followed in all audits like financial audit, compliance audit and performance audit conducted in the department of civil, commercial, defence, revenue, railways, scientific, posts and telecommunications, local bodies etc. The framework is divided into two broad sections: I-Audit Planning, Execution, Reporting and Follow-up and

II-Continuous Improvement through Technical Inspection, Peer Review and Lessons Learnt Process.

17.5.4 Audit Planning: Audit planning is expected to be strategic to fit into the long term and short term goals of audit. These goals would need to be identified and framed in consonance with the overall ‘Vision and Mission Statement’ of the Department with the specific targets and goals of individual wings/offices. Within the strategic plan for audit and annual operational plan for all audits to be conducted in a financial year is drawn up in the field offices. The annual audit planning broadly comprises of risk assessment, selection of units, assignment planning etc. The quality measures, procedures and practices set out below are related to operational plan for all audits and planning for individual audit assignments.

17.5.5 Electronic database of auditee profiles: This is the foundation of audit planning. It is, therefore, important to maintain comprehensive and current information on all entities to be audited so as to target the right units. This database/knowledge repository which should be maintained electronically is to be utilized in a scientific manner by applying tools such as risk assessment techniques to enable an objective and unbiased selection of auditee units. Information available from the Vouchers Level Computerization (VLC) database should be used for audit planning and data from various e-governance initiatives undertaken by entities.

17.5.6 Materiality and risk assessment: The audit plan should be based on clear risk assessment, materiality and priority. The overall significance of the auditee based on factors such as financial size or the effect of its performance on the public at large or issues of national importance would be a major factor in prioritizing the audits. These could include previous audit experience, visibility of the subject, audit-ability of unit and expected audit impact.

17.5.7 Audit objectives, scope and methodology: Once the selection of auditee unit has been made, specific audit objectives should be drawn up which would govern the manner in which the audit is to be carried out. These could include reporting compliance with rules and procedures, forming an opinion on the financial statements and assessing the performance of the auditee and its programmes. The audit objectives along with the risk profile of the auditee, the level of assurance required and available audit personnel would help determine the scope of audit, sample size and the composition of the audit team. Quality at the stage of audit planning can be enhanced by regular interactions between top management and other

team members/officers involved in the audit process to ensure that all critical area have been adequately addressed. Audit methodology should be designed in such a fashion as to provide sufficient competent and relevant evidence to achieve the objectives of the audit.

17.5.8 Focus on criteria: Audit criteria and evidence required to be gathered are to be decided upon following the audit objectives and in accordance with the broad parameters laid down at the stage of audit planning. Audit criteria can be broadly defined as a benchmark or a standard to assess the work of the auditee on financial statements, compliance and performance related issues. The audit criteria can be prepared in several forms by establishing certain broad parameters or as a checklist or as a set of questions for examination.

17.5.9 Identification of key risk areas and statistical sampling techniques: Key risk areas should be identified for focused attention during the audit and scientifically designed sampling techniques used for determination of sample size.

17.5.10 Scheduling of audit: Allocation of time for the audit of each unit is dependent on the audit scope, manpower availability and other relevant departmental instructions contained in Manuals/Guidelines etc. The actual scheduling of audit should be subject to the mutual convenience of both auditor and auditee.

17.5.11 Training and capacity building: Training of staff should be taken up regularly so as to continuously upgrade skills and keep pace with changes in audit methodologies, techniques and tools. Training activities could include inhouse training programmes, seminars and workshops as well as on the job training, training at RTIs and for senior officers at NAAA/iCISA. The programmes should be standardized and structured to ensure uniformity and quality and overall effectiveness of training assessed periodically. It should be ensured that officers trained in a specific area are retained in related audit for a reasonable period. 'Training Needs Analysis' would help in identifying gaps in knowledge, skills and ability for more focused and purposive training programmes for staff.

17.5.12 Staffing for the audit-skill & knowledge of audit personnel: Domain knowledge of the audit subject is a critical element of the audit quality management framework and the skills and experience of the staff deployed on the audit are expected to be commensurate with the requirements of the task. Offices should maintain an inventory of skills of its audit personnel which would enable them to match the task with required skills. Gap analysis to

determine whether all skills required for carrying out the audit are available in-house or can be built up by courses/training programmes in Regional Training Institutes or at higher management levels should be carried out. This is essential to decide on the need for appropriate experts/consultants to advise on key aspects of the audit like selection of sample, issues for examination, audit methodology etc. In the event of deciding to hire experts/consultants, any existing orders or guidelines of the Department should be referred to.

17.5.13 Assignment of personnel: There should be reasonable rotation of assignments of personnel so as to maintain objectivity and independence. It needs to be ensured that audit is carried out in an impartial and fair manner without favour or prejudice.

17.5.14 Parameters for distribution of work: Specific parameter for distribution of work amongst the members of audit parties in respect of different streams of audit like Civil, Commercial, Defence and Revenue etc. needs to be laid down, if not already prescribed and should be continuously reviewed so that each member of an audit has to do some original work irrespective of his position in the hierarchy.

17.5.15 Standards formats & checklists: Standard formats and checklists should be developed and used to ensure uniformity and focus in the audit approach. These could include (i) preliminary list of documents to be seen, (ii) suggested issues for examination, (iii) checks to be exercised at different levels and (vi) format for reporting results.

17.5.16 Provision for supervision and review of audit: Adequate levels of supervision, monitoring and review at different levels and as prescribed under different standards and guidelines of this department need to be provided in the audit plan so as to ensure that audit objectives are achieved. While supervision involves directing audit staff and monitoring their work during the audit to ensure that the audit objectives are met, review brings more than one more level of experience and judgment to the audit task and generally ensure involvement of higher levels of management with the audit process including providing an assurance that the work has been carried out as per the standards and guidelines.

The audit plan should be reviewed and approved by the competent authority with deviations from the approved plan during execution requiring written documentation and approvals. Before approving the audit plan, an exercise may also be conducted to ascertain the areas where inputs from other wings of audit would be required. Suitable mechanism may be evolved to obtain the requisite information from other wings on a timely and regular basis

and reviewed on periodical basis. Existing departmental standards, manuals, guidelines, and instructions issued in respect of audit planning need to be kept in mind and complied with. While reviewing and approving the audit plan it should be seen whether the planning process was (b) Based on (i) sound judgment; (ii) Comprehensive; (iii) Provided for suitably experienced staff for audit and supervision; (iv) Timely and (v) Appropriately documented.

17.5.17 Audit Execution: The audit execution broadly includes the process as mentioned here: (i) Entry conference; (ii) Determination of the audit approach; (iii) Developing and executing audit tests through evidence gathering, evaluating evidence, developing audit opinions; (iv) Developing findings and ensuring that replies/responses from the management are received; (v) Developing recommendation and (vi) Exit conference.

17.5.18 Clear understanding about entity and audit objectives: The audit process begins with a restatement of our understanding of the entity. This requires domain knowledge of the entity, the control framework within which the entity operates and the external environment. The focus of audit would be on the key risk areas and audit objectives already identified so as to be able to provide higher levels of audit assurance on the functioning of the entity. This may be explained to the head of the auditee unit at the time of entry conference and his/her input obtained. However, the audit team would continue to have the flexibility to examine other risk areas that emerge during the audit with proper documentation and approvals.

17.5.19 Audit test programmes: Testing of the audit objectives is the task of carrying out a series of procedures and activities with reference to the audit criteria already developed and obtaining relevant and reliable evidence in respect of these procedures/activities during the course of audit. The audit tests are the key link between the audit objectives and criteria and the conduct of audit lead to credible and objective findings. Instructions, detailed checklists and formats as contained in the Manuals/Guidelines etc. of the department or as prepared at the stage of audit planning are to be referred to while framing the audit test programme. Selection of the sample to be tested should be done in a transparent manner and where possible with the help of appropriate sampling techniques. The sample drawn should be commensurate with the assurance levels required in the audit. Adequate documentation is required for the method of selection of the sample (e.g. random, judgmental etc.), its size and the audit criteria/objective with which the sample is linked.

17.5.20 Developing audit findings: Audit findings/observations are based on the analysis of information or evidence drawn from the sample for audit with Computer Assisted Audit Techniques and Tools (CAATTS) applied wherever possible. Audit evidence should be valid, appropriate, reliable, sufficient, accurate and complete so as to be able to frame audit opinions and draw effective conclusions. The opinion and assessment of the auditor are to be based solely on the analysis of facts. Audit findings and conclusions should be an accurate reflection of actual conditions of the matter being examined.

17.5.21 Documentation and maintenance of working papers: Complete and detailed working papers must be maintained in respect of the audit, appropriately cross referenced and supported by evidence. The working papers should be accurate, clear and relevant and should bring out the inputs made by the different members of the audit team including supervision and review, as determined in the audit plan. The working papers should also include information relating to monitoring/review of the work of a consultant/expert, if any, as outlined in departmental orders or guidelines.

17.5.22 Supervision of audit: Supervision should involve assigning of responsibilities, providing guidance, reviewing the work, staying informed about, addressing significant problems and obtaining periodic feedback. There should be frequent communication with staff so that they all understand their role and tasks within the overall aim and context of the task assigned. Critical points in the audit programme should be identified to ensure that audit aims are met.

17.5.23 Monitoring and review of audit operation: Regular monitoring of the work at suitably senior levels would enable anticipation of problems and early intervention with appropriate action and solutions. Improved electronic and online monitoring of the progress of audit and providing guidance and clarification to field parties would substantially improve the quality of audit product. A comprehensive and timely review would also ensure that all conclusions are based on and supported by reliable and sufficient evidence.

17.5.24 Exit conference: Before the audit is completed, management/auditee responses to the audit findings and observations should be obtained. All connected key documents may also be obtained, especially in respect of important observations which are likely to be featured in the audit report. The report should also be discussed in detail with the head of the auditee before concluding the audit programme.

17.5.25 Audit reporting and follow up: The audit product includes all reports/appraisals/comments/opinions/findings that emerges from the audit process and its follow up. All findings should be evaluated in the context of the audit evidence seen and the response of the auditee. Observations and conclusions are expected to be logical and based on valid audit evidence. The audit report should comment specifically on the audit objectives, scope and methodology and the results of the audit include finding, conclusion and recommendations in accordance with the 'Reporting Standards' of the Department.

17.5.26 Reporting of financial and compliance audits: For attestation or certification audit, the auditor's opinion on a set of financial statements is generally given in a concise, standardized format in accordance with standards/orders/guidelines of the Department. Opinions should be appended to and published with the financial statements to which they relate. For compliance audits primarily concerned with compliance with laws, regulations and procedures and with probity and propriety of decisions, the reporting and communicating the audit results should be in accordance with the policies, guidelines and instructions of the department.

17.5.27 Reporting for performance audit: Performance audit is wide-ranging in nature and is more open to judgment and interpretation. For performance audits, the report should be on the economy and efficiency with which resources are used and the effectiveness with which objectives are achieved. The reporting structure will have to be in accordance with the Performance Auditing Guidelines of the Department.

17.5.28 Characteristics of a good audit report: The audit report should be complete, accurate, objective, convincing, clear and concise. It should contain the audit objectives, scope and methodology and the results of audit which include findings and conclusions and recommendations where applicable. Special attention is to be given while framing audit comments relating to fraud and corruption as laid out in departmental instructions.

17.5.29 Review of audit findings before finalization of reports: All audit findings should be reviewed at a suitably senior level before audit opinions or reports are finalized. The nature and extent of the review would depend on several factors such as the significance of the work, the risk perception of the auditee and experience levels of the audit personnel. Review can be done on a concurrent basis when the audit work is going on at the stage of preparation of audit observations, finalization of inspection reports, drafting of audit reports

and applying quality checks prior to final approval of the audit report. Similarly a checklist may be prepared in the headquarters section of the field offices to review the Inspection Reports (IRs). The performance of the audit team may be reviewed at the time of finalization of the IR on the basis of predetermined parameters and placed before the senior management for appropriate action. The results of the review need to be documented in a transparent manner to be used as feedback into the audit cycle. Review would include check of the presentation and format and the technical quality and content of the product. It should ensure that all findings and conclusions are based on and supported by competent, relevant and reasonable evidence. All assertions of audit are to be fully supported by the data gathered during the audit. The documentation of key evidence and its interpretation in audit should clearly establish the manner in which audit conclusions were reached. The review checks whether the audit product is timely, comprehensive, and appropriately documented. Timeliness of the audit result may involve both the meeting of statutory deadlines and the delivering of the audit results when they were needed for a policy decision or to correct systemic weaknesses. The response of the auditee should also be adequately reflected and any divergence of opinion should be dealt with clearly. The review is expected to assess the level and quality of the prescribed supervision of the audit and provide an assurance that the work has been carried out according to standards and guidelines of the department.

17.5.30 Developing audit recommendations: All performance audits should conclude with well thought-out recommendations. For developing recommendations, audit should identify the underlying cause(s) of findings as this forms the basis of the recommendations. A quality recommendation is one that is (i) Action-oriented, properly directed, specific, convincing, significant, positive in tone and content; (ii) Dealing with underlying causes and should correct the basic cause of the deficiency; (iii) Feasible and workable; and (iv) Cost-effective or the benefit to be derived from implementation of the recommendation outweighs the cost for its implementation.

17.5.31 Inventory of recommendations: A database of audit recommendations should be maintained electronically with appropriate grading for effective monitoring and follow-up of audit recommendations. The database also needs to be updated periodically.

17.5.32 Follow up: Follow-up of the audit output improves the quality and effectiveness of audit by assessing the response of clients and stakeholders to the work performed by audit in

terms of results and impact. There should be an assessment of action taken by the auditee in response to audit findings.

17.5.33 Liaison with clients and stakeholders: Follow-up includes interaction with the auditee units and in case of audit reports presented to the legislature with legislative committees to ensure adequate attention and prioritization to important audit findings. This would also help in identifying areas of public significance for future audit. Other stakeholders such as government functionaries, NGOs and citizens groups should also be engaged in the audit process so as to increase the relevance and usefulness of the audit product. Public awareness of important audit output through the use of the media in accordance with the media policy of the department is also important.

17.5.34 Continuous improvement through Technical Inspection, Internal Audit, Peer Review and Lessons-learnt Process: Post audit technical inspections, internal audit and peer review are other mechanisms of self assessment to know the quality procedures functioning effectively and identification of steps needed to further improve the quality of audit.

17.5.35 Lessons-learnt Process: A system of self evaluation by audit teams of audit practices through post audit discussions is an important quality assurance process. The purpose of establishing continuous lessons learnt process is to ensure consistent quality in audit and improve the department's process on a continuous basis. Regular internal discussions would help in taking stock of the audit on several parameters such as (i) Understanding what worked well (ii) Whether the resources assigned to the audit were reasonable (iii) Whether findings/conclusions/recommendations got an appropriate response (iv) Reasons for less successful audits (v) Scope for improvement and (vi) How these can be achieved.

17.5.36 Wide communication of lessons-learnt process: The key message arising from the lessons learnt should be communicated widely through training, seminars, workshops and guidance. The measures set out above are intended to improve the quality in audit process, however, these procedures should not curb the initiative and good judgment of the auditor for adapting of particular circumstances as required. The Judgment depends upon the audit task in hand, problems faced during audit and the auditor's competence, skill, expertise and professional qualification etc.

The framework described as above incorporates measures and practices which when followed would provide a reasonable assurance that audits are concluded in a manner as to ensure high quality and to meet stakeholders' expectation. The premises set out here are drawn from the ASOSAI guidelines on audit quality management system.

Chapter-18

Fraud and Corruption, Fraud Detection Technique and Forensic Audit

18.1 Background of Fraud and Corruption: Fraud and Corruption have increasingly become important concerns for countries around the world and the role of audit to address this concern has come under critical scrutiny. There is an increasing expectation that SAI should, through concerted action, play an effective role for promoting a culture that values honesty, responsibility and accountability to authority for utilization of national resources.

18.2 INTOSAI Auditing principle and standards: Auditing Principle on fraud and corruption as embodied in the INTOSAI Auditing Standards is being reproduced for guidance. Auditors need to be alert for such situations and scrutiny control of weaknesses, inadequacies in record keeping, errors and unusual transactions or results which could be indicative of fraud, improper or unlawful expenditure, unauthorized operations, waste, inefficiency or lack of probity.

18.2.1 Guidelines of INTOSAI on fraud and corruption: Guidelines of INTOSAI which deals with conceptual issues related to fraud and corruption and list some of general and specific definitions of fraud and corruption. The multiplicity of definitions underscores the various ways in which fraud and corruption are perceived and conceptualized. In their broadest connotation the terms fraud and corruption can be defined as: **FRAUD-** Fraud involves deliberate misrepresentation of facts and significant information to obtain undue or illegal financial advantage; **CORRUPTION-** Corruption involves effort to influence and abuse of public authority through giving or acceptance of inducement or illegal reward for undue personal or private advantage.

18.2.2 Co-relation of fraud and corruption: Fraud is most likely to involve deliberate misrepresentation of information that is recorded and summarized by an entity and its impact can be compared to accounting error and would involve issues such as wrong measurement, repeated occurrences and disclosure. Fraud poses a serious problem for audit perspective because it is normally accompanied by efforts to cover/falsify/misdirect entity's records and reporting. The efforts to misrepresent may involve the management itself, an aspect that has received considerable attention in the wake of major corporate failures. When management gets involved in the perpetration of fraud, the activity assumes the proportion or the additional bearing of corruption. Fraud and corruption are therefore interlinked, although certain types of fraud do not necessarily qualify for being viewed as corruption and can be

perpetrated by an individual or a small group. The problem which corruption poses for audit is that it links up as a concept with the acts of bribery. It is possible to conceive of situations where bribery may have a direct impact on financial statements. A corporation pays bribe to an influential decision-maker to secure a contract, in such situations the issue of proper disclosure is involved because the corrupt practice of the illegal payment/expense is normally covered with an accounting or reporting fraud. However, in many instances corruption does not necessarily result into transactions that are recorded and reported by the entity. This especially applies to situations where a position of authority or discretion available under rules is encashed by an official in the public sector. Such corruption, because of its widespread prevalence may be largely responsible for undermining the social fabric and the credibility and functioning of state institutions, does not normally get reflected in information that comes in the purview of audit. The guidelines, therefore, propose that while fraud and corruption should be perceived independently for their numerous implications, the auditors should be well aware of the complex correlation between the two. Both will be treated in combination, but attention would be drawn to possibilities of separate treatment, wherever the situation so warrants.

18.2.3 Responsibilities for Prevention of Fraud and Corruption: It is an essential function of management to establish controls and safeguards for the assets of the entity. It is also a primary responsibility of management to record all material transactions meticulously and report the results of the operations of the entity fairly. The primary responsibility of establishing an environment that prevents valuable assets of entity from being lost through fraud and corruption, therefore, clearly rests with the management. Further, since good management practices require the establishment of adequate controls and checks, the responsibility to detect fraud and corruption is a natural corollary to establish an environment that prevents and deters fraud and corruption. This responsibility includes taking of remedial steps, disciplinary/punitive/legal action as the circumstances may warrant and the obligation to bring changes to policies and procedures for ensuring that similar cases will not happen again.

18.2.4 Role of Audit: This reaffirmation and unambiguous recognition of the primary role and responsibility of the management, however, does not relieve the auditor of his responsibility to provide a credible assurance within SAI's audit mandate about the actions taken by the management or those that may materially affect the picture that emerges from the audited financial reports. This responsibility covers situations where the financial reports

or other auditable record may be materially misrepresented and the misrepresentation may or may not have taken place with the knowledge or involvement of the management. The responsibility of the Auditor is to provide assurance about the audited entity and its financial statements and his obligation to make the management (either in each entity individually or through reports to the legislature) aware of any weaknesses in the design or operation of the accounting and internal control systems which are reviewed by him in the discharge of his professional duties. Although auditors are not primarily responsible for preventing fraud and corruption, yet audit can be a significant influence in reducing fraud and corruption. By conducting an audit that is sensitive to the risk of fraud and corruption, the auditors can make a proactive contribution to prevent fraud and corruption.

18.2.5 Audit Mandate: While the legislative framework and mandate determine the policies and audit guidance adopted by the SAIs, the guidelines recommend that in its interpretation of its primary audit mandate, the SAIs should be cognizant that public perceptions about fraud and corruption pose a serious risk to the credibility of its findings in individual audits and its national responsibility and role. Depending on their peculiar circumstances, the SAIs should actively consider adopting a formal policy or strategy for deterring fraud and corruption in the organizations covered in their audit jurisdiction. These guidelines are based on the awareness that SAIs should have an adequate level of mandate to deal with cases of fraud and corruption in planning and conducting an audit and this is usually inherent in the audit mandate. However, if SAIs feels constraint in investigation of suspected fraud or corruption cases in the performance of its normal audit work, it should seek reinforcement of its audit mandate in the shape of a regularity provision specifying that the SAIs would be notified in all cases where fraud or corruption are suspected or reported.

18.3.1 Guidelines on fraud and corruption other than INTOSAI: Fraud and corruption includes both those committed by the government employees or management of an entity (internal fraud and corruption) and those perpetrated against the entity by outside individuals or groups (external fraud and corruption). Internal fraud and corruption may result in benefits being obtained either from the employee of the organization (theft of cash/assets, falsification of payroll data) or from a third party (theft of property). The later may not result in immediate loss to entity but it may result in a liability for restitution where positions of trust have been abused. Examples of external fraud and corruption include making fraudulent claims for government grants and benefits or suppliers issuing false or duplicate invoices.

18.3.2 Difference between fraud and corruption: In case of fraud loss to the entity is usually fairly apparent as defined above but in case of corruption the corrupt government employee may obtain benefit from his act but there may not be any loss to the entity or affect the financial information. By definition both fraud and corruption involve breach of trust and therefore, are irregular. There are many general and technical definitions of fraud and corruption. In most countries, fraud and corruption are legal concepts, although they are referred to in various ways. One of the factors distinguishing fraud with error is whether the underlying cause is intentional or unintentional, although the intent is often difficult to determine particularly in matters involving the use of judgment.

18.3.3 Definition of Fraud viewed by different audit organization: Different views on fraud are reproduced here. (i) Fraud as a legal concept which involves acts of deceit, trickery, concealment or breach of confidence that are used to gain some unfair or dishonest advantage; an unlawful interaction between two entities where one party intentionally deceives the other through the means of false representation in order to gain illicit and unjust advantage. (ii) Fraud is a generic term which embraces all the means that human ingenuity can devise which are resorted to by one individual to get an advantage over another by false representations. There is no definite rule to define fraud as it includes surprise, trick, cunning and unfair ways by which another is cheated. (iii) Fraud is commonly understood today as a means of dishonesty in the form of an intentional deception or a wilful misrepresentation of a material fact for cheating and gaining of an unfair or unjust advantage over another. (iv) Fraud is an action where there is a loss of a valuable resource resulting from a false representation made knowingly without belief in its truth and results in charges. (v) Fraud involves the use of deception to obtain an unjust or illegal financial advantage as well as intentional misstatements or omissions of amounts or disclosures from an entity's accounting records or financial statements. It also includes theft whether or not accompanied by misstatements of accounting records or financial statements. (vi) The Fraud Examiners Manual views fraud as intentional or deliberate act to deprive another property or money by guilt, deception or other unfair means. (vii) International Standard of Auditing also treats fraud as an intentional act by one or more individuals among management, those charged with governance, employees or third parties involving the use of deception to obtain an unjust or illegal advantage. In short fraud may involve (a) Manipulation, falsification or alteration of records or documents (b) Misappropriation/misapplication of assets (c) Suppression or

omission of the effects of transactions from records or documents (d) Recording of transaction without substances (e) Misapplication of accounting policies.

18.3.4 Elements of fraud: The basic elements of fraud can be summarized as follows: (i) There must be at least two parties namely the perpetrator and other who could have been harmed by the fraud known as victim; (ii) A material omission or false representation must be made knowingly by the perpetrator; (iii) There must be intent by the perpetrator that the false representation be acted upon the victim; (iv) The victim must have the legal right to rely on the representation; (v) There must be either actual injury or a risk of injury to the victim as a result of the reliance; (vi) There generally is an attempt to camouflage and (vii) Fraud involves betrayal of trust.

18.4.1 Definitions of corruption: Corruption is a complex issue. While its roots are grounded in country's social and cultural history, political & economic development, bureaucratic traditions and policies etc. and one can generalize to state that corruption tends to flourish when institutions are weak and economic policies distort the marketplace. Some of the definitions of international organizations are reproduced here. (i) The Asian Development Bank provides that the Anti Corruption Policy of officials in the public and private sectors involves behavior on the part in which they improperly and unlawfully enrich themselves and/or those close to them or induce others to do so by misusing the position in which they are placed; (ii) The Anti-Corruption Act of the Republic of Korea defines the term "Act of Corruption" as the act of any public official abusing his position or authority or violating laws and regulations in connection with his duties to seek gains for himself or any third party; (iii) The Chartered Institute of Public Finance and Accountancy of UK defines corruption as the offering, giving and soliciting or accepting of an inducement or reward which may influence the action of any person i.e. an individual receives a bribe as a reward or incentive for action or inaction contrary to the proper conduct of his or her duties for the direct benefit of a third party (iv) The World Bank defines corruption as the abuse of public power for personal gain or for the benefit of a group to which one owes allegiance (v) The World Bank Publication for curbing corruption developed a model to explain the dynamics of corruption as $\text{Corruption} = \text{Monopoly Power} + \text{Discretion} - \text{Accountability}$.

18.4.2 Elements of corruption: An act of corruption would comprise one or more of the elements as: (i) There must be at least two parties to an act of corruption, namely the person who offers the reward or inducement and the party accepting it; (ii) There must be misuse of

office or position of authority for private gain; (iii) There is either an offer or acceptance of inducements;(iv) An attempt to solicit an offer of inducement or reward as benefit for performance of an official act; (v) Any act through which public or entity property is dishonestly misappropriated; (vi) There may be an attempt to camouflage and(vii) Corruption involves breach of trust.

18.5 Factors that influence fraud and corruption: It is useful for auditors to understand the motivational, organizational and environmental factors of fraud and corruption. The presence of these factors does not necessarily mean that fraud and corruption have occurred but awareness of their presence should increase the auditor's sensitivity to that possibility. The key factors generally associated with fraud and corruption are mentioned below.

18.5.1 Motivational factors: Motivational opportunities are the elements that generally underlie the commission of fraud and corruption. These could take the form of (i) **Economic motivation-** Financial need or gain is the most common motivation for fraud and corruption. Often persons convicted of fraud and corruption complains that they had unbearable financial problems for which there was no legitimate recourse (ii) **Greed-** Persons with power and authority often commit fraud and corruption because they are motivated by greed (iii) **Prestige or recognition-** Persons may feel they deserve more prestige or more recognition. These persons are often motivated by jealousy, revenge, anger or pride. They often believe that they are superior to others, shrewd enough to confine and confuse others and can commit fraud and corruption without being discovered or detected (iii) **Moral superiority-** Persons may also be motivated by a cause or values that they are morally superior to those of the victim or the government.

18.5.2 Organizational/Environmental factors: The organizational atmosphere and its perception play a major causative role in perpetration of fraud and corruption as mentioned here (i) Where management is perceived as insensitive, insecure, impulsive or too strict, ill treatments with employees and judges performance either on short term results or without considering operational constraints and disgruntlement in the employee is likely to result in instances of fraud and corruption (ii) Systems and procedures adopted in organizations and organizational policies are particularly important. In organization in which the corporate policies are unclear, there is inadequate internal control, excessive regulations, red-tapism, inadequate accountability or history of programme abuse is likely to have more instances of fraud and corruption (iii)An understanding of the organizational atmosphere will enable an

auditor to assess whether there is a higher risk of fraud and corruption in the entity and planning of the audit could be suitably modified. Poor management structure and policies are indicated by a high turnover of employees, absenteeism, poor documentation, low awareness of regulatory requirements and lack of transparency in reward systems (iv) It is important for the auditor to also understand that very often the perpetrator of fraud and corruption rationalizes his actions with some kind of justification. For instance an employee accused of fraud and corruption is likely to rationalize his action by saying or believing that his low pay justifies the action or since everybody is doing that he is also well within his right to do it; while a contractor could justify his acts of fraud and corruption as a cost of doing business or problems of securing contract from a government entity.

18.5.3 Types of fraud and corruption: Some of the most typical fraud and corruption are mentioned here: (i) Bribery as giving, receiving, offering or soliciting of anything of value in order to influence a person in the performance of or failure to perform his/her duties. (ii) False statements and false claims occur whenever a person knowingly and willfully falsifies a material fact or makes a false or fictitious representation or files and a false or fictitious claim that results in financial loss to the person to whom the false representation has been made. (iii) Embezzlement is the fraudulent conversion of personal property by a person in possession of that property where the possession was obtained pursuant to a trust relationship. Examples of embezzlement are the use of kiting or lapping schemes. Kiting occurs when a person withdraws cash from a bank against cheque deposited by a person for whom the cash has not yet been collected by the bank. To conceal the fraud, the person continuously writes cheques against non-existent account balances (kites checks from bank to bank). Lapping occurs when a person steals cash from payment of accounts receivable and continuously uses cash from other payments of accounts receivables to conceal the initial theft (laps two consecutive accounts). (iv) Conflict of interest occurs when a person has an undisclosed economic or personal interest in a transaction that adversely affects that person's employer. (v) Phantom Contractor is a non-existent company whose invoice is submitted for payment by a person involved in the purchase process. (vi) A person may purchase items intended for personal use or may make excess purchases of items needed and some of which are then diverted to personal use. (vii) Contracts are split up into two or more segments to circumvent the procurement authority limitations and thus to avoid competitive bidding. This may involve bribery from the contractor to a person of the other party. (viii) Groups of prospective contractors for a contract form make arrangement for price fixing or bid rigging

to eliminate others or limit competition. This agreement may also involve bribery. (ix) The contractor requests for progress payments based on falsified information submitted to the other party. (x) Over or under invoicing occurs when there is deliberate misstatement of the invoice value as compared with goods or services received or supplied. (xi) Extortion is the use of authority to secure unlawful pecuniary gain or advantage. (xii) Nepotism and favoritism is unlawful use of public office to favor relatives and friends. (xiii) Loss of revenue on account of tax or duty evasion can include in different situations where revenue due to the government is not received or paid. (xiv) Unfair Recruitment favoritism exercised in the process of recruitment for unlawful gain. (xv) Computer fraud is a fraudulent behavior connected with computerization by which a person intends to gain a dishonest advantage. For instance, salami-slicing is a computer fraud where fractions of interest calculations are transferred to a personal account.

18.6 Identification of high risk areas by Audit: An understanding of the audited entity should enable the auditor to identify potential high-risk areas and modify suitably the audit procedures and techniques. Some of the commonly perceived high risk areas are: Contracts and procurement of goods and services; Inventory management; Sanctions/clearances; Program management; Revenue receipt; Cash management; General expenditure and other areas with public interface. SAI would have to base on experience and perceptions and identify such risk areas while planning audits.

18.7 Fraud and corruption in contract service: Procurement of goods and services is a major activity in the government sector and is traditionally prone to fraud and corruption. Understanding fraud and corruption in contracts may therefore be beneficial to the auditor. An illustrative list of the forms of fraud and corruption can take in the area of contracts and list of warning signs that an auditor needs to look out to enhance their understanding to focus on particularly sensitive possibility of fraud and corruption in contract services is given in **Appendix-9 to 15**. These would alert him to the necessity of further scrutiny or intensive examination of records. The size of the sample or the techniques adopted could also be suitably adjusted.

18.8.1 Computer Fraud: With the increased use of Information Technology (IT) in the function of entities and increased introduction of IT systems the auditors needs to understand that the perpetration of fraud and corruption and consequently detection of such instances become more complicated. Computer fraud could involve the manipulation of a computer or

computer data by whatever method in order to dishonestly obtain money, property or some other advantage of value.

18.8.2 Audit of IT fraud: The Auditor has to be particularly aware of the audit trail of the checks and balances of IT systems of the levels of control and needs to also have a fair idea of how processing controls can be circumvented by the perpetrator of fraud and how data can be accessed and manipulated. It is particularly important for the auditor of the IT system to assess in his audit the level of security controls built in and these are in tune with the sensitivity of data.

18.8.3 Evidencing of IT fraud: Audit evidencing in an IT environment is often more complex than traditional manual audit. In an audit of IT environment, it is necessary not only to understand the techniques of assessing system and data soundness but also necessary to establish means of collecting evidence. The standards of audit evidence collection have to be set by the SAI in consonance with the legal framework and regulations in which the audit is carried out. Since this is an emerging field of audit and it is also going under rapid changes the SAI may consider the pooling of information on the IT audits conducted and techniques adopted.

18.9.1 Audit evidence: In searching of evidence against fraud and corruption the auditor must be careful as mentioned here: (i) Always search the strongest possible evidence; (ii) Investigate without delay so that evidence cannot be destroyed, lost or forgotten; (iii) Not ignore small clues or leads; (iv) Look for facts that confirm or refute suspicions; (v) Concentrate on the weakest point in the fraud and corruption; (vi) Identify and summarize the evidence indicating that fraud and corruption may have been committed; (vii) Identify the possible scenario of fraud and corruption; (viii) Summarize and analyze the accounting and control systems involved, the paper trail involved in the transaction and the deviations from the systems; (ix) Explain patterns used in covering up the fraud and corruption; (x) Identify the possible extent of the fraud and corruption and (xi) Consider the possibility of collusion.

18.9.2 Sources of evidence: Evidence against fraud and corruption may be gathered as described here. (i) **Examination of books of accounts:** During the course of examination of books of accounts, auditors investigate various documents that serve as evidence for the audit. These documents may be originals or photocopies depending upon their importance. (ii) **Report of Internal Auditor:** The internal auditor may have identified instances of deviation from normal procedure. (iii) **Interviews:** Auditors can obtain important information

from various government employees. Since they may have noticed internal control failure made by managers and fraudulent activities perpetrated by other employees, interviews may be useful in detecting material misstatements caused by fraud and corruption. (iv) **Analysis of inspection/observation reports:** Auditors can notice possibility of fraud and corruption through the examination of inspection/observation/physical verification reports (forged document, inventory not in existence or inferior quality). Where any auditor relies on physical observation for an audit conclusion this would need to be supported with properly documented evidence. (v) **Questionnaires:** Auditors may gather important and helpful information by using questionnaires. (vi) **Confirmation with other related parties:** Auditors sometimes obtain information directly from other related parties (bank balance confirmation from the bank, debtor's balance confirmation from individual debtors etc). If the figures provided by these agencies do not tally with the books of account, they should check in detail to find out the reason for discrepancy. (vii) **Results of analytical review:** Auditors analyze both financial and non-financial information which can indicate abnormal trends. In that case, auditors need to concentrate on particular areas. (viii) **Expert Opinion:** Auditors may seek expert opinion about a suspicious case. The expert's opinion becomes evidence if auditors can rely on that opinion in assessing fraud and corruption.

18.9.3 Warning signs of possible fraud and corruption in contracts: Procurement and contract for goods and services poses different opportunities for fraud and corruption at different stages. The auditor would be advised to look out for warning signs corresponding to each stage. These warning signs indicate the increased risk factor in different stages of contracts and serve as red flags for the auditor as described here. Requirements defining stage; Inadequate needs analysis; Inadequate information about potential suppliers; Inadequate review of existing and required inventory; Unduly short supply period;

Needs analysis in product rather than needs oriented; Someone other than the user defines the user requirements; Unwarranted involvement of senior officials; Bidding and selection stage; The specifications are not clearly defined. A very limited number of offers received; Documentation indicates unusual involvement of officials; Suspicion about conflict of interest; Evidence of early receipt of information by some contractors; Request for proposal is not properly advertised; Unusual handling of the bidding process; Evaluation criteria is not consistent for different offers; Exceptions to the tender deadlines; Changes in the bids made after their formal receipt; Lowest responsive bidder is not selected; Contractor submits unrealistic bid indicating collusion or bid rotation; Unusual withdrawal of bids;

Rebidding results identical to original bids; Successful contractors use competitors as sub-contractors; Justification for single source procurement is inadequate; Contract performance and evaluation stage; Changes in a contract result in the large increase in the cost of goods and services; Changes made without adequate explanations; Unwarranted contract extension; Complaints about the quality of goods and services received; Inadequate inspections and quality assurance of goods and services received; Evidence of overcharging and duplicate billings; Dubious invoices; Insufficient pre-audit of contractor payments; Contracts repeatedly awarded to one contractor; Unduly high labor payments etc.

18.9.4 Types of fraud and corruption in contracts: The following types of fraud and corruption have been reported in contract for goods and services:(i) **Bribery and Kickbacks-** Money or any other form of reward or favour is exchanged between a public functionary and provider of goods and services in order to obtain some benefit as acceptance of substandard goods or obtaining unauthorized information. (ii) **Changes in original contracts-** Changes are made in the original contract requiring flow of additional funds from the government to the contractor which may affect the basis on which the contract was awarded to the contractor in the first instance. This may also involve front-loading of contract in the hope of increasing the price of the original contract through change orders or subsequent modifications to the contract. (iii) **Duplicate payments-** The contractor claims and receives payment for the same service or work done or goods supplied under the same or different contracts. (iv) **Collusive or cartel bidding-** Contractors form cartels to fix artificially high prices for goods and services supplied by them. (v) **Conflict of interest -** Contracts are awarded on the basis of vested interests of the decision makers. (vi) **Defective pricing-** The contractor submits inflated invoices. (vii) **False invoices-** The contractor submits invoices for goods that have not been delivered or do not properly represent the quantity or quality of goods and services supplied or work done as per contracted specifications. (viii) **False representations -** The contractor falsifies the goods specifications or his ability to provide certain services. (ix) **Splitting of purchases-** The purchases of goods and services are split up either to avoid open competition or having to seek the approval of higher authority. (x) **Phantom Contractor-** Purchases are made from a fake supplier or contractor. (xi) **Pilferage of public assets-** Public funds are used to acquire goods for personal use or public assets pilfered by officials. (xii) **Tailored specifications-** Specifications and time limits are manipulated to favor a certain contractor or supplier at the time of bidding.

18.10 Forensic Accounting and Audit: The integration of accounting, auditing and investigation skills yields the speciality known as Forensic Accounting. It provides an accounting analysis that is suitable to the court which will form the basis for discussion, debate and ultimately dispute resolution. The forensic accounting and auditing is a bloodhound of Bookkeeping. These bloodhounds sniff out fraud and criminal transactions in bank, corporate entity or any other organization's financial records. They hound for the conclusive evidences. External Auditors find out the deliberate misstatements only but the forensic Accountants and Auditors find out the misstatements deliberately. External auditors look at the numbers but the forensic auditors look beyond the numbers deliberately. Forensic accountant takes a more proactive, sceptical approach in examining the book of accounts. They make no assumption of management integrity (if they can assume so then there is no need for their appointment), show less concerns for the arithmetical accuracy or assurance standards but are keen in exposing any possibility of fraud. Forensic accounting is the application of a specialized knowledge and specific skills to stumble upon the evidence of economic transactions. The job demands reporting where detection of fraud is established and the report are considered as evidence in the court of law or in the administrative proceeding. In addition to the specialized knowledge about the techniques of finding out the frauds one needs patience and analytical approach.

18.10.1 Scope of Forensic Auditing: Forensic auditing could be defined as the application of auditing skills to situations that have legal consequences. In a global review conducted in 1996, the finding was that the respondents believed that auditors should have the responsibility to detect substantial fraud and this should be part of their normal audit and not by special one-off reviews. SAIs generally agrees that the primary responsibility for the prevention of corruption rests with the administrative authorities, the police and other investigative institutions and cannot be counted among the main tasks of SAIs. Auditors need to be alert for situations, control of weaknesses, inadequacies in record keeping, errors and unusual transactions or results, improper or unlawful expenditure, unauthorized operations, waste, inefficiency or lack of probity which could be indicative of fraud.

18.10.2 Applications of Forensic Audit: An obvious example of forensic auditing is the investigation of fraud or presumptive fraud with a view to gathering evidence that could be presented in a court of law. However, there is increasing use of auditing skills to prevent

fraud by identifying and rectifying situations which could lead to frauds being perpetrated. It might be useful to discuss forensic auditing as being either 'Proactive' or 'Reactive'.

18.10.2.1 Proactive forensic auditing: Proactive forensic auditing in this sense could be viewed from different aspects depending on its application, some of which are discussed as following: (i) **Statutory Audit:** INTOSAI auditing standards prescribe that internal controls should be studied and evaluated in respect of safeguarding assets and resources when performing regularity and financial audits and in respect of assisting management in complying with laws and regulations when performing compliance audits. Forensic audit methodologies can be used to obtain a more detailed understanding of the entity and its activities to identify areas of risk both in determining the direction of the audit and in expressing an opinion. (ii) **Regulatory Compliance:** Government Departments/Agencies could themselves use the techniques of forensic auditing to assess compliance with regulations governing payments of grants/subsidies. Performance auditors could also use these techniques while auditing such governmental programs. To a large extent in SAI India we have applied such techniques in some major audits of government programs such as 'Integrated Child Development Scheme', Public Distribution Scheme (food grains), customs duty drawbacks and export subsidies. (iii) **Diagnostic Tool:** Forensic auditing can be used either by management or by auditors to carry out general reviews of activities to highlight risks arising either out of fraud or from any other source with the purpose of initiating focused reviews of particular areas, targeting specific threats to the organization. (iv) **Investigation of allegations:** Complaints or allegations in the Press or in Parliament, anonymous tips from employees or other could all in their separate ways require to be adequately addressed by investigation. The techniques of forensic auditing are useful in such cases. This is being cited as proactive because it is widely felt that the existence of a system of investigation in such cases is a significant deterrent to fraud and corruption.

18.10.2.2 Reactive Forensic Auditing: The objective in case of reactive forensic audit is to investigate cases of suspected fraud so as to prove or disprove the suspicions and if the suspicions are proven to identify the persons involved, support the findings by evidence and to present the evidence in an acceptable format in any subsequent disciplinary or criminal proceedings. In such cases it is important to keep in view: (i) Working relations with the investigating and prosecuting agencies (ii) Authorization and control of the audit investigation (iii) Documentation of relevant information and safeguarding all prime records

pertaining to the case (iv) Rule of evidence governing admissibility/authentication of records (v) Confidentiality (vi) Evaluation of the evidence to assess whether the case is sustainable (vii) Legal advice where appropriate (viii) Reporting the findings in a manner that meets legal requirements.

18.10.3 Issue for consideration: Our audits are carried out and reported within a framework which assumes that the top echelons of management both at the political and civil services levels are responsive to the need for good governance and accountability and therefore would act upon the audit findings which indicate that there was cause for concern adequately and implementation of internal controls and inevitably institute enquiries into instances of indicative of mala fide action on the part of officials. In consequences our role has been limited to conducting audits on certain percentages of sampling applied in an uniform manner across departments with only isolated examples of focused audit reviews conducted by SAI India as in the case of value based Advance Licensing Scheme (for import of raw materials by exporters) or Voluntary Disclosure of Income Scheme (for income tax defaulters). In both cases, however, as also in the Animal Husbandry case of the Govt. of Bihar, it was established that there were clear indications of mala fide at senior levels of government and hence far from the initiation of any systematic enquiries into audit findings, attempts were made to debunk the findings presented in the audit report. The position of SAI India is that audit against criteria of probity and compliance in themselves throw up instances of administrative actions that are not in conformity with prescribed standards and that without the mandate to seek third party evidence either oral or documentary, it is not possible to prove criminal mala fide. Excepting very few SAIs, it is also the case in almost all other countries that there are other agencies responsible for investigating fraud and corruption. Our focus therefore could be more upon planning and executing our audits with much greater emphasis on forensic auditing and reporting such findings in a manner that places the onus for further investigation very clearly by the executive. Some of the areas that could be considered are:

18.10.3.1 Audit Planning: Our audit could be planned to cover only a selected sample of offices based on an analytical review of accounts and results of audits instead of blanket coverage of all spending offices.

18.10.3.2 Scope of Audit: Unless otherwise stipulated, audit should concentrate on regularity, probity and compliance issues. Performance related issues could be dealt with in

specific performance reviews. The role of the controlling officer, the head of the department and the administrative secretary of the concerned ministry in financial administration are usually specified in the financial codes, manuals, rules and orders of government. The actual discharge of such prescribed duties could be examined and the implementation of prescribed controls evaluated.

18.10.3.3 Reporting: Significant failures in the application of prescribed controls and dereliction of administrative duties particularly in the areas of monitoring and stock verification at all levels and the implications involved, could be clearly brought out in a specific chapter of our Reports.

18.10.3.4 Relationship with investigating agencies: The rules for requisitioning records by the investigative agencies should be clearly understood by the staff and middle level management in our offices as well as in those of the investigative agencies. These issues could be addressed by joint seminars and inviting speakers to respective training institutions. The need for a set of orders laying down the prescribed procedures in an easily comprehensible manner and circulating these widely could be considered.

18.10.3.5 Position of the Auditor in criminal investigations: There is a need to provide clear and binding instructions about the manner in which audit staff are required to provide information to the investigative agencies. Faced with the possibility of being questioned in a manner akin to that employed for suspects, audit staff may resent and hence avoid, being involved in criminal proceedings. While the possibility of auditors conniving in fraud has to be kept in view, it is necessary to ensure that unless there is prima facie evidence to this effect, that auditor must be a part of the investigative team.

18.10.3.6 Implications and uses of Information Technology: The advent of large scale use of computers in processing not only accounting information but also several other transactions with direct financial implications poses a challenge to forensic auditing because volumes are processed in a short time. Connectivity through internet, Wide Area Network (WAN) or Electronic Data interchange (EDI) allows dispersed data input, processing and storage. The proliferation of platforms and software makes it possible to perpetrate frauds in new ways. A thorough knowledge of IT and the engagement of highly skilled professionals are therefore essential, if Forensic auditing is to have any meaning. Apart from this the cyber laws are very new and there is as yet no clear case law on various matters. This is all the

more reason to insist upon great clarity in understanding of IT based operations and the evaluation of risks involved. At the same time the ease with which data can be sorted, analysed and compared makes it easier to identify suspect transactions either singly or as a group of similar or related ones, thus greatly facilitating forensic auditing. The availability of archived data and the ease of access also could assist forensic auditing. Data matching and data mining techniques offer excellent opportunities.

18.10.3.7 Training: It is necessary to provide formal instruction in fraud awareness, investigation and reporting. The planning of overall audit coverage and individual audits on the basis of risk analysis carried in accordance with existing global 'best practice' could be included in the curriculum for all management levels. Arguably, forensic auditing without a thorough knowledge of IT as outlined above would be meaningless and this would have to be borne in mind while devising curricula.

18.10.3.8 Conclusion: There is no gainsaying the fact that our audits as currently executed and reported do bring out in a wealth of details, instances of individual or systematic fraud and corruption. There is, however, a need to provide a comprehensive framework involving the use of forensic auditing methodology, particularly in the areas of audit planning and execution and for a uniform reporting practice that would very explicitly spell out the implications of control failures including failure of senior management in implementing prescribed controls. This could over a period of time assuage public concern about the existence of systematic audit operations addressed specifically to unearth fraud and corruption.

CHAPTER-19

Effectiveness of internal controls and its evaluation

19.1 Introduction: Internal Control Standards defines in the guidelines of INTOSAI in June 1992 as the plans of an organization including management's attitude, methods, procedures and other measures that provide reasonable assurance to achieve the general objectives as (i) promoting orderly, economically, efficiently and effectively operations and quality products and services consistent with the organization's mission; (ii) safeguarding resources against loss due to waste, abuse, mismanagement, errors, fraud and other irregularities; (iii) adhering to laws, regulations, and management directives and (iv) developing and maintaining reliable financial and management data and fairly disclosing them in timely reports.

19.2 Identification of practices: The guideline is valuable for identifying the practices that Supreme Audit Institutions have found to be most useful in creating and monitoring a strong internal control framework. These common practices include (i) Having a constitutional or a legislative provision that establishes in law an overall basis (or a requirement and objectives) for maintaining effective internal controls; (ii) Prescribing internal control standards to be followed when designing an internal control structure and which can be patterned after or adopted from INTOSAI's standards; (iii) Focusing management's attention on its responsibilities for implementing effective internal controls and continuously maintaining a positive internal control environment; (iv) Emphasizing the prevention of internal control breakdowns rather than detecting and correcting them through such means as requiring managers to undertake self evaluations of internal control operations; (v) Stressing the role of internal auditors as a critical part of an organization's internal control structure and (vi) Ensuring that Supreme Audit Institutions play a key role in (1) establishing internal control standards (2) creating a solid internal control framework (3) working with internal auditors and (4) evaluating internal controls as an integral part of both financial and performance audits.

19.3 Effectively implementing of general standards: To provide proper control environment within an organization, INTOSAI has established general standards for internal control in the areas of (i) reasonable assurance (ii) supportive attitude (iii) integrity and competence (iv) control objectives (v) and monitoring controls.

19.3.1 Reasonable assurance: Internal control structures provide reasonable assurance so that the general objectives will be accomplished. Reasonable assurance equates to a satisfactory level of confidence under given considerations of costs, benefits, and risks. This means that the cost of internal control should not exceed the benefit derived. Chief executive of a government department has an obligation as a responsible manager for establishing and maintaining a system of internal control procedures that provides reasonable assurance as to the integrity and reliability of financial reporting.

19.3.2 Supportive attitude: Another general control standard stipulates that managers and employees are to maintain and demonstrate a positive and supportive attitude toward internal controls at all times.

19.3.3 Integrity and competence: Managers and employees are to have personal and professional integrity and are to maintain a level of competence that allows them to understand the importance of developing, implementing, and maintaining good internal controls and to accomplish the general objectives of internal controls. When this general standard is not adhered to, the result can be weak and internal control situations involve large monetary values.

19.3.4 Control objectives: Internal control standards also suggest that specific control objectives are to be identified or developed for each ministry/department/agency activity and be appropriate, comprehensive, reasonable, and integrated in overall organizational objectives. A range of specific overall control objectives have been identified and include (1) properly recording and accounting for business transactions and activities (2) safeguarding assets and information from misuse and misappropriation and (3) establishing limits to which various staff can commit an entity.

19.3.5 Monitoring control: In addition, internal control standards specify that managers are to monitor continually their operations and take prompt, responsive action on all findings of irregular, uneconomical, inefficient and ineffective operations.

19.4 Achieving control objectives: To achieve control objectives and effective internal control structure, INTOSAI's internal control guidelines provide detailed standards covering (i) documentation (ii) prompt and proper recording of transactions and events (iii) authorization and execution of transactions and events (iv) separation of duties (v) supervision and (vi) accountability for resources and records.

19.4.1 Documentation: The internal control structure and all transactions and significant events are to be clearly documented and the documentation is to be readily available for examination. Documentation of transactions or significant events should be complete and accurate and should enable each transaction or event and related information to be traced from its inception to its completion.

19.4.2 Prompt and proper recording of transactions and events: Transactions and significant events are to be recorded promptly and properly classified. This applies to the entire process or life cycle of a transaction or event including (i) the initiation and authorization (ii) all stages while in process and (iii) its final classification in summary records.

19.4.3 Authorization and execution of transactions and events: Transactions and significant events are to be authorized and executed only by persons acting within the scope of their authority. Conforming to the terms of an authorization means that employees execute their assigned duties in accordance with directives and within the limitations established by management or legislation.

19.4.4 Separation of duties: There is risk of error, waste or wrongful acts associated with having one person control on all key stages of a transaction or event. In this regard, INTOSAI's internal control guidelines direct that key duties and responsibilities for authorizing, processing, recording, and reviewing transactions and events should be separated among individuals to avoid accounting errors and fraud to be incorporated.

19.4.5 Supervision: The competent supervision to be provided to ensure internal control objectives to be achieved. The proper supervision of assignments for implementing internal control and employee as a fundamental internal control mechanism has to be examined.

19.4.6 Accountability for resources and records: The guideline instructs that access to resources and records is to be limited to authorized individuals who are accountable for their custody or use. To ensure accountability, the resources are to be compared with the recorded amounts periodically to determine whether they are agreed to each other. The asset's vulnerability should determine the frequency of the comparison.

19.5 Effective internal control structures: INTOSAI's guidelines stress that effective internal control structures requires the critical elements as mentioned here: (i) legislative

underpinnings (ii) internal control standards (iii) managers who accept primary responsibility for effective controls (iv) periodic internal control self-assessments by managers (v) internal audits of controls and (vi) a supreme audit organization that is engaged in establishing and reviewing internal control systems.

19.5.1 Legislative underpinnings: As discussed in the guidelines, the legislators will establish the overall objectives so that the internal control structures should be achieved. In other words, the legislators set specific controls for certain operations in legislation.

19.5.2 Internal control standards: Internal control guidance also points out that in course of establishing the framework of internal control structures, a specific authority should be assigned the responsibility for developing and promulgating the standards to be followed when designing an internal control structure. This responsibility could be assigned through constitutional or other legal enactment and given to a central organization with authority across various government organizations.

19.5.3 Managements responsibility: The guidelines explain management's internal control responsibilities, emphasizing all managers should realize a strong internal control structure is fundamental for the control of the organisation's purpose, operations and resources.

19.5.4 Self-assessments: Guidelines concentrate on preventing internal control breakdowns before they occur. The primary objective is to prevent errors or irregularities from occurring in management or financial information or if any to detect them.

19.5.5 Internal audits: Management often establishes an internal audit unit as part of its internal control and self review framework. The role of internal auditors is a critical part of an organization's internal control structure for evaluating and periodically reporting on the effectiveness, deficiencies in internal control structures and the risk of such weaknesses to represent for effective government operations and protecting its assets.

19.5.6 Supreme auditor's responsibility: Supreme Auditors play in (i) establishing internal control standards (ii) creating a solid internal control framework (iii) working with internal auditors and (iv) evaluating internal controls as an integral part of both their financial and performance audits. In summing up, the Supreme Audit Institution should gear its work toward assessing the adequacy in principal and the effectiveness in practice of existing internal controls in audited organizations.

19.6 Conclusion: When INTOSAI's Internal Control Standards Committee issued its guidelines for internal control standards, it called for Supreme Auditors to encourage and support the establishment of internal controls. As envisioned by the committee, this would encompass (i) educating management as to its responsibilities for implementing and monitoring the control structures and (ii) auditing those structures to assure that controls are adequate to achieve the desired result. After issue of guidelines, member countries have achieved a wide range of positive results and are making progress and substantial progress in fulfilling this vision.

APPENDIX-1

Referred to Para 4.36

Expeditious settlement of outstanding Audit Para of Inspection Reports:

(a) The existing instructions/guidelines may be strictly followed. (b) All outstanding objections/pending inspection reports more than five years old may be reviewed. It is desired that Accountants General should make ABC analysis of outstanding objections/paras of Inspection report to secure maximum clearance. (c) Ad hoc committees wherever not functioning should be activated. In the ad hoc committee meetings our representative must insist and ensure that outstanding objections and Para are discussed and concrete steps taken for settlement thereof. (d) AG should periodically meet the Finance Secretary and Chief Secretary and emphasize the importance and need for holding regular audit committee meetings. (e) A half yearly list of outstanding objections which are more than six months old is sent to the state government listing out the objections of all the departments for information and appropriate action. During ad hoc committee meeting names of departments which are not responding to audit objections should be specifically brought to the notice of Finance Secretary. (f) In order to avoid unnecessary accumulation of outstanding objections/Para it is reiterated that while issuing the Inspection Report, it should be ensured that only serious objections which have potential of developing into Draft paragraphs or those requiring recovery, or regularization or denote a systems failure etc. are included in the Inspection Reports. Other objections could be incorporated in Test Audit Notes. (Based on C&AGs Letter No- 467 Audit (Aud. Pig) 59/96 dated 25.6.1996).

Appendix-2

Referred to Para 5.2.7

Categorization of Para in Inspection Reports (Civil Audit)

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

3	Violation of contractual obligation, undue favours to contractors.	(i)	Backing out by contractors resulting in extra expenditure.	C1
		(ii)	Non-imposition of penalty and recovery of extra cost from contractors involved in above cases.	C2
		(iii)	Payment of interest free advances in violation of agreement.	C3
		(iv)	Release of key material on credit basis instead of cash basis.	C4
		(v)	Penalties not levied for delay in execution/completion of works within stipulated time.	C5
		(vi)	Non-recovery of supervision charges.	C6
		(vii)	Non-recovery of salvaged material.	C7
4	Avoidable/excess expenditure	(i)	Delay in execution of works resulting in time and cost overrun and consequent extra expenditure.	D1
		(ii)	Delay in obtaining custom clearance, etc for imported equipment resulting in increase in cost or payment of avoidable demurrage charges.	D2
		(iii)	Cost escalation due to improper and inadequate planning.	D3
5	Wasteful/ infructuous expenditure	(i)	Abandonment of works due to defective or disputed sites and structural/design defects, etc.	E1
		(ii)	Non-utilisation of assets created for specific purpose.	E2
		(iii)	Non-achievement of specific objective for which expenditure was incurred.	E3
		(iv)	Supplies of defective store/stock articles like time barred/sub standard medicines, seeds etc.	E4
6	Regulatory issues	(i)	Expenditure incurred without sanction from competent authority.	F1
		(ii)	Expenditure spilt to avoid sanction of competent authority or calling for tenders etc.	F2
		(iii)	Expenditure incurred in excess of budget provision resulting in creation of liabilities.	F3
		(iv)	Execution of works or procurement of supplies without adequate budgetary provision resulting in creation of liabilities to be met from next budget.	F4
		(v)	Diversion of funds from one scheme to another or from one object head to another.	F5
		(vi)	Drawl of fund at the fag end of financial year with a view to avoid lapsing of funds.	F6

		(vii)	Rush of expenditure towards fag end of financial year resulting in non-exercising of financial controls/checks.	F7
		(viii)	Drawl of funds at the fag end of the year without immediate disbursement and their parking in bank accounts, PLA or retention in cash/bank draft.	F8
		(ix)	Incurring of expenditure banned items or items of special nature without approval of competent authority.	F9
		(x)	Non-observance of austerity measures announced by Government from time to time.	F10
		(xi)	Payment of rent of hired buildings without approval or fixation of rent by Rent Assessment committees.	F11
		(xii)	Engagement of daily wages in violation of Government orders and payment made to them without orders of competent authority	F12
		(xiii)	Execution of works without obtaining administrative approval/technical sanction from competent authority.	F13
		(xiv)	Purchase of stores/stock in excess of actual requirements with a view to avoiding lapsing of funds.	F14
		(xv)	Payments made on hand receipts in contravention of Rule 200 of Public Works account code.	F15
		(xvi)	Execution of works in excess of estimates, unrealistic preparation of estimates.	F16
		(xvii)	Procurement of material/execution of works without observing codal provision of invitation of tenders etc.	F17
7	Idle investment/ Idle establishment/bloc kade of. Funds	(i)	Expenditure incurred on purchase of stores not required for immediate use and not put to use for long periods.	G1
		(ii)	Expenditure incurred on execution of works/construction of buildings, etc., which could not be put to use owing to reasons which could be foreseen.	G2
		(iii)	Expenditure on activities/schemes which could not be completed/implemented for various reasons.	G3
		(iv)	Expenditure incurred on purchase of equipment including imported one's not put to use for want of trained manpower, missing spares or defective supplies or without assessing feasibility of procurement.	G4
		(v)	Funds advanced to various agencies for supplies or construction works retained unauthorisedly by such agencies.	G5

		(vi)	Payment of idle wages to staff which could not be utilized for the purpose for which appointed owing to either there being excess staff or there being no work for such staff.	G6
		(vii)	Release of funds for some activity without ensuring availability of adequate infrastructure.	G7
8	Delays in commissioning of equipment	(i)	Due to non-availability of necessary infrastructure.	H1
		(ii)	Due to trained manpower not available.	H2
		(iii)	Due to non-availability of spare parts or accessories.	H3
9	Non-achievement of objectives	(i)	Comments on shortfall in achievement of targets.	I1
		(ii)	Tardy implementation of schemes.	I2
		(iii)	Non-fulfilment/achievement of objectives for which a programme was launched or an organization created.	I3
		(iv)	Non-accrual of intended benefits to targeted population.	I4
		(v)	Comments on mismatch between financial and physical achievements.	I5
		(vi)	Comments on less production/yield compared to expected production/yield.	I6
10	Miscellaneous observations	(i)	Departmental specific irregularities/ observations not covered in any of the above.	J1
		(ii)	Irregularities noticed in maintenance of cash book, drawl register and receipt books.	J2
		(iii)	Retention of heavy cash balance.	J3
		(iv)	Belated remittances of receipt into treasury	J4
		(v)	Comments/observations on maintenance of records.	J5
		(vi)	Comments on improper/non-maintenance of records.	J6
		(vii)	Comments on submission/non-submission of utilisation certificates.	J7
		(viii)	Non-recovery/non-adjustment of Misc. Public Works advances from officers, other Government departments and private parties.	J8
		(ix)	Non-crediting of deposits lying unclaimed for more than 3 years to Government.	J9
		(x)	Reconciliation not being done with agencies supplying stores etc. where centralized system of purchase of stores exists.	J10

		(xi)	Non recovery of hire charges of machinery etc let out or material supplied where centralized system exists.	J11
		(xii)	Machinery beyond economic repairs.	J12
		(xiii)	Non-recovery of rent of building.	J13

Appendix-3

Referred to Para 5.2.7

Assigning of weightage to Para categories

Para category	Point allotted	Para category (As in annexure 1)	Point allotted
A series (A1 to A6)	10	F series (F1 to F17)	5
B series (B1 to B11)	9	G series (G1 to G7)	4
C series (C1 to C7)	8	H series (H1 to H3)	3
D series (D1 to D3)	7	I series (I1 to I6)	2
E series (E1 to E4)	6	J series (J1 to J13)	1

APPENDIX-4

Referred to Para 6.7

(List of some of departmentally managed commercial/quasi commercial undertakings)

1. Animal Husbandry and Fisheries Department: (i) Central Poultry Farm, Patna (ii) Regional poultry farm, Bhagalpur (iii) Regional poultry farm, Muzaffarpur.

2. Forest Department: (i) Departmental working of Forest Divisions.

3. Industries Department: (i) Adarsh Iron workshop, Munger (ii). Adarsh Iron work shop, Arrah (iii) Adarsh Iron workshop, Bhagalpur (iv) Adarsh Iron workshop, Pusa Road, Samastipur (v) Adarsh Iron workshop, Saharsa (vi) Adarsh Wooden Workshop, ChaklaPurnea. (vii) Adarsh Wooden Workshop, Chapra (viii) Adarsh Wooden workshop, Gaya (ix) Adarsh Wooden workshop, Jogbani (x) Adarsh Wooden workshop, Muzaffarpur (xi) Adarsh Wooden workshop, Pusa Road Samastipur (xii) Adarsh wooden Workshop, RamNagar, West Champaran (xiii) Procurement Centre for Brass and Ball Manufacturing, Digha Patna (xiv) Procurement Center for Cane and Bamboo goods, Chenari, Rohtas (xv) Procurement Centre for Jewellery and Brass Fish, Digha Patna (xvi) Procurement Centre for Traditional toys, Digha Patna (xvii) Purchase and Sale of Opium Stock (xviii) Salt petre Refinery, Mehsi East Champaran

4. Agriculture Department: State Tractor Organization, Purnea.

5. Jail Department: Manufacturing Department of Central jail, (i) Buxar and (ii) Bhagalpur.

6. Welfare department: (i) Grain Golas

7. Tourism Department: (i) Rajgir Rope Way Rajgir (ii) Transportation of Tourists.

APPENDIX - 5

Referred to Para 9.13

(Link Branches of PSBs under of RBI, Patna for transaction of National Development Bonds)

Sl. No.	Name of Bank	Name of link Branch	Address
1.	Bank of Baroda	Patna	Fraser Road
2.	Bank of India	Patna	-do-
3.	Canara Bank	Patna	South Gandhi Maidan,
4.	Central Bank of India	Patna	New Dakbunglow Road
5.	Dena Bank	Patna	Dutta Mansion, DakBungla road
6.	Indian Bank	Patna	BISCOMAUN Bhawan
7.	United Commercial Bank	Patna	Exhibition Road
8.	Indian Overseas Bank	Patna	Maurya Clark Hotel
9.	Syndicate Bank	Patna	Patna
10.	State Bank of Bikaner & Jaipur	Patna	Patna
11.	Punjab National Bank	Patna	Exhibition Road
12.	Allahabad Bank	Patna	Patna, Gaya Road
13.	United Bank of India	Patna	Station Road
14.	State Bank of India	Main Branch Patna	West Gandhi Maidan

APPENDIX-6

(Referred to Para 12.1)

(Section 14 of the C&AG (DPC) Act 1971 reproduced as under)

1. Details of Section-14: The Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act 1971, which came into force with effect from 15th December 1971, contains an important provision in section 14 of chapter III entrusting with the audit of the accounts of bodies and authorities substantially financed from union or state revenues to the Comptroller and Auditor General of India. Section 14 (1) of the act authorizes the C&AG to audit all receipts and expenditure of any Body or Authority if (a) the amount of government grants or loans from the Consolidated Fund of India or of any state or of any Union Territory having a Legislative Assembly is paid not less than Rupees twenty five lakhs in a financial year and also (b) the total amount of expenditure of the body or authority constitutes not less than 75 per cent of grants and loans received in a financial year shall be deemed for the purpose of this section to be substantially financed by such grants or loans as the case may be. Audit under this section is subject to the provision of any law for the time being in force applicable to the body or authority as the case may be. Section 14 (2) of the Act provides that C&AG may with the previous approval of the President or the Governor of a State or the Administrator of a Union Territory having a legislative Assembly, as the case may be, audit all receipts and expenditure of any Body or Authority where the amount of government grants and loans to the body or authority in a financial year is not less than Rupees one crore. Where the receipt and expenditure of a body or authority are audited by the C&AG under sub section (1) or (2) of Section 14 for a particular year, the C&AG is authorized under Section 14 (3) of the Act to continue to audit of its receipt and expenditure for a further period of two years even if the conditions stated in sub-section (1) or (2) are not satisfied during any of the two subsequent years.

2. Different considerations under section-14: In course of audit under section 14 different views should be kept in mind as below.

1-Audit should cover all the receipts and expenditure of the body or authority specified in the section and not merely the part thereof relating to finances provided by government.

2- The essential ingredient for any institution to attract audit under this section are: (i) The grant or loan must be given to a body or authority. (ii) The grant or loan must have been paid from the consolidated fund. (iii) The body or authority should be substantially financed by grant or loan in accordance with the explanation given in the section. (iv) The audit will be of all receipts and of expenditure of the body or authority. (v) Result of audit will be reported upon by the Comptroller and Auditor General and (vi) Audit will be subject to the provisions of any law for the time being in force applicable to the body or authority.

3-The term body or authority used in this section has not, however, been defined in the Act but these terms have also been used in Article 149 of the constitution. On a reference made to the Attorney General of India regarding the powers of the Comptroller and Auditor General to examine the books of private bodies etc, the Attorney General had opined in 1960 that an authority would mean a person or body exercising power or command and a body would mean an aggregate of persons incorporated. These terms will thus include companies, corporations etc. The Attorney General also held that parliament would be competent to provide by law that the Comptroller and Auditor General may perform his duties and exercise its powers in relation to the audit of accounts of an incorporated association of persons entering in to contract with government but the parliament will not be competent to provide for the performance of such duties and exercise of such powers in relation to the accounts of an individual or a firm not contracting with government. A clear distinction has to be made between the term body or authority appearing in section 14 and the term corporation used in clauses (2) and (3) of section 19 in consultation with Ministry of Law and Justice, it has been decided that the term corporation would refer to any Body Corporate established by or under an Act of Legislature having perpetual succession with a common seal with power to acquire and dispose of property of contracting obligations and of suing and being in its corporate name. The second condition in section 14 is that if any grant or loan is financed from funds available with the governments in or outside their public accounts such grants or loans cannot be taken in to account for purpose of section 14 unless the transaction is routed through their consolidated funds. Cases in which the grant or loans are received by its body or authority which is itself financed by the Central or State Governments may have to be excluded from consideration unless, however it could be clearly established that the intermediate body or authority was a mere agency for remitting the grant/loan provided by Government. Cases of doubt in this regard should be referred to CAG for clarification with copies of all relevant papers. Transfer of revenues of government to the local bodies and authorities i.e. assignment

of revenue, in some cases initially accounted for in accounts either as a reduction of receipts or as a specific item of expenditure and they do not enter the government account at all and the beneficiaries directly collecting and appropriating the revenues. Assignment of revenue cannot be treated as payment of grant by of governments to the local bodies. On the other hand in respect of assigned revenues paid by debit to the consolidated fund has been recognized by the governments and the Legislatures that the relevant receipts are the revenues of the state and are accountable and payment out of such revenues are discretionary to be specifically noted by the legislatures. Accordingly such payments may be treated as grants for purposes of application of section 14.

4- The term total expenditure used in the explanation is to be interpreted to mean both revenue and capital expenditure. In respect of institutions running business, (sale of khadi cloths by State Khadi Boards, disbursement of loans by financing institutions as are activity) the expenditure incurred in purchase of materials, finished goods and loans paid etc. should also be accounted as expenditure. However payments of a purely deposit nature (Deposits for works done, Income Tax recoveries, advances to staff, investment of cash balance and transfer of cash between office and bank etc.) are not to be treated as expenditure.

5- In respect of organization having several activities but do not compile consolidated account in respect of all such activities, it may appear necessary to combine all the transactions such activities for application of section 14 examined with reference to the combined effect of all transactions. Such approach may lead to practical difficulties even impossibility, if the number of institutions run by one management is too large or are spread in several states. In those circumstances for practical purposes of application of section 14 may be examined with reference to the accounts of the respective activity provided as (i) the grant or loan is paid for specific activity (ii) payments are made with reference to the accounts of activity and (iii) payments are made to the management of activity and not to the apex body. Where in any case the government concerned takes a different stands it will be the responsibility of the government to furnish to Audit a consolidated account.

6- The fourth condition for audit under Section 14 is that audit is not intended to confine itself to the grant or loan and utilization thereof but has to cover all receipts and expenditure of the body or authority from whatever source they are derived. The type of scope, nature and periodicity of audit to be conducted is entirely at the discretion of the Comptroller and Auditor General under section 23 of the Act. In the circumstances, the Comptroller and

Auditor General cannot be required to audit the accounts every year and certify the same, he may be expected to comply with certain time-bound audit schedules of that body or authority as government have prescribed unilaterally.

7- The term audit normally includes certification of annual accounts. In this sense Audit under Section-14 does not preclude certification of accounts by the CAG, however, the term report used in Section 14 obviously relates to report under Article 151 of the constitution i.e. the report submitted by the CAG to the President/Governor for placing before Parliament/Legislature. The main objective of Audit under Section 14 is to include in such report or significant certification of annual accounts of the organization is not obligatory under Section 14 such certification should be undertaken only where the Comptroller and Auditor General is to be the sole auditor under other provisions of the Act.

8- It may be noted that audit under Section 14 is subject to the provision of any law for the time being in force applicable to the body or authority as the case may be. The correct interpretation of this term will be that the existence of any provision in a State Act entrusting the audit of the body authority to an agency other than Comptroller and Auditor General will not bar audit by the comptroller & Auditor General under Section 14. The opposite view advanced in this case stated that: (i) The provision in state law relating to audit of any body or authority would be implication, not preclude audit by the CAG; (ii) Audit by two statutory agency is likely to create complications and duplications of work; (iii) Such Audit might cause embarrassment particularly when the two agencies come to different conclusions; (iv) Nature and scope of audit under section 14 should be such that it does not infringe the other audit; (v) The Public account committee of the state can consider only reports by auditors appointed by State Government under rules of the Legislative Assembly. The provision in relevant state Act and rules should not exclude audit by the CAG under section 14.

3. Procedure of audit under Section-14: (i) The first stage of audit will be to identify each year the bodies and authorities that attract section 14. Soon after the close of each financial year, the various departments of the govt. should be required to furnish a list in a prescribed form of bodies or authorities to which grants or loans were paid by them and their subordinate offices during the financial year just ending. The information of grants and loans may first be collected from the records available with the Accounts Offices but it is advisable to ensure the correctness of the information so collected with reference to information obtained from Govt. Departments. They should also be requested to send the annual accounts

of all bodies and authorities in which the grant and loan with the body or authority in a financial year including unutilized balances carried forward from previous years is not less than Rs 25 lakhs. (ii) In respect of institutions in other states to which grants and loans are paid by a State Government, the Audit Officer will draw a list for each of the states involved and furnish the same to the Audit Officer of such states half yearly by the end of June and December under intimation to CAG's office. (iii) The information collected should be posted in institution wise register containing all information about grants or loans sanctioned and paid by the Central and State Govt. In addition, information regarding unspent balance, If any of the grants and loans for each year together with the grants and loans and total expenditure of that year should be noted in the register to facilitate selection or the cases that attract section 14 each year. The register must be periodically reviewed to ensure that up to date information is recorded and the audit of all institutions attracting section 14 is being arranged. For purpose of obtaining the annual statements of grants and loans and annual accounts of the bodies and authorities, it is desirable to draw up a drill in consultation with the State Government. In respect of grants/loans paid by the Central Government. to body and authority situated within the audit jurisdiction of a state AG, the AG should, after the receipt of statement from the AGCR/AGCW&M directly, address the concerned ministry/department of the Central Govt. asking for a copy of the annual accounts of the body/authority, if the body/authority is in receipt of assistance from the State Govt. and under general control of the State Govt. There is no objection for the copies of the accounts being obtained through the State Government. (iii) On the basis of information collected, lists of the bodies and authorities, the audit of accounts of which are required to be undertaken under section 14 should be prepared and programme for audit of their accounts should be drawn up. Simultaneously the concerned department of govt. should be requested to notify the bodies/authorities that the audit of their accounts would be taken up by the AG under section 14 and for this purpose they may be advised to make their books of accounts available and provide necessary facilities. (iv) The result of audit under section 14 will have to be incorporated in the CAG's Report (GS.ES&Civil) of the Union/State or Union Territory having a legislature as the case may be in the relation to financial assistance to bodies and authorities. The more important irregularities may be mentioned individually in additions to general comments about types of irregularities relating to a group of organizations preferably of the same category. (v)When two or more governments render financial assistance to a body or authority, the audit comments should appear in the reports of all the governments

those finance the body/authority. However the AG, auditing the institution may exercise his discretion to decide with due regard to magnitude of the grant/loan given by the govt. concerned. He should send copies of all relevant material to the concerned AG for further processing in their respective reports. If the body is located in one state and is financed by the state and Central Governments normally, the material will appear in the State Report. If, however, the materials is considered worth mentioning also in the Central Report, that is no objection to the state AG finalizing the para in consultation with the governments and forwarding the same to the AGCR/AGCW&M for inclusion in the Central (Civil) Audit Report. (vi) The audit of the accounts of companies that attract section 14 will be conducted by the Commercial Audit Wing. If an Accountant General comes across of a company attracting section 14, he should contact the appropriate authority in the Commercial Audit wing of this department and request for this audit being done by that wing. The results of audit will however, be incorporated in the chapter relating to Financial Assistance given by government in the Civil Audit Report. Hence also, it is for the AG concerned to finally decide whether any thing is to be included or not in the relevant Audit Report. In cases of serious difference of opinion between the audit wing and the AG in this matter the matter should be reported to the CAG for order. (vii) With a view to enabling CAG office to assess the volume of work involved under section 14 a return should be furnished yearly by 31st October each year by all offices containing the following information for each year. (1) Number of bodies/authority to whom grants/loans of not less than Rs 25 lakh were given. (2) Number of bodies/authorities for which accounts have been received and examined. (3) Number of bodies/authorities that attracted section 14. (4) Number of bodies/ authority that have been selected for audit during the year and number of bodies/authority that have been audited during the years (names of such bodies/ authorities). (5) Number of bodies/authorities that have not been audited for more than 4 years (names of such bodies/authorities). (6) Information on paragraphs that have been proposed for or appeared in the Audit Report. (7) Whether any deal has been finalized and if so, how far it has been implemented. (8)List of sanctioning authorities whose office were checked for purposes of audit under section 15 (9) List of sanctioning authorities whose office are checked for purposes of audit under section 15. (CAG's Letter No-1005/TA-I/118-75 dated 7.11.75 read with No-92/TA-I(RGL)/166-78 dated 1.2.79 and No-190 /TA-I (RGL) 179-77dated 13.3.80)

4. Scope and extent of audit:

1. The autonomous bodies or authorities that may come up for audit under section 14 may fall broadly under the following categories. (i) Companies other than government companies as defined in companies Act 1956. The provision of section 14 would not be applicable to bodies/authorities whose audit arrangement is considered under section 19 (1) and 19 (2). (ii) Commercial undertaking incorporate under specific acts of parliament of state legislatures. (iii) Public utility under taking incorporated under specific acts of parliament of state legislatures. (iv) Promotional undertakings established in the same manner as (ii) and (iii) above. (v) Bodies and authorities constituted for educational culture, scientific or social welfare development. (vi) Authorities/Corporations constituted by Acts of legislature for development of urban/rural areas including such bodies set up for decentralized local government and (vii) Consumer and producer cooperatives, which receive substantial assistance from government.

2. The particular procedures and modalities to be adopted for audit and found to differ in respect of each of these organization but the main objective of audit by CAG in all these cases will have to be ascertained how the funds provided by government have been actually used and to identify the factors that have led to less than efficient uses, so that the legislatures which have voted the funds might have an opportunity to know the position

3. The duties of CAG in respect of these organizations can be grouped under two categories viz, (i) financial auditing and (ii) operational auditing. Financial Auditing is a critical review of the controls and financial records of an organization that leads to an opinion in the accuracy and fairness of the financial statement and adequacy of the safeguards available against errors and losses. In respect of organizations for which the CAG acts as sole auditor, this function is essentially performed in his capacity as sole auditor of the organization under Sections 19 and 20 of the Act. In respect of organizations where CAG is not sole auditor but he is an auditor under Section 14 only, the task of financial auditing is usually performed by the auditor appointed through CAG, may exercise a check on the efficiency of such auditing.

4. Operational or management auditing is an extension of the financial audit going beyond what is generally considered as the accounting function, it deals primarily with non financial aspects that sooner or later are quantitatively expressed in the financial record of the organization. In a case of audit under section 14 should be considered as intended to go

beyond the financial audit, already conducted by other auditors and hence is taken to operational or management auditing. Audit under section 14 is hence second audit of the organization for an objective entirely different from the one for which the organization/government had appointed auditors for the annual certification of accounts.

5. The scope and extent of the audit under Section 14 will naturally vary in accordance with the specific provisions pertaining to each organization. Where the CAG acts as sole auditor, he combines the functions for financial auditing and operational auditing. Where he is the second auditor, he acts essentially as operational or management auditor, though it may be necessary for him to test check the work done by the first auditor. As auditor under section 14, his function is not merely to see that the accounts represent a true and fair picture of the transactions of the years but also to examine whether value for money spent has been realized and what, if any, specific lapses have accrued in this regard. To effectively appraise the same it is necessary to examine the various policies plans and programme to identify deficiencies in detailed planning and in execution and to bring to light various lacuna in procedures and methods as well as particular lapses on the part of institutions and individuals. Audit under section 14 will thus include as an integral part, a review and appraisal of the efficiency and effectiveness of the programme and their implementation procedures. It carries with the need to discover and inform the legislature of the problems of implementation and consequential failures and shortcomings in the implementation of the programme and policies.

6. That result of audit under Section 14, as already mentioned earlier, has to be reported to the parliament/legislature. If the scope of audit under Section 14 is as stated in the previous paragraph, an analysis in-depth mentioned earlier cannot be conducted every year and presented to Parliament/Legislature annually. Such an annual presentation is prima facie, not possible with due regard not only to the time and expenditure involved but also the limited space available in the Audit Report. Further a deeper analysis of the type mentioned above has to take into consideration result over a period of years and not confine itself to one year alone. Besides annual presentation under Section 14 of materials about every organization could mean repletion of points without the objective of audit being achieved. Audit under Section 14 should therefore be taken up in respect of any institution once in a period of 3 to 4 years.

7. In the context of the aforesaid objective and periodicity of audits under Section 14 should be reviewed to ascertain whether: (i) The objectives of the organization have been clearly

defined and are in conformity with the government's policies and decisions and the objective stated in the memorandum of association or other charter establishing the organizations have been within the knowledge of all concerned. (ii) Policies and programme are drawn up in accordance with these objectives and are being implemented by specific and well defined procedures. (iii) Procedures are followed as intended. (iv) System exists for collecting reliable progress report on implementation of the policies and programmes. (v) Progress is reported to the governing body of the Organization/Government timely and accurately and (vi) An effective control exists over various areas of implementation to check leakage, losses, avoidable and wasteful expenditure.

8. For this purpose audit should be familiar with the various aspects of the organization and its activities under suitable headings as indicated below. (i) Organizational set up;(ii) Management process; (iii) Research and Development; (iv) Personal policies and management; (v) Material management; (vi)Financial Accounts (Internal Audit); (vii) Work

9. It is advisable that in respect of each of these fields of operation a set of questionnaire relevant to the organization is compiled to indicate the approach of audit party so that the working of the audit is systematic and effectively performed. Raising a good question, it may be noted, is often the key to uncovering a problem. A sound noting inherent in the questionnaire, however precludes the auditor from bringing the full range of his capabilities to bear on the performance of the audit assignment. The questionnaire is hence an important tool and only one of the tools it hands of audit. With this background an attempt has been made to frame a series of common questionnaire relevant to various activities. They are kept in Appendices 1 to 7 to this compilation. They are, by no means exhaustive not are relevant to each and every organizational set up taken up for audit, they have to be amended both in working and content with due regard to various factors governing the organization under audit. They are intended to serve as a broad guide line as to what is expected to be achieved in audit under section 14. Based on replies obtained in writing or from the records of the organization for suitably redrafted questions, the auditor has to apply his mind and intelligence and frame his conclusion.

10. The findings of audit as a result of this examination in depth should be communicated to the organization and the government according to existing procedures, their replies, comments obtained and thereafter the final conclusions should be examined to see whether the results are such as they should be reported to the Parliament/Legislature Based on the

conclusions so reached, the audit officer concerned can proceed to draft the paragraph and process the same in accordance with the existing procedures thereof.

APPENDIX-7

Referred to Para 12.1

(Section 15 of the C&AG (DPC) Act 1971 reads as under)

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

(1) Provided that the President, the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly as the case may be, where he is of opinion that it is necessary to do so in the public interest, by order relieve the C&AG after consultation with him from making any such scrutiny in respect any Body or Authority receiving such grant or loan.

(2) Except where he is authorized to do so by the President, the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly as the case may be, the Comptroller and Auditor General of India shall not have, while exercising the powers conferred on him by sub-section (1) right of access to the books and accounts of any corporation to which any such grant or loans as is referred to in sub-section (1) is given if the law by or under which such corporation has been established provides for the audit of the accounts of such corporation by an agency other than the C&AG of India provided that no such authorization shall be made except after consultation with the C&AG and except after giving the concerned corporation a reasonable opportunity of making representations with regard to the proposal to give the right of access to its books and accounts to the Comptroller and Auditor General.

(3) This section has two parts. The first part imposes a statutory responsibility on the Audit Department to scrutinize the procedures by which the authority sanctioning a grant or loan for any specific purpose to any authority or body from the consolidated fund satisfied itself as to the fulfilment of the conditions subject to which such grants or loans are given. The second

part gives the C&AG, the right of access to the books and account of authority or body in receipt of such grants or loans, subject to certain provisions contained in the relevant section. The restrictions in the relevant section are: (i) The authority or the body is not a foreign state or international organization; (ii) The President/Governor/Administrator concerned can if he is of the opinion in public interest by order relieve, the C&AG after consultation with him from making any such scrutiny in respect of any body or authority; (iii) Except with the authority of the president/Governor/Administrator concerned, right of access to the books and accounts of any corporation is not available if the law by or under which the corporation is established provides for audit by an agency other than the C&AG.

(4) According to the provisions mentioned above, the examination of the records of the sanctioning authorities for the purpose of examining the procedure adopted is an obligatory or statutory function where it is not obligatory the books of all authorities and bodies, the accounts and books of which are open to audit by the Audit Department, must necessarily be scrutinized

(5) Further the examination relates to grant or loan given for specific purpose but does not cover grants for general purposes without any condition. Grants given for maintenance, purchase/procurement of specific items like land, buildings, equipments etc, grants given subject to fulfilment of certain conditions, grants given to cover deficit etc. are all to be treated as specific purposes grants and if doubt arises in any case as specific purposes, government/department's files leading to the issue of relevant sanction should be consulted.

(6)As observed earlier, in cases in which the law by or under which the corporation is established provided for audit by an agency other than the C&AG, access to its records is not available to the C&AG unless the President/Governor/Administrator authorizes him to do so under sub-section (2) of section 15. This authority can however, be issued only after prior consultation with the C&AG and after giving the concerned corporation a reasonable opportunity of making representation with regard to the proposal. The initiative for making any such request normally lies with the government concerned. The term "Law" used in sub-section (2) of section 15 has a wider connotation than Act and will include rules and regulation framed under the Act. Similarly the words "Provides for" used in the section have also a wide connotation hence, even if a law concerning a body or authority empowers government or any other authority to appoint auditors and government or any such authority appoints anyone other than the C&AG, thereby access of the C&AG to the records of such

corporations as well would be barred. For example cooperative societies, the audit of which is provided for in the Act governing them and the registrar is mentioned as the authority to conduct or to direct the audit will be covered by this provision.

(7) To enable audit under this section records should be maintained in each office to record the sanctions issued for payment of loans and grants for specific purposes and actual payments made against them. It is likely that subordinate authorities of government are also empowered to sanction grants or loans to different bodies and authorities and if so, copies of sanctions accorded by them may not be received in audit office. There may be cases where mere countersignature in bills should signify sanction of payment of grant or loan. In such cases where copies of sanctions are not furnished to audit, the amounts sanctioned could ordinarily be for comparatively small amounts and it may perhaps be impracticable to keep a complete record. In such cases where local audit is conducted of the records of the sanctioning authorities the supervisory officer will have to make a report to the main office on such grants/loan with adequate particulars and recommendations in regard to the need or otherwise examination of the books of the accounts of the recipient body or authority

(8) Based on the information available to audit, the sanctioning authorities whose records are decided to be examined should be given, due notice before audit is arranged. The scrutiny under this section should begin with a scrutiny of the sanction issued by the competent authorities. It has to be seen that they are competent to sanction the loans or grants and whether the financial rules and regulations governing the grant or loan have been duly followed. It has to be examined whether the grant or loan has been utilized for the purpose for which the loan or grant was sanctioned. Normally the financial rules of the governments would make the sanctioning authorities responsible for satisfying themselves about the fulfilment of conditions attaching to the grant or loan and furnishing to the audit/account officers certificates of utilization within a prescribed period. In exercising the first part of check under this section, it is necessary for audit to study the procedure prescribed for the sanctioning authorities to satisfy themselves regarding utilization of loans or grants and to check up whether the procedures themselves are not deficient in any respect and whether they are duly followed. Factors like extent of grant/loan regularity or periodical payments, existence of prescribed procedural instructions, existence or efficient internal audit and administrative inspection system in the department for an effective control over the proper utilization of grants or loans are to be looked into in this connection. It has to be ensured that

the body/authority has an effective accounting and audit arrangement and the audit has been conducted and the auditor's report does not reveal any serious deficiencies,

(9) The second part of the audit consists of the scrutiny of the book of accounts of the body or authority. As a matter of prudence, it would be preferable to defer examination of books and accounts of bodies and authority whose accounts had not been audited at all. The absence of a deficiency in such arrangements and the consequent delay in audit scrutiny by us can be considered for comment in the Audit Report. During audit, it has been ensured that the body/authority has actually complied with the prescribed procedure for reporting of utilization that the grants or loans had actually been fully and properly utilized and the conditions governing the grant had been duly observed. Observance of normal cannons of financial propriety can also be looked into for such comments as may be called for.

(10) Some of the points to be observed during audit under Section 15 are mentioned here. (a) Has the sanctioning authority prescribed clear procedure for satisfying itself that the grants and loans sanctioned are being utilized for the purpose for which they have been given? Are all the conditions of such grants and loans being fulfilled, such procedures may provide for (i) submission of periodic progress reports; (ii) submission of audited statement of accounts; (iii) inspection of the grantee institutions? (b) Are the reports reviewed when received and by whom and what action is taken thereon? (c) Has any irregularity been noticed during inspection? What action is taken on such irregularities? (d) A register of grants-in-aid is to be maintained to watch the receipt of utilization certificates. Is the register being maintained correctly and is it being reviewed and at what level? (e) Is a register of assets, equipment and building being maintained? How is it ensured that assets are being put to intended use? Are there any instances of misutilisation or sale of assets? If so what actions has been taken in such cases. (f) What action, if any, is being taken in regard to obtaining utilization certificate not received and is the grant recovered in cash or by adjustment from other grants? (g) Has any legal action been taken against the defaulting guarantees? Are subsequent grants also being paid despite such defaults? (h) In regards to loans what is the position regarding repayment? Is there any arrangement by which it could be ensured that even after repayment of the loans the asset is utilized for the purpose for which it has been given? (i) Are all conditions stipulated in the sanction to grants-in-aid is fulfilled? How is it being ascertained that the general objective of a scheme of grants-in-aid is being fulfilled. For instance, a scheme of grants-in-aid may be intended to promote adult literacy? Is there any report or

assessment by which the authorities review from time to time the actual achievements? Is such an achievement reasonably proportionate to the efforts and expenditure involved? (j) Such a review could be usefully made over after the period of expenditure involved. For instance, if a scheme of grants-in-aid for promotion of sports has operated for 10 years and at the end of which there has been very little achievements, this could be commented upon though it may not exclusively be related to procedure. (k) There may also be defects in the sanction or in the scheme itself which may militate against effective procedure to check the purpose for which the grant is utilized. Such deficiencies in the sanction or the scheme should also be examined. It may be noted that these instructions are not exhaustive by themselves and each case would need examination with reference to conditions, purpose etc. governing the grant or loan.

(11) The results of audit of loans/grants under sections 15 for specific purpose does not specifically provide for reporting in the Audit Report unless the expenditure out of the Consolidated Fund of India/States is involved and in such case the reporting thereon will be automatically within the purview of Section 13 of the Act. Important irregularities noticed during the scrutiny of the procedure in the office of the sanctioning authorities or scrutiny of records of the recipient bodies or authorities can be featured distinctly and separately in the chapter relating to financial assistance to bodies/authorities.

(12) In respect of certain institution (like govt. companies, statutory corporations and several autonomous bodies) for which CAG acts also as auditor, the audit of the account of the sanctioning authorities is often conducted by audit offices, who are not themselves the audit officer conducting audit of the institutions. In such cases and also in cases of institutions functioning in other states, access to which is not banned under section 15 (2) the audit of the record of the sanctioning authorities may be conducted by the AG concerned. In case he considers necessary that certain points would need scrutiny with reference to record of the institutions, he can communicate with the concerned Audit offices, obtain results of examination and include the same in his report of audit under section 15(1), The Audit offices of the institutions can also, as a result of their regular audit, intimate their own result to the audit officer of the sanctioning authority and point which they consider necessary to be reported to the Audit Officer of the sanctioning authority.

(13) Audit under Section 15 primarily relates to the records of the sanctioning authority and results of audits of the books and accounts of the institutions receiving grants for specific

purpose and should be pursued with the sanctioning authorities and their superior officers and govt. as the case may be. The objections need not be communicated to the institutions directly. The facts, however, can be got verified by the institutions.

APPENDIX-8

Referred to Para 12.2

Instructions contained in C&AG Letter No-I076/TA-I/ (RGI) 26-78 dated 07.11.1978 for audit of autonomous bodies.

Procedure for taking up audit of autonomous bodies:

1. The audit of accounts of autonomous bodies is taken up by the C&AG under the provisions of section 14, 15, 19 and 20 of the C&AG (DPC) Act 1971. Audit under section 14 and 15 is conducted to cover all the receipts and expenditure of the body or authority specified in the sections in addition to the audit of the accounts by the auditors appointed to certify the accounts. Where it is necessary to have the accounts certified by the C&AG such duties can be entrusted to C&AG under the provisions of section 19(2) 19(3) and 20 of the C&AG (DPC) Act 1971. It may however, be noted that though audit in majority of cases under these sections will be for certification of accounts as sole auditors but these sections do not preclude undertaking a second or superimposed audit or a part audit for specific reasons .
2. Section 19 (2) of the Act deals with the audit of the accounts of corporations established by or under law made by parliament. It provides that the duties and powers of C&AG in relation to audit of such corporations should be performed and exercised in accordance with the provisions of the respective legislations. The word legislations used in this section refers not only to the provisions in the present Act relating to the organization but also to rules and regulation framed by competent authorities by virtue of powers vested in them under the relevant Act. Where there is no provision in the relevant legislation relating to the duties and powers of C&AG, such corporations are not covered under Section 19 (2) and its audit can be entrusted to C&AG under section 20.
3. Section 19 (3) and 20 (1) provide for entrustment of audit of autonomous bodies to C&AG in public interest. Section 19 (3) refers to corporations established by Acts of state Legislature and Union Territory and Section 20 (1) deals with arrangement of audit by C&AG of all bodies other than those covered under section 19 (govt. companies). The procedure prescribed under both the sections has been the same except settlement of terms and conditions under section 20 for entrusting audit. In practice it is found that the terms and conditions in respect of audit can be determined under mutual interest of

government, organization and IAAD during consultations. Before entrusting audit under sections 19(3) and 20 to the C&AG, it is necessary to ensure the legal requirements of the two sections duly complied and considered.

4. One of the essential requirements of the two sections is that audit can be entrusted to C&AG only in public interest. The satisfaction of the government concerned is required in both the cases and it will not generally be necessary for the audit to examine the correctness of the said satisfaction or to hold a contrary view in the matter. In the circumstances before any proposal for audit, the governments will have to satisfy themselves that public interest is served as a result of entrustment of audit to the C&AG. For this purpose Government of India has decided that in each case where audit is proposed to be entrusted by them to C&AG, is to be considered by the Finance Ministry first before the proposal is sent to C&AG. The ministry has also adopted another internal convention where the departments concerned obtain the specific approval of the Minister concerned for entrusting audit to C&AG before the proposal is examined. With a view to ensuring that different standards are not adopted by various departments of state government for examining the public interest involved in entrusting the audit to C&AG, it is preferable to have all proposals for entrusting audit by the C&AG examined by the respective state finance departments before matter is further considered. Proposals for audit may be entertained only if they are sent through the Finance Department.

5. Another requirement of the two sections is that no audit can be entrusted to the C&AG except after giving a reasonable opportunity to the concerned body or authority to make representations with regard to the proposal for such audit, where the statute setting up and governing the institution itself provides for or permits audit being entrusted to the C&AG. It is not obligatory that the organization should support the common decision. While considering proposals of government in the matter, it should be seen in audit that the reasonable opportunity of representation had been given to the body or authority as it is mandatory to do so and any omission to do so will vitiate the orders of the Government.

6. The third requirement of the two sections is that the request of the government is made only after consultation with the C&AG, government may inform its intention to entrust the audit to C&AG by a communication addressed to the AG concerned and there is no objection for the Accountants General corresponding with the governments. But it is necessary that in every case, prior and specific clearance of C&AG should be obtained before a decision to

accept/reject a proposal for audit is conveyed to the government for this purpose. The proposals received from government may be examined in detail and recommendations sent to the C&AG's office with copies of documents connected with the organization. The proposals may generally be examined on the following lines: (i) whether the Government has satisfied themselves that it will be necessary for the C&AG to take up the audit in public interest? (ii) Whether the AG is adequately equipped to take up the work with due regard to availability of his trained personnel staff position etc? (iii) Whether the duties cast on the auditor according to Act, Rules, Regulations, etc. are capable of being adequately discharged and they do not contain any item of work which is not normally undertaken by audit, such as verification of store etc? (iv) Whether audit will be conducted by the C&AG's organization alone or whether there will be a secondary auditor, in the later case what are the relative duties of the two auditors and whether such situation is acceptable? (v) Whether the results of audit are to be separately reported to the state Legislature/Parliament or whether they can be reported as part of the C&AG's reports under Article 151 of the Constitution,

7. The fourth requirement of section 20 is that audit is entrusted to C&AG on such terms and conditions as may be agreed upon between the government and the C&AG. The standard terms and conditions that are now being adopted are given as Annexure to this circular. It has to be examined that at the time of the proposal is being considered, the conditions are being fulfilled and any difficulty in observing the same has to be fully analyzed and facts has been brought to the notice of the C&AG and the government. The terms and conditions for undertaking audit of institution mentioned therein are applicable in respect of audits to be undertaken vide section 19 (3) and 20 (1) of the C&AG (DPC) Act, 71.

8. Having complied with the requirement, it has to be seen that request is sent by the government concerned in the name of the President/Governor for entrusting the audit to the C&AG. It is often noticed that letters of request do not indicate compliance with the mandatory requirement of the section of the Act. With a view to avoiding possible legal complications at a later date, it is to be ensured that the request is correctly worked out. For this purpose, a copy of the specimen form adopted by the Government of India is enclosed for being commented to all State Governments.

9. It has been noticed that in many cases government's proposals for audit are received very late or the compliance of formalities take considerable time with the result that audit is actually taken up with considered backlog to cover. In such cases it will be necessary to work

out in consultation with the government and the organization concerned that a time schedule for clearance of arrears of audit and steps will have to be taken to ensure that audit is completed according to agreed schedule. Apart from this in respect of every annual audit also, a time schedule will have to be checked out and adhered to, if practical difficulties arise in adhering to the schedule matter can be reported to government for remedial action.

Section II- Certification of accounts: General procedure for audit of accounts of autonomous bodies for certification of accounts under 19 (2), 19 (3), 20 (1) of C&AG (DPC) Act, 1971 are mentioned below:

1. Audit as understood in common parlance, is an examination of the books of accounts to ensure that the final accounts prepared for publication and presentation, are the true reflection of the books. The examination involves the verification of the authority for and the accuracy of the books figures with the help of such evidence as may be available in the form of vouchers, invoices receipt and other document. The Auditor must, therefore, conduct as far as possible an independent investigation into the affairs of the organization and satisfy himself that the state of affairs as shown in final accounts at a given date reflects the true state of the organization according to the facts available to him, information ascertained by him and explanation given to him. In other words, the Auditor is an independent critic who gives his opinion without fear or favour to the organization/government who rely on his skill for probing into all relevant matters and bringing out the true position.

2. A considerable time has to be spent on the routine work of checking the book's entries otherwise known as vouching, but in any organization, it will hardly be possible to do such checking in any great detail number without engaging and unmanageably large number of persons on the work. So the Auditor has to rely largely upon the system of internal check obtaining in a particular organization before deciding the extent of check to be exercised by him. It is only after scrutinizing the nature and extent of internal check existing in an organization, the Auditor will be in a position to decide the direction in which his further studies must proceed and he should make special note of such weakness in the internal check and bear such defects in mind throughout the audit.

3. Certain procedure relating to audit of specified records and transactions are given in the Manual of Commercial Audit. These instructions can be adopted with advantage for audit on non-commercial autonomous bodies as well. These instructions are not exhaustive by

themselves and can be varied/implemented with due regard to the requirement of audit of each organization.

4. It is pertinent to bring to notice in this connection that the Public Accounts committee of the parliament has made the recommendations in their 18th Report that the C&AG who are responsible for their audit, should in addition to the normal expenditure audit undertake achievement audit of these organization indicating interalia their original targets and achievements.

5. Since the Audit of autonomous bodies is entrusted to the C&AG in public interest it is necessary that (i) the audit of their accounts is directed to see that the objective of the organization is achieved (ii) that the expenditure incurred to achieve the objective is reasonable (iii) that there has not been wastage of funds placed at their disposal etc. For this purpose, efficiency cum performance audit should be conducted periodically and material incorporated in the Separate Audit Report. Where the points are considered significant enough to be specifically brought out in the conventional Audit Report as well, there is no objection for suitable mention being made in the Audit Report. The accounts should be certified as representing a true and fair picture of the affairs in the form mentioned below.

Audit Certificate:

I have examined the Accounts and the Balance sheet of the (Name of the body)
for the year ending 31st March (year)

I have obtained all the information and explanations that I have required and subject to the observations in the appended Audit Report. I certify, as a result of my audit that in my opinion these Accounts and Balance Sheet are properly drawn up so as to exhibit true and fair view of the state of affairs of the accounts ending 31st March (year) according to the best of my information and explanations given to me and as shown by the books of the organization.

Accountant General: In every case the certificate of audit must be signed by the Accountant General and Separate Audit Report compiled and issued. The Separate Audit Reports in cases where they are to be placed before Parliament/State Legislature should be sent to C&AG office for prior approval before issue. There is however, no objection to issue draft report to the organization/government in the first instance giving reasonable time for reply and to finalize the report based on replies of the organization/government. In such cases it is

necessary to ensure that any delay in reply does not adversely affect timely certification of accounts and for this purpose a working arrangement can be made with the consultation of the organization/government concerned.

6. In respect of every audit, it is not required that every point of objection is worthy of mention in the Separate Audit Report and there are quite good numbers of minor objection which have to be pursued by other means. In respect of such cases, the objection can be incorporated in an inspection report and compliance watched during the next inspection. In respect of all such cases where objections are pending for a long time, an omnibus Para may be included in the Separate Audit Report indicating number of reports and paragraph pending and money value of objections involved. It is necessary for the Audit Office to compile and maintain an up-to-date record relating to various organizations under audit. These may include: (i) The constitution of the autonomous body; (ii) The rules and regulations framed by government and the autonomous body; (iii) Orders connected with administrative and financial powers at various levels; (iv) Copies of annual reports of the body as compiled/presented to government/legislature etc; (v) Copies of report of various committees relating to the functioning of the body; (vi) Copies of the final audit report and accounts as presented to Government /Governing Body, minutes of adoption of the accounts audit report etc. A complete set of records relating to (i) (ii) and (iv) should also be made available to CAG's office in respect of all cases where reports are sent to CAG's office for approval.

7. In addition to the general documents mentioned above in respect of each audit it is necessary to maintain an Audit programme book for guidance of the Audit Parties visiting organization from year to year. This Audit Programme book may be kept in three sections as under: **Section-1** will detail the general outlines of the organization, the various wing functioning powers delegated to various authority, extent of internal checking available and incorporate all orders of important notice from time to time. Information on branch/sub-offices to be audited should also be detailed for guidance of the audit parties. **Section-2** will specify the various basic records that need to be checked, nature of checks to be exercised/supervised and the necessary checks for this purpose, separate columns will have to be given for each year covered in audit. It has to be ensured that in this section all records to be checked are mentioned without fail and the initial compilation must be subjected to as thorough a check by the Inspecting Officer as may be called for. In every subsequent inspection such additions and deletion to the list may be made as may become necessary with

suitable note in the relevant columns. **In Section-3** points that would need examination in next inspection including points that the organization has agreed to comply in future and the reply considered adequate should be noted and compliance should be watched/noted at the time of next audit. If as a result of correspondence, some points of objection raised in Separate Audit Report/Inspection Report are settled or deferred subject to check in next audit. Such points should also be noted in adequate detail for scrutiny at the time of next audit in this section and action taken should be reported to specific compliance report. Approval of the Separate Audit Report and Inspection Report should be given only after scrutiny of the Audit programme Book and after ensuring that the entries in Programme Book that the audit has been satisfactorily completed.

Format of request letter for entrustment Audit:

Government of India Ministry of finance Department of Economic Affairs, New Delhi

To

The Comptroller & Auditor General of India New Delhi

Subject: Entrustment of Audit of accounts to the Comptroller & Auditor General of India under section 20 of the C&AG's (DPC) Act, 1971.

Sir,

I am directed to state that the President is pleased to request the Comptroller and Auditor General of India to undertake the audit of the accounts of (Name of institution) in terms of section 20 of C&AG (Duties, Power and condition of services) Act. 1971.

As required under the said section, the office of the Comptroller and Auditor General of India has been consulted vide their UO No.....

Provisions of sub-section (3) of section 20 of the said Act are satisfied in this case.

The terms and conditions for conducting the audit of the accounts of the said Institute body/authority shall be as indicated in the annexure here to.

Annexure: Terms & Conditions

(1) Any expenditure incurred in connection with the audit will be payable by the body to the C&AG of India. (2) The C&AG of India or any person appointed by him in connection with the audit shall have the same rights/privileges and authority as the C&AG has in connection with the audit of government accounts. (3) The result of audit will be communicated by the C&AG or any person appointed by him to the government or body who shall submit a copy of the report along with its observation to the government. (4) The C&AG will also forward a copy of the report direct to the govt. (5) The audit is entrusted to the C&AG in public interest for a period of 5 years in the first instance subject to review of arrangement after that period. (6) No other auditor will be appointed for any purpose what so ever in connection with the accounts of the body except with the prior approval of the C&AG. (7) The scope extent and manner of conducting audit shall be as decided by the C&AG. (8) The C&AG will have the right to report to Parliament/State Legislature, the results of audit at his discretion.

Yours faithfully

Officer on Special Duty Budget

8. Issue of Audit Certificate in respect of Externally Assisted Projects (EAPs): In accordance with the instructions circulated vide C&AG office Circular Number-11/Audit II issued under letter No- 711-Audit II/93-86 dated 12.05.1987 it was made clear that the audit certificate should be issued in the proper printed letter head and signed by an officer not below the rank of DAG/DD. The name and designation of the signatory should be legibly typed below the signature. However, the responses received from the World Bank on issue of the audit certificates it has been noticed that apart from non issue of audit certificate in the letter head, instances have also come across the audit certificates that have not been issued in proper format and the signatory has been of the rank of Sr. Audit Officer. It is reiterated that in respect of World Bank assisted projects audit certificates should be issued in the form as per standardized terms of reference of World Bank. For the projects assisted by donors other than World Bank the audit certificates may continue to be issued as per existing format. As such for all EAPs (both World Bank assisted projects and other than World Bank assisted projects) audit certificates should be issued in the proper Printed Letter Head and signed by an officer not below the rank of DAG/DD. The name and designation of the signatory should be legibly typed below the signature (Circular No-01-PPG (EAP)/2013 and Letter No-

III/S/7/62-PPG (EAP/1-2007 III dated 05.04.2013 (Element- Reporting and follow up, Document level-II). Audit Report and Audit Certificate is to be issued as mentioned below.

For World Bank Assisted Project

(Sample of Audit Report-unqualified opinion as per standardized terms of reference)

Report of the Comptroller and Auditor General of India

Addressee:

Sub: Report on the Project Financial Statements

We have audited the accompanying financial statements of the _____ Project financed under World Bank Loan No. _____/IDA, which comprise the Statement of Sources and Applications of Funds and the Reconciliation of Claims to Total Applications of Funds for the year ended _____. These statements are the responsibility of the Project's management. Our responsibility is to express an opinion on the accompanying financial statements based on our audit.

We conducted our audit in accordance with the Auditing Standards promulgated by the Comptroller and Auditor General of India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit examines, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the sources and applications of funds of _____ Project for the year ended _____ in accordance with Government of India accounting standards.

In addition, in our opinion, (a) with respect to SOEs, adequate supporting documentation has been maintained to support claims to the World Bank for reimbursements of expenditures incurred; and (b) except for ineligible expenditures as detailed in the audit observations, if any, appended to this audit report, expenditures are eligible for financing under the Loan/Credit Agreement. During the course of the audit, SOEs/FMRs (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 Loan/Credit Agreement.

This report is issued without prejudice to CAG's right to incorporate the audit observations in the Report of CAG of India for being laid before Parliament/State or UT legislature.

Auditor's Signature

Auditor's Address and Date

FOR PROJECTS ASSISTED BY DONORS OTHER THAN WORLD BANK

OFFICE OF THE

(In the proper letter head)

Dated

No.....

Audit Certificate

The Expenditure Statement/Financial Statements relating to the project(Loan/Credit No.....) for the yearattached here to have been audited in accordance with the regulations and standards of audit of the Comptroller and 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 purpose of the project; and
- b) That expenditure statements/financial statement are correct

During the course of the audit referred to above, Statement of Expenditure (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.

Gross amount shown in the above-mentioned Statements of Expenditure includes Advance paid to Contractor/s Rs (Rupees) which is still pending adjustment.

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 Statement/Financial Statement read with the observations 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 CAG's right to incorporate any further/detailed audit observations if and when made in the Report of CAG of India for being laid before Parliament/State legislature.

Signed

(Name and Designation)

APPENDIX-9

(Referred to Para 18.7 of Fraud and corruption in contract service)

Questionnaires relating to organizational setup

1. Is there a clear statement in writing regarding the goals of the organization and what its immediate objectives are?
2. Are the organizational goals and objectives are kept in mind at the time of the administrative actions and utilization of resource?
3. Has the organization adopted suitable methods to realize its objectives?
4. If organization's financial statements are provided with adequate information to the management and administration and are they readily understandable?
5. Are the required financial informations made available to the committees, experts etc. who need it in fulfilling their obligations?
6. Are the decisions on various matters taken at appropriate level?
7. Are systems and procedures generally documented at appropriate levels?
8. If so, are the documents of systems and procedure available in the hands of the users?
9. Are the documents of systems and procedures brought out in a handy manual?
10. Are there controls to keep the documents and manuals uptodated?
11. Are the Powers of various, levels, financial, technical, procedural etc. well defined?
12. If so, are they duly observed?
13. Does the organization measure and rate the performance of its various wings and take adequate action in fields which need special attention? If so please check (i) the result over the period of time vis-a-vis budget (ii) production, where applicable over a period of time with reference to budget (iii) use of resources (iv) quality and utility of the results.
14. Are the budget and financial performance developed by those responsible to meet them?
15. Are the budgets subjected to adequate scrutiny?
16. Whether the goals set in the budget are capable of being obtained with due regard to manpower, finance and other resources available to the management?
17. Are the budgets framed from planned estimates rather than based on prior performance?

18. Is the organization aware of the return that it gets out of the funds made available and does it evaluate? If not, can one be attempted?
19. Does the organization prepare any annual report? If yes, does it present objectively the activities of the organization problem etc. in the annual report and does it bring out all salient points?

APPENDIX-10

(Reference to Para 18.7 of Fraud and corruption in contract service)

Questionnaire relating to management process

1. Have responsibilities for the planning the functions been assigned and have time and facilities for planning been set aside? Is planning done on a schedule basis?
2. Does it appear that adequate avenues exist for accomplishing the targets fixed in the plan?
3. Does the organization seek active participation of all levels of management for formulating its plans?
4. After the plans are framed, are they reviewed by an independent authority (i.e. government) before the programme is cleared for implementation?
5. Are the plans and Programmes reviewed during implementation by means of periodical report?
6. If there are indications that the plans are either not feasible or not working, are they modified or formally terminated at an early time to avoid further outflow of funds in the plan?
7. Have priorities been attached to all approved plans?
8. Are the plans laid only after adequate search and evaluation of the main problem?
9. Whether the cost of development has been favourably compared and examined with budget or the one head and with plan on the other.
10. Does the budget reflect the objective of the plan and is it used to translate the plan in to action?
11. Does any revision in budget materially affect the goal as provided in the plans and if so, is it duly noted at appropriate level before revision is agreed to?
12. Do the projections provide proper guide to action in handling capital structure and liquid resources?
13. Does revision of budget indicate defective planning or any coverage of failure to attain the planned goals due to other reasons?
14. Are explanations of budget variations with actual genuine?
15. Is the budget prepared and approved well in time?

16. Is an analysis of budgets over a period of years made to see that the budget endeavors to translate the action in achievement of goal of plants and objectives of the organisation?
17. Are their fields of activities where in budgeting has been consistently defective in as much as actual were always considerably less or considerably more than the budget? If so, were they taken note of by the management and remedies sought? How far such variations upset the achievement of planned progress?
18. Is responsibility for executing plans assigned?
19. Is performance measured against plan?
20. Do the plan deal with matter necessitating change in organization and if so, are they noted and suitable action taken?

APPENDIX-11

(Referred to Para 18.7 of Fraud and corruption in contract service)

Questionnaire relating to research and development

1. What is the procedure adopted for selection of subjects for research? Is it adequate? Is adequate data available before a subject is selected for research?
2. Are concerned experts consulted in time before a subject is selected?
3. Is there any assessment of utility of the research and possibility of profitable utilization?
4. Are the financial abilities of the projects adequately assessed?
5. Does the organization possess adequate manpower and other resources to undertake the research, if not, has adequate planning been made to acquire the manpower and resources before the project is undertaken?
6. Are adequate funds allocated from year to year for accepted research projects and the allocated fund have been compared with the estimated cost of the projects? If funds are not adequate, what is the rationale of such allocation?
7. Is staging of accepted research project resorted to for want of either manpower, finance or other resources?
8. Is each research project time bound? Examine whether extensions were applied for and given where projects could not be completed in time?
9. Is intermediary assessment of continuing research projects done to ensure that the research is progressing as planned or is not handicapped for various reasons or needs to be given up for certain valid reasons? If so, what is the follow up action taken on such intermediary assessments reports?
10. Is the implementation of any research project dependent on continued availability of certain personnel and services for predetermined periods and if so, are their availability ensured before the research is undertaken?
11. In cases where extension is given for completion of research, are the grounds of extension genuine, unavoidable etc?
12. Is there any research project which is continued without any noticeable progress resulting in continued development of certain personnel equipment etc. and consequent waste?

13. Has the organization executed specific agreements on its right over the results of research for marketing, publication utilization etc? If so, are they adequate and duly implemented? If not, has the organization suffered in any case?
14. Does any system exist for evaluation of results of research and its proper utilization? If so, are these attended within reasonable period after those in charge on the research furnish reports?
15. Does any arrangement exist for propagation of result of research to ensure their profitable utilization?
16. Does, the organization know the action to be taken on results of successful research projects?
17. Are there cases of overlapping research projects within and outside the organization and if so, how far in such a situation resolved to the best interests of the organization?
18. Are the results of research based on adequate data as prescribed when the research was authorized to be undertaken or are they based on comparatively inadequate data? If so, what are the consequences?
19. Have the research projects been evaluated by the organization to see whether time, money and energy were well spent on them?

APPENDIX-12

(Referred to Para 18.7 of Fraud and corruption in contract service)

Questionnaire relating to personnel policies and management

1. Is the manpower requirement planned for justifiable reasons, sufficiently in advance?
2. Is any assessment of existing manpower made to ensure that it is profitably distributed?
3. Is the manpower equipped to carry out the duties assigned to it?
4. Are steps taken to divert idle manpower to profitable side well in time?
5. Are there instances of frequent changes, resignations etc. affecting the quality of output of any activity?
6. Are there cases of idle manpower due to non-availability of equipment, material etc.?
7. Is any standard of output prescribed and output produced compared to the standard?
8. Is there any training programme necessary for development of skill of personnel employed and if so, has it been implemented?

APPENDIX-13

(Referred to Para 18.7 of Fraud and corruption in contract service)

Questionnaire relating to materials management

1. Has the organization been engaged in constructions, manufacture, purchase, sales and similar activities?
2. Is any standard of production prescribed?
3. Is there any record relating to life, capacity etc of various plants & machinery? If so, whether production is compared with capacity and what are reasons for shortfall?
4. How long any plant or machinery outlived its life or underlived and are any justifiable reasons thereof.
5. Is the production capacity of various interlinked plants and machineries comparable? If not, how far have the variations affected the cost?
6. Is the cost of running of the plants & machinery reasonable?
7. How often do the plants and machineries fall sick and what are the causes? Are they analyzed and remedies sought?
8. What are the various components that make up cost of production? Are they correctly assessed and do the actual compare favourably?
9. Is any production target prescribed and if there are means to achieve it? Is the target fixed realistic with due regard to demand and supply etc?
10. How far does actual production compare with estimate? To what extent variation effects cost of production?
11. Whether the cost of production are compared favorably with cost of production by others in similar lines? If there are wide variations, have they been analyzed by the management?

APPENDIX-14

(Referred to Para 18.7 of Fraud and corruption in contract service)

Questionnaire relating to Finance Accounts and Internal Audit

1. Is, the system of collection, accounting and remittances to bank fool proof? If not, has it resulted in any pilferage, losses etc?
2. Are surplus funds profitably utilized or are they lying in current account without earning any revenue? Analyse the investments to see whether loans/grants are given for achieving declared objective through production.
3. Are activities transferred to fixed deposits etc indicating lack of organizational activity.
4. A- What is the procedure adopted for payment of claims? Does the system reveal any inherent defects?
4. B- Do the cash need any assessment from time to time?
5. Where borrowings are resorted to, are they justified and termed? Are the borrowings utilized for the objective for which they were resorted to?
6. Is there an effective system of accounting? Do the heads of accounts operated reveal the activities of the organization in detail? Is allocation between capital and revenue properly done in particular?
7. Do the forms of accounts need any major modification to enable a proper presentation of the affairs?
8. Is the objective of govt. assistance in the form of loan and grant achieved by utilizing the funds for specified purposes? How are conditions of assistance fulfilled? Were the preliminaries necessary for utilizing government grant/loan duly complied with before assistance was obtained
9. Was government assistance necessary excessive inadequate, too early or too late?
10. What are the prospects of repayment of commitments to government and others? Are the terms of various financial agreements duly honoured?
11. Are there heavy outstanding receivable bill from outside parties? Have adequate steps been taken to realize them?
12. Are there legal disputes affecting adversely the financial result of the organization? Have they been taken note in estimating the financial position?

13. Is there a proper system of maintenance of accounts records, compilation and finalization of accounts? Have accounts of each year been duly finalized and approved?
14. What is the role of Internal Audit in proper maintenance of accounts?
15. Have approved accounts been audited and certified by any agency? Analyze the account of the period under review to ascertain the state of compilation, finalization and certification of account.

APPENDIX-15

(Referred to Para 18.7 of Fraud and corruption in contract service)

Questionnaire relating to works

1. Is there any operative engineering division with qualified hands or is the existing arrangement to hire outsiders on contract considered adequate?
2. Are the works undertaken after proper estimation of need and cost of construction?
3. Does the plan reveal requirement adequately keeping in view the important factor of economy?
4. Critically examine the procedure for giving out contracts with reference to its accuracy, adequacy, economy etc.
5. Are the term of contract well defined and items of work clearly specified to avoid any ambiguity?
6. Is the contract time bound and is the time capable of being observed?
7. Are there conditions for supply of any material by the organization and if so are they procured up to optimum needs in time and supplied in time?
8. Is there adequate supervision over the work of construction and is any periodical report presented to management?
9. Are materials under government control procured at controlled prices?
10. How are progressive cost compared with actual one? Are there heavy /excessexpenditureunder some item and savings under other items and whether they are justified? Were the items saved through other sources and if so at what costs and how far such variations have affected the cost of the construction?
11. Are there any change in designs and specifications during execution and if so, are they justified at all? How far have the changes affected the time schedule and cost?
12. Where changes designs and specification during execution have been approved by competent authorities?
13. Are there extra items for justified reasons and can they be derived from accepted items? Is the analysis of rates for extra items in order?
14. Has the procedure involved in procurement of certain plants and machinery been followed and if so, how were they procured and later disposed of?
15. How the final cost is compared with estimates and are the variations duly analysed?

16. Whether the material consumption account is prepared and how its consumption is compared with supply, estimate etc.? Is excess supply taken back or appropriate cost recovered?
17. What is the extent of expenditure on maintenance, special repairs, additions and alterations? Do these reveal any inherent defect in original planning and/or execution?

Dy. Accountant General(SS-II)

Accountant General (Audit)

Bihar, Patna