

SECTION-III **Supplementary Audit Instructions**

Chapter-1 **Central Audit**

Introduction

3.1.1 Consequent on restructuring of the offices of the State Accountants General with effect from 1st March, 1984, the Accounts and Entitlement functions and the Audit functions are discharged by separate Accountants General.

3.1.2 A section or group in the Accounts and Entitlement office, generally called as the Central Treasury Section or group, receives the district accounts of all treasury transactions. Another section or group called the Works Accounts Section or group receives the monthly accounts from Public Works Offices, while the monthly accounts rendered by Forest Offices are received in yet another Section or group. A third section or group attends to the issue of advices to the bank for adjustment between the balances of the Central and State Governments. The documents received from the treasuries are checked and passed on to the departmental compilation sections for detailed compilation and preparation of the monthly Classified Abstract. Similarly, from the departmental accounts received, Departmental Classified Abstracts are prepared monthly. Thereafter schedules and vouchers relating to Provident Fund, advances, etc. are sent to the concerned sections for posting in the prescribed registers and ledger cards. The vouchers relating to the Gazetted officers are also similarly sent to the Gazetted Entitlements Sections. The other documents, which are to be disposed of by the compiling sections are filed in those sections.

Audit Objectives and Scope

3.1.3 The primary objectives of Central Audit are to:

- (i) check whether vouchers are in the prescribed form and have been prepared according to extant rules;
- (ii) scrutinize whether the rules and orders issued by Government themselves are *intra vires*;
- (iii) examine whether the contract agreements are definite and precise and are based on standard practices;
- (iv) examine whether the sanctions have been issued by the competent authority;
- (v) check the monthly accounts and related schedules received from the Public Works and Forest divisions; and
- (vi) check whether Travelling allowance, medical, establishment and other bills are arithmetically correct and conform to the relevant rules and regulations.

3.1.4 Subject to the relevant provisions of the Act and save where otherwise provided in the instructions contained in this Manual, the Accountant General (Audit) is responsible to the Comptroller and Auditor General for the audit of all transactions which are brought to account by the Accountant General (Accounts & Entitlements) and by the departmental accounting authorities. If he is requested by Government or any other authority to undertake audit which does not pertain to his office or in respect of which the Comptroller and Auditor General has not issued any orders, he should refer the matter to the Comptroller and Auditor General for appropriate directions.

Source Documents

3.1.5 Some important source documents to be checked in Central Audit are the following:

- (i) Contingent Vouchers.
- (ii) List of payments.
- (iii) Monthly accounts of Public Works and Forest Divisions.
- (iv) Schedules and Schedule Dockets accompanying monthly accounts.
- (v) Contract agreements.
- (vi) Sanctions to expenditure.
- (vii) Financial Rules and Orders affecting expenditure and other transactions issued by Government.
- (viii) Establishment bills and other bills relating to entitlements of government servants, such as travelling allowance, reimbursement of expenses on medical treatment, advances, etc.
- (ix) Certificates of payments.
- (x) Proforma invoices.

Audit Approach

Responsibility for audit

3.1.6 Central Audit will be carried out every month by Central Audit Parties of the Audit Office in the Accounts and Entitlement office. Central Audit Support Sections in the Audit Offices will coordinate and pursue the work of the Central Audit Parties and perform all support functions, such as preparation of audit programmes, audit of sanctions, etc., and discharge follow-up responsibilities like maintenance of objection books, selection of potential material for Audit Reports, etc. Generally, an Audit Officer will be in charge of each Central Audit Support Section, while an Assistant Audit Officer will be responsible for two Central Audit Parties.

3.1.7 A Central Audit Support Section will be responsible for the audit of vouchers in the Loan, Book, Deposit and Account Current Sections in the Accounts Office. With a view to ensuring control over unauthorised and excess expenditure and to enabling the State Administration to exercise adequate control over their Annual budget, the Monthly Appropriation Accounts and Finance Accounts prepared by the Accountant General (A&E) should also be checked by the Central Audit Supporting Section. This should be included in the Annual Audit Plan of Audit Offices.

3.1.8 Central Audit may be supplemented by local audit and inspections to such extent as may be prescribed by the Comptroller and Auditor General. However, in cases where the accounting functions have been departmentalised, the audit will be conducted only locally.

Time schedule for audit

3.1.9 As a general rule, Central Audit of vouchers pertaining to a month should be conducted as soon as the monthly accounts are closed and the posting of the vouchers in the registers prescribed is completed by the Accounts and Entitlement office. Any departure from this general instruction is permissible only in special circumstances and with the express sanction of the Accountant General (Audit).

Note: *As an exception, audit of vouchers that are required to be posted in Works Registers need not be kept in abeyance till such posting is completed.*

3.1.10 A specific schedule, indicating the dates by which the audit processes relating to each month's vouchers should be completed, should be prescribed and clearly set out in the Office Manual. As far as possible, this schedule should be scrupulously adhered to. No Audit Office can be considered to be free from arrears unless it is able to complete the audit within the stipulated period.

Audit of March Accounts

3.1.11 Central Audit of Vouchers for the month of March requires special attention. Expenditure during this month is found to be generally heavy in relation to other months because of the tendency to incur substantial expenditure towards the close of the financial year to avoid lapse of budget grants. In the result, internal controls in the departments and treasuries may be slack giving rise to irregularities and deviations from prescribed procedures.

Venue of Central Audit

3.1.12 Transmission of vouchers from one office to another is likely to result in their being lost or misplaced. The vouchers should not, therefore, be taken to the office of the Accountant General (Audit) for the purpose of Central Audit.

Coordination with Accountant General (A&E)

3.1.13 The Accountant General (A&E) and Accountant General (Audit) are expected to work in close coordination and cooperate mutually in conducting the Central Audit work entrusted to the latter, having regard to the common objective of improving the efficiency, effectiveness and timely performance of the functions entrusted to them. A similar approach is also called for while interpreting and adopting the systems and procedures laid down in this manual by each officer in the discharge of their designated responsibilities. In case of any doubt or difference of opinion, the matter should be promptly referred to the Comptroller and Auditor General for a decision.

3.1.14 In those offices of Accountants General (A&E) in which Voucher Level Computerisation (VLC) has been introduced, the output data available in various packages satisfying the requirements of audit scrutiny should be made use of fully. This will also help in analysing the nature of payments and in identifying the broad areas of irregularities, such as drawal of moneys on AC Bills, transfer of funds to Personal Ledger Accounts, retention of deposits outside government accounts, etc. Based on such analysis, further decisions could be taken in regard to the sample size of vouchers under the respective categories for detailed audit scrutiny. Wherever possible, statistical sampling techniques should be adopted to facilitate an objective approach in audit.

Note: *Following the introduction of VLC in the A&E offices, many of the routine checks that are presently being manually exercised in Central Audit can instead be done through computer-generated reports. Annexure VI to the Headquarters letter No.97/Rep(S)/NE/VLC dated 28th January, 2000 may be referred to for more details in this connection.*

Post Audit

3.1.15 As a rule, heads of offices and other government servants who are called upon to make disbursements on behalf of Government draw money for the purpose from treasuries or banks in accordance with the provisions of the Treasury Rules made under Article 283 of the Constitution and the audit conducted in respect of these transactions is *post facto* in character.

Note: *Pre-check of pay fixation and claims relating thereto, where entrusted to the Accountant General under any rules or orders, will be the responsibility of the A & E Office.*

Duties and responsibilities of Central Audit personnel

3.1.16 The duties and responsibilities of various members of the Central Audit Support Sections and Central Audit Parties are broadly indicated in Annexures 1 and 2 respectively. The Accountant General (Audit) may, however, entrust any other item of work to any member of the section or party or authorise the Group Officer, the Audit Officer in charge of the Central Audit Support Section or the Assistant Audit Officer in charge of the Central Audit Party to make such changes as may be necessary from time to time in the distribution of work having regard to the availability of personnel and their expertise and suitability. Such changes should be ordered in writing so as to ensure the clear demarcation of duties and responsibilities of different personnel and their accountability as well as to facilitate evaluation of their performance and personal contribution.

3.1.17 Each member of the Central Audit Party, including the Assistant Audit Officer, will be individually responsible for the duties entrusted to him. Normally, Auditors should be able to finalise audit memos on their own; however, they may seek the guidance of the Assistant Audit Officer on important or doubtful questions.

Note: *The Assistant Audit Officer should determine the extent of independence to be allowed to each member of the party with reference to his experience, qualities and capacity to act independently. Final audit memos will be sent to the Central Audit Support Section, (vide paragraph 3.1.30 below) only after the Assistant Audit Officer has vetted them.*

3.1.18 The Assistant Audit Officer will ensure that all members of the Central Audit Party perform their duties promptly, regularly and efficiently. Besides selecting, on the spot, the vouchers and records to be audited and reviewed, he will be responsible for the audit as a whole, guiding the staff under him and always keeping himself posted with the progress of audit.

3.1.19 It is desirable that auditors and others employed on audit duties should not be at liberty to relax, of their own accord, any of the audit requirements. It is also of considerable importance that the prescribed checks are observed in spirit and not merely in their letter.

Issues for audit scrutiny

Audit of Vouchers

3.1.20 Adherence to the following requirements should be verified in the course of detailed audit of vouchers in support of payments:

- (i) The vouchers should be in the prescribed form, in original and duly acknowledged by the payees in token of receipt. A brief abstract should be included in the authorised official language under the signature of the drawing officer on all vouchers prepared in any other language, and the signatures, if not in the authorised script, should be transliterated. Sub-vouchers, if any, should contain notes of the dates of payment.
- (ii) Vouchers should be numbered with reference to the Schedule of List of Payments, Schedule Dockets or other accounts, as the case may be.
- (iii) Individual amounts detailed in the vouchers should add up to the totals and the totals indicated both in words and in figures.
- (iv) The vouchers should bear a pay order signed by the Treasury Officer where the vouchers are encashed at treasuries, or by the concerned disbursing officer in other cases. In particular, in cases where the payment is made at a bank, the voucher should contain the pay order of the authorised Government Officer, where required under the rules.

- (v) Stamps bearing the legend 'Paid' should have been affixed on the vouchers.
- (vi) There should be no erasures on the vouchers and the officer concerned should have attested individually all corrections and alterations on every occasion that they were made.
- (vii) Unless otherwise provided in the rules of Government, stamps should have been affixed to all vouchers involving a net payment in excess of Rs.500, the stamps being punched.

Note: *In respect of payments made in Embassies, Missions, etc. abroad, Audit will not insist upon the production of receipts if a cash voucher is available or, when payment has been made by cheque, an acknowledgement of its receipt has been obtained from the payee.*

- (viii) No payment should have been made on a voucher or order signed by a subordinate instead of the head of the office himself or on a voucher or order on which only a facsimile signature has been stamped/affixed. The sanctioning authority officer or a gazetted Government servant duly authorised for the purpose should have also certified all copies of sanctions.

Note: *A separate sanction need not be insisted upon in respect of charges for which a special sanction is necessary under the rules if the bill or voucher on which the money is drawn is signed or countersigned, either before or after the money is drawn, by the authority competent to sanction the expenditure. However, charges of the kind in question may not be included in the same bill along with other items for which a special sanction is not necessary.*

- (ix) Wherever prescribed, agreement should have been effected between two different documents.

Note: *The auditor should also note, under his initials, on both the documents the fact of such agreement having been effected.*

- (x) A treasury voucher paid by transfer should be stamped as having been so paid; the head of account to which it has been credited should also have been noted on the voucher.

Note: *In the course of audit, the relevant credit should be traced in the Cash Account whenever possible.*

- (xi) Deductions on account of subscriptions to Provident Fund and Income Tax should have been made wherever applicable.

Note: *The Audit officer is not responsible for checking the correctness of the income tax deductions in individual bills. However, whenever such bills are subjected to his scrutiny in the course of audit, he should always verify that deductions on account of income tax have not been overlooked in cases where these should clearly have been made.*

- (xii) No bills pertaining to pay or any allowance not claimed within one year of its becoming due (or such other period as may be prescribed in this behalf) should have been admitted for payment without the sanction of the Accountant General (A & E) in cases where the rules of the Government so prescribe.
- (xiii) Stores should have been purchased through the purchase organisation of the Ministry of Supply of the Central Government when this is required by the orders of the Government and payment for such stores should have also been made by that Ministry's Pay and Accounts Office, except when the amount involved is less than a rupee.

Further, Audit should specifically ensure the following:

- (i) Payments of money by transfer (commonly known as Nil Payment Vouchers) from the Consolidated Fund to the Public Account (Deposit Heads, Zilla Parshad or Panchayat accounts, etc.) should be scrupulously audited and reviewed every month and receipt of a certificate that this has been done watched by the Central Audit Support Sections. After scrutiny of such Nil Payment Vouchers, these Sections should furnish a consolidated report every month to the Report Section detailing such Nil Payments effected during the month.
- (ii) The classification indicated in the voucher is correct and compares with the classification of the charge as mentioned in the approved budget.
- (iii) All purchases made on proforma invoices and where the materials have not been received and taken to stock should be audited in detail. Central Audit Parties should furnish details of such purchases to the Central Audit Support Sections for further follow up action.

Notes:

- (i) *The term 'voucher' should be taken also to include 'sub-voucher' for all purposes of audit.*
- (ii) *Cash memoranda issued by tradesmen for sales against cash payment should not be regarded as sub-vouchers unless they contain an acknowledgement of the receipt of money from the purchaser as named therein for the price of the articles sold.*

3.1.21 After audit, the voucher or account concerned should be enfaced with the word 'Audited' in red ink over the initials of the person who conducted the audit.

Note: *The Accountant General (Audit) may authorise the use of perforated or embossed stamps containing distinguishing marks or numbers to identify the persons responsible for the audit. In offices where this system is in force, a register should be maintained containing details of the distribution of these stamps and the acknowledgements of the staff concerned. The staff in possession of these stamps should ensure that they are maintained with care and are so affixed as not to obliterate or destroy any important writings on vouchers.*

3.1.22 If any objection is taken in audit to a voucher or to any item in a schedule or other account, a note of the objection should be recorded thereon in red ink in sufficient detail to make it easily understood.

Audit of Vouchers not received with Accounts/ Certificate of Payments

3.1.23 Vouchers and other documents, which were not received with the Monthly Account should, on receipt subsequently, be audited in the same manner as they should have been audited had they been received at the stipulated time. If a particular voucher due for audit could not be audited either due to its non-receipt, or of its supporting documents, particulars thereof should be recorded in a suitable register and the subsequent completion of the prescribed audit checks watched. In order to ensure that this process is not unduly delayed, the Branch Officer should review the pending items in the register every month the Group Officer every quarter.

Note: *Cases where a formal audit objection is issued and pursued in respect of a wanting document need not, however, be entered in this register.*

3.1.24 Cases where certificates of payments are received in lieu of lost vouchers or payees' receipts should be audited in detail, as a special case, in the same manner as the original vouchers, even if they have not been selected for audit. Acceptance of certificates of payments in lieu of wanting paid vouchers will be done, in accordance

with the monetary limits prescribed, by the Branch Officer or Group Officer in the Accounts and Entitlement office after exercising the primary accounting checks in the same manner as in the case of original vouchers. Particulars of certificates of payments so accepted will be recorded in a register maintained for the purpose. Unusual features or malafides related to the non-production of original vouchers noticed in the course of audit of these certificates should be brought to the notice of the Accountant General (Audit) for further investigation, if considered necessary.

Audit of Sanctions

3.1.25 Copies of sanctions issued by the Central and State Governments and their subordinate authorities will be received by the Central Audit Support Sections concerned where they will be examined in accordance with the relevant instructions in this Manual before admission in Audit. The Accountant General (Audit) will make arrangements for the receipt, scrutiny and processing of sanctions and maintenance of files/folders in a regular and systematic manner. The Central Audit Support Sections shall communicate objections arising out of audit of sanctions to the departments concerned with copies thereof to the Accountant General (A&E), and closely watch their settlement.

3.1.26 There should be close coordination between each Central Audit Support Section and the related Central Audit Parties. The results of scrutiny of all sanctions should be made readily available to the latter before the central audit of the relevant transactions takes place. It is the duty of the concerned Central Audit Support Section to supply the relevant sanction files along with important points to the Central Audit Parties. Suitable procedures for ensuring this should be evolved by the Accountant General (Audit).

3.1.27 All sanctions relating to foreign travel received in the Central Audit Support Section should be entered in a register and copies made available to Central Audit Parties for arranging audit of the related transactions.

Audit of Abstract Contingent Bills

3.1.28 The A.C. Bill Register maintained in the Office of the Accountant General (A&E) should be checked in detail by the Central Audit Parties with reference to the Abstract Contingent Bills and NDC Bills received from the compilation sections of the A&E Office. Cases of amounts drawn on AC Bills and kept outside Government Account in Personal Deposit accounts, bank accounts, etc., particularly in the month of March, should be collected and pursued with the Department/Government by the Central Audit Support Sections for inclusion in the Audit Report.

Review of Audit

3.1.29 The audit enfacement on the voucher (vide paragraph 3.1.21) should indicate the amount admitted/objected to in audit. Immediately on completion of audit, the Assistant Audit Officer will undertake the current review of the audited vouchers to the prescribed extent. He will authenticate the admittance/passing of each voucher by placing his initials or other distinctive mark below the audit enfacement. The review in Central Audit of vouchers by the Assistant Audit Officers or Section Officers should not be limited merely to those audited by Auditors or Senior Auditors, but should also extend to vouchers for amounts in excess of a certain monetary value to be decided by the Accountant General in an objective manner. The extent of review so conducted should also be certified in the Selection Register.

Completion of Audit

3.1.30 On completion of the audit and review, the Central Audit Party will forward the Selection Register, the completion certificate and the audit notes/memos (in triplicate) to the relevant Central Audit Support Section, which will thereafter deal with the audit notes/memos and all subsequent correspondence. After scrutiny and editing, where necessary, of the audit notes/memos, the Central Audit Support Section will forward them in convenient batches every month to the departments concerned, copies thereof also being sent to the Accountant General (A&E).

Pursuance of Objections

3.1.31 The Accountant General (Audit) will be responsible for watching the systems and procedures for and the effectiveness of pursuance of objections of an accounting nature, such as non-availability of D.C. Bills, vouchers or payees' receipts, errors in the treasury and divisional accounts, etc., that are required to be watched by the Accountant General (A&E). He will audit to the prescribed extent these wanting documents as and when they are received (see also paragraphs 3.1.23 and 3.1.24).

Digest of important and interesting cases noticed in audit

3.1.32 With a view to improving efficiency in Audit Offices, a gist of all important cases dealt with by various sections in these offices should be circulated among other sections, as and when they arise. A digest of important and interesting cases noticed in audit should also be compiled half yearly and forwarded to the Comptroller and Auditor General so as to reach him by the 7th in the months of January and July every year for circulation among other Audit Offices. Only the cases on which final views have been formulated and which are likely to be of interest to other Audit Offices are to be included in these digests.

Annexure-1
(Referred to in paragraph 3.1.16)

Duties and responsibilities of members of Central Audit Support Sections

- A. Central Audit Support Sections (other than those relating to Works and Forest Audit)**
- (a) Audit Officers**
- (i) Co-ordination and general supervision.
 - (ii) Framing of audit programmes, deployment of audit parties and monitoring of completion of audit and audit performance.
 - (ii) Audit of sanctions exceeding Rs 50,000 other than those relating to entitlements and audit of sanctions of a general nature relating to entitlements.
 - (iii) Audit of guarantees.
 - (iv) Audit of contract agreements.
 - (v) Review of files containing objection memos issued to entitlement and accounting sections.
 - (vi) Review of portfolio files for Central, Centrally Sponsored and State Plan Schemes.
 - (vii) Scrutiny of material for Audit Reports, audit of Appropriation and Finance Accounts.
 - (viii) Preparation of quarterly report on the working of each Department with reference to the material collected, objection memos received from audit teams, etc.
 - (ix) Examination of rules and regulations proposed/issued by Government.
 - (x) Reports regarding failure of audit.
 - (xi) Issue of audit certificates on Plan Schemes, World Bank Projects, etc.
- (b) Assistant Audit Officers/Section Officers**
- (i) Audit of sanctions to expenditure up to Rs 50,000 other than those relating to entitlements.
 - (ii) Disposal of references seeking clarifications and allied correspondence.
 - (iii) Review of files containing objection memos issued to departmental officers.
 - (iv) Check of consolidation of statistics.
 - (v) General check of objection books and approval of their closure.
 - (vi) Processing material for audit report.
 - (vii) Scrutiny and pursuance of cases of loss, fraud, embezzlement, etc.
 - (viii) Check of reports and returns.
- (c) Senior Auditors**
- (i) Audit of loans and deposit vouchers.
 - (ii) Maintenance of portfolio files for Central, Centrally Sponsored and State Plan Schemes.
 - (iii) Issue and pursuance of objection memos with departmental officers.

- (iv) Issue and pursuance of objection memos with accounting and entitlements sections.
- (v) Maintenance of register of important points for local audit.
- (vi) Compilation and consolidation of statistics including those meant for calculation of staff requirements.
- (vii) Half-Yearly Digest of Important and Interesting Cases.
- (viii) Preparation and consolidation of reports and returns.
- (ix) Preparation of audit certificates on Plan Schemes, World Bank Projects, etc.
- (d) Auditors**
- (i) Maintenance and closure of objection book.
- (ii) Provision of assistance in administrative work like posting, transfers, sanction of leave, etc.
- (iii) Other routine work not specifically listed or any other work entrusted by the Audit Officer.
- B. Central Audit Support Section (Works Audit)**
- (a) Audit Officers**
- (i) Co-ordination and general supervision.
- (ii) Framing and approval of audit programmes, deployment of audit parties and monitoring of completion of audit and audit performance.
- (iii) Audit of contract agreements
- (iv) Review of pro-rata distribution of Establishment and Tools and Plant charges.
- (v) Scrutiny of material processed by the Assistant Audit Officer for the Audit Report and its submission to the Group Officer.
- (vi) Preparation of quarterly review report on the working of the Department.
- (vii) Check of Administrative Accounts of irrigation projects.
- (viii) Review of portfolio files for Central, Centrally Sponsored and State Plan schemes.
- (b) Assistant Audit Officers /Section Officers**
- (i) Audit of all sanctions to expenditure.
- (ii) Disposal of references seeking clarifications and allied correspondence.
- (iii) Review of files containing objection memos issued to departmental officers and the related correspondence.
- (iv) Processing of material for Audit Report.
- (v) Check of consolidation of statistics.
- (vi) General check of objection book and approval of its closure.
- (c) Senior Auditors**
- (i) Maintenance of portfolio files for Central, Centrally sponsored and State Plan schemes.
- (ii) Issue and pursuance of objection memos with departmental officers.
- (iii) Issue and pursuance of objection memos with works accounting section.
- (iv) Consolidation of statistics meant for calculation of staff requirements.

- (d) Auditors**
- (i) Maintenance and closure of objection book.
- (ii) Provision of assistance in administrative work like postings, transfer, sanction of leave etc.
- (iii) Other routine work not specifically listed or any other work entrusted by the Audit Officer.
- C. Central Audit Support Section (Forest Audit)**
- (a) Audit Officers**
- (i) Co-ordination and general supervision.
- (ii) Framing and approval of audit programmes, deployment of audit parties and monitoring of completion of audit and audit performance.
- (iii) Audit of contract agreements.
- (iv) Scrutiny of material processed by the Assistant Audit Officer for audit report and its submission to the Group Officer.
- (v) Preparation of quarterly review report on the working of the Department.
- (b) Assistant. Audit Officers/Section Officers**
- (i) Audit of all sanctions to expenditure.
- (ii) Disposal of references, seeking clarifications, etc. and allied correspondence.
- (iii) Review of portfolio files for Central, Centrally Sponsored and State Plan schemes.
- (iv) Review of files containing objection memos issued to departmental officers.
- (v) Processing of material for Audit Report.
- (vi) General check of objection book and approval of its closure.
- (vii) Check of statistics compiled and consolidated by the auditor.
- (c) Senior Auditors**
- (i) Maintenance of portfolio files for Central, Centrally Sponsored and State Plan schemes.
- (ii) Issue and pursuance of objection memos with departmental officers.
- (iii) Issue and pursuance of objection memos with forest accounting sections.
- (iv) Compilation and consolidation of statistics meant for calculation of staff requirements.
- (d) Auditors**
- (i) Maintenance and closure of objection book.
- (ii) Provision of assistance in administrative work like postings, transfers, sanction of leave, etc.
- (iii) Other routine work not specifically listed or any other work entrusted by the Audit Officer.

Annexure -2
(Referred to in paragraph 3.1.16)

Duties and responsibilities of members of Central Audit Parties

A. Departmental Audit

(a) Assistant Audit Officers

- (i) Overall supervision and co-ordination of work of audit parties.
- (ii) Selection of vouchers for audit and review.
- (iii) Audit of contingent vouchers over Rs 50,000.
- (iv) Review of vouchers audited by Senior Auditors/Auditors.

(b) Senior Auditors

- (i) Audit of TA bills including LTC bills of non-gazetted officers.
- (ii) Audit of medical reimbursement bills of non-gazetted officers.
- (iii) Audit of contingent bills up to Rs 50,000.
- (iv) Audit of grant-in-aid vouchers.
- (v) Audit of Public Works and Forest cheques.
- (vi) Audit of other miscellaneous vouchers.

(c) Auditors

- (i) Listing of vouchers for selection of Audit and review.
- (ii) Audit of establishment vouchers of non-gazetted officers.
- (iii) Audit of vouchers in respect of advances to Government Servants.
- (iv) Any other routine work, or other work entrusted by Assistant Audit Officer.

B. Works Audit

(a) Assistant Audit Officers

- (i) Overall supervision and coordination of work of audit parties.
- (ii) Selection of vouchers for audit and review.
- (iii) Audit of Schedule of Monthly Settlement with Treasuries
- (iv) Audit of Schedule of Miscellaneous Works Advances.
- (v) Audit of final bills of contractors for amounts above Rs 50,000.
- (vi) Review of vouchers audited by Senior Auditors/Auditors.
- (vii) Review of pass order on Monthly Accounts.
- (viii) Check of Annual Certificate of Balances.

(b) Senior Auditors

- (i) Audit of schedule of revenue realised/refunds of revenue.
- (ii) Audit of schedule of works expenditure.
- (iii) Audit of schedule of purchases.
- (iv) Audit of stock account and reserve limit of stock.
- (v) Audit of schedule of deposits.
- (vi) Audit of schedule of deposit works.

- (vii) Audit of the account of receipt/issue of tools and plant.
- (viii) Audit of schedule of cash settlement suspense.
- (ix) Audit of schedule of remittances.
- (x) Audit of contractors ledger.
- (xi) Audit of schedule dockets including those for percentage recoveries.
- (xii) Audit of first and running account bills of contractors.
- (xiii) Audit of final bills of contractors for amounts up to Rs.50,000.
- (xiv) Audit of bills of suppliers, bills in respect of purchases through DGS&D and railway credit notes.
- (xv) Audit of hand receipts.
- (xvi) Audit of completion reports.
- (xvii) Audit of land acquisition vouchers.
- (xviii) Audit of transfer entries.
- (xix) Recording of pass order on Monthly Account.

(c) Auditors

- (i) Listing of vouchers for selection of audit/review.
- (ii) Audit of Work Charged Establishment Pay bills, TA and LTC bills and medical reimbursement bills.
- (iii) Audit of consolidated contingent bills.
- (iv) Audit of other miscellaneous vouchers not specifically listed.
- (v) Any other routine work or other work entrusted by Assistant Audit Officer.

C. Forest Audit

(a) Assistant Audit Officers

- (i) Overall supervision and coordination of work of audit parties.
- (ii) Selection of vouchers for audit and review.
- (iii) Audit of works bills over Rs 50,000.
- (iv) Audit of contingent bills over Rs50,000.
- (v) Review of vouchers audited by Senior Auditors/Auditors.
- (vi) Review of pass order on Monthly Account.

(b) Senior Auditors

- (i) Audit of classified abstract of revenue and expenditure.
- (ii) Audit of contractors' and disbursers' ledgers.
- (iii) Audit of work bills up to Rs 50,000.
- (iv) Audit of contingent bills up to Rs 50,000.
- (v) Audit of TA bills including LTC bills, medical reimbursement bills, etc.
- (vi) Audit of refund bills.
- (vii) Audit of vouchers received through Account Current Section.
- (viii) Audit of grants-in-aid bills.
- (ix) Audit of Transfer entries.

- (x) Recording pass order on monthly account.
- (c) Auditors**
- (i) Audit of Establishment Bills of non-gazetted officers.
- (ii) Audit of bills of advances to government servants.
- (iii) Audit of other miscellaneous vouchers not specifically listed.
- (iv) Listing of vouchers for selection of audit/review.
- (v) Any other routine work or other work entrusted by Assistant Audit Officer.

D. Gazetted Entitlement Section

(a) Assistant Audit Officer

- (i) Coordination and General supervision of work of audit parties.
- (ii) Selection of vouchers for audit and review.
- (iii) Review of vouchers audited by Senior Auditors/Auditors

(b) Senior Auditors

- (i) Audit of TA bills including LTC bills of Gazetted officers.
- (ii) Audit of medical reimbursement bills of gazetted officers.
- (iii) Audit of advance bills of gazetted officers.

(c) Auditors

- (i) Listing of vouchers for audit/review and cases for checking.
- (ii) Audit of pay bills of gazetted officers.
- (iii) Audit of other miscellaneous vouchers not specifically listed.
- (iv) Any other routine work or other work entrusted by Assistant Audit Officer.

E. Provident Fund Section

(a) Assistant Audit Officers

- (i) Coordination and general supervision of work of audit parties.
- (ii) Selection of vouchers for audit/review and cases for check/review.
- (iii) Review of vouchers audited by Senior Auditors/Auditors.

(b) Senior Auditors

- (i) Audit of final payment vouchers.

(c) Auditors

- (i) Listing of vouchers for audit/review.
- (ii) Audit of part final payment vouchers.
- (iii) Audit of temporary advances vouchers.
- (iv) Any other routine work, or other work assigned by Assistant Audit Officer.

Chapter-2 Gazetted Government Servants' Audit

Introduction

3.2.1 The instructions in this Chapter are intended primarily for the guidance of the Civil and Post and Telecommunications Audit Offices. In other Audit Offices, these may be taken as a guide, though in matters of detail the rules/provisions contained in their respective Manuals shall be applicable.

3.2.2 Claims preferred by the gazetted government servants fall mainly under the following categories:

- (i) Pay
- (ii) Travelling Allowance
- (iii) Compensatory Allowances and Honoraria
- (iv) Advances of pay and for purchase of conveyances, Provident Fund Advances, etc.

Audit of these categories of claims applicable to various groups or classes of gazetted government servants in various Departments of the Union Government, the State Governments and the Union Territory Administrations is mainly conducted with reference to the rules and regulations governing their conditions of service framed by the competent authorities.

3.2.3 Payments to gazetted government servants are regulated by authorisations from the following:

- (i) The Accountant General (A&E) in respect of some of the specified gazetted cadres of the State Governments.
- (ii) Pay and Accounts Officers (PAOs) in respect of officers of the departments of the Union Government having their separated Pay and Accounts offices.
- (iii) Chief Controlling Officers (CCOs) of Finance under various Heads of Departments of the State Governments to whom the respective Accountants General (A & E) have delegated the relevant powers of authorisation.

In the case of gazetted officers whose pay and allowances are authorised to be drawn in regular establishment pay bills without an authority from any of the above mentioned authorities, the pay, leave salary and allowances, advances, etc. are drawn and disbursed by their respective Heads of Offices. In other cases, specific authorisations in the form of pay slips from one of the above mentioned authorities regulate payments at treasuries or banks. The connected records like History of Services, Leave Accounts, Personal files, Last Pay Certificates, etc. are maintained by these respective authorities.

Note: Detailed instructions for issuing the necessary authorizations are contained in the Manual of Standing Orders (Accounts and Entitlements), manuals of the PAOs CCOs, etc.

Audit Objectives and Scope

3.2.4 The objectives of audit are to ensure that:

- (i) the claim is against the sanctioned post to which the government servant has been appointed and of which he is actually in charge and is carrying on his duties and responsibilities;

- (ii) the claim is in order and is admissible according to the financial rules applicable to the claimant;
- (iii) the claim as admissible has been adjusted expeditiously in the initial accounts maintained by the Drawing and Disbursing Officer and booked in the Classified Account to be rendered to the Treasury, PAO or Accounts Officer, as the case may be and wherever applicable; and
- (iv) the claim is a legitimate charge for which funds have been provided.

3.2.5 It should also be examined by Audit whether the appointment made by Government itself is valid or not. The procedure that should have been followed by Government before making an appointment is not a matter into which Audit should delve. Unless there are any specific restrictions on the powers of the Government either in the Constitution or in any law or statutory rule, the appointments made should not normally be questioned. Failure to consult the Public Service Commission in cases where such consultation is mandatory under the provisions of the Constitution or under the rules framed thereunder does not make the appointment so made as invalid. Similarly, cases where appointments initially made for a period of six months are extended or where the same individual is appointed afresh on expiry of the initial period of six months without consulting the Commission constitute an infringement of the regulations of the Public Service Commission framed under constitutional provisions. However, failure to adhere to these regulations will not by itself render invalid the appointments so made by the Government.

3.2.6 Audit Officers are not required to watch the observance of or compliance with provisions of the following nature:

- (i) rules relating to the representation of any particular community or any backward class of citizens;
- (ii) rules relating to the proportion to be observed in recruitment to services between personnel promoted from subordinate ranks and those recruited directly;
- (iii) rules relating to educational or other qualifications; and
- (iv) constitutional provisions and the rules framed thereunder relating to consultation with the Public Service Commission.

Notes:

- (i) *It is for the Commission to point out, in its Annual Report, cases of failure of the Government in this regard.*
- (ii) *When, however, an Audit Officer is of opinion that a post is reserved for members of a particular service in terms of any rule or order, and an outsider is appointed, he will call for the sanction of the competent authority that has the power to waive the reservation requirement. The fact that the pay of a post has been determined on the assumption that a member of a particular service alone will be eligible for appointment to it tends to show that it was intended to reserve the post for that service but this by itself is not conclusive evidence.*

Source Documents

3.2.7 The important source documents to be checked by Audit are the following:

- (i) Pay Slips and other similar authorisations issued by the competent authorities, Last Pay Certificates, sanctions in respect of Dearness Allowance and other Allowances issued from time to time by the competent authorities, History of Services and Personal Files in respect of audit of Pay Bills.

- (ii) Sanctions of the competent authorities to tour programmes, pay entitlements as reflected in the relevant authorisation, TA claims register, budget allotment files, etc. in the case of audit of travelling allowance claims.
- (iii) Service Books.
- (iv) Leave Accounts.
- (v) Sanctions to payment of a fee, honoraria or other compensatory allowances.
- (vi) Register of reimbursement of medical expenses to gazetted officers.
- (vii) Gazetted Payment Registers.

Note: *This is the main record through which the entitlements of gazetted officers are controlled by the Accountant General(A&E). Detailed instructions in regard to the form and maintenance of the register are explained in the Manual of Standing Orders (Accounts and Entitlements).*

Audit Approach

3.2.8 Audit has to provide assurance that claims preferred are in accordance with the entitlements and rules in force. If, during a sample check in audit, the incidence of incorrect application of financial rules and other irregularities is found to be significant, the approach of substantive testing, namely check of all claims, should be adopted so as to be in a position to conclude that the irregularities are wide-spread and not confined only to one or two individual cases. This approach should then be extended to other auditee units of the Department both horizontally and vertically to gain assurance about extent of the irregularities.

Issues for audit scrutiny

Audit of Pay Bills

3.2.9 In cases where the pay and allowances of gazetted officers are drawn in regular establishment pay bills by the Heads of Offices, the procedure prescribed for audit of establishment pay bills will be followed *mutatis mutandis* for the audit of pay bills relating to such gazetted officers.

3.2.10 In all other cases, audit will essentially consist in verifying:

- (i) the title of the government servant to the pay drawn by him;
- (ii) that the pay has been claimed against a duly sanctioned post to which the government servant has been appointed and of which he is actually in charge and the amount claimed is admissible as per rules;
- (iii) that the necessary sanctions or funds have been subsequently received in cases where payments have been allowed by the District Magistrate under the provisions of State Treasury Rules in the absence of the relevant sanctions or provision of funds;
- (iv) that no pay has been admitted for a government servant beyond the date of his attaining the age of superannuation or on the expiry of a term of extension of service sanctioned by the competent authority;
- (v) that the amounts drawn are in accordance with the payments authorized.

Note: *If it appears that the payees are not, prima facie, entitled to the amount authorized, the correctness of the authorization should be checked and mistakes, if any, pointed out to the Gazetted Entitlement Section.*

- (vi) that the bill is supported by a medical certificate in the case of first appointment;
- (vii) that, except in cases of first appointment, every first payment to an individual by a Disbursing Officer is supported by a Last Pay Certificate;
- (viii) that income tax has been deducted and other recoveries have been made in accordance with the rules;
- (ix) that, in the case of a Government servant on leave who does not personally receive payment of leave salary, a life certificate is attached to the bill or the bill is endorsed to a well-known bank or agent who has executed a General Bond of Indemnity for the refund of any over-payment; and
- (x) that the payments have been recorded in the Gazetted Entitlement Register.

Check of Pay Fixation

3.2.11 In cases where the Accountant General (A&E) is responsible for the discharging functions relating to entitlements of gazetted officers, their pay is fixed by his office on first appointment or on appointment to a new post on a different scale of pay or when the scale of pay of the posts held by the officers is revised. In other cases, pay fixation in similar circumstances is done by the Head of the Office or by the Accounts Officers concerned in departments having separated Accounts organisations. It should be verified in audit that pay fixation in the latter cases has been done correctly in accordance with the rules applicable in each case.

Note: *In cases where pay is fixed by the separated accounts organization, the efficiency of the internal audit units will also be examined.*

Compensatory Allowances, Fee and Honoraria

3.2.12 In auditing sanctions to the grant of any compensatory allowance, fee or honoraria to government servants, the following general conditions should be kept in view:

- (i) Unless in any case it be otherwise distinctly provided, the whole time of a government servant is at the disposal of the Government which pays him, and he may be employed in any manner required by proper authority without any claim for additional remuneration, whether the services required of him are such as would ordinarily be remunerated from the Consolidated Fund of India, or of a State or of a Union Territory Administration or from a Local Fund.
- (ii) The authority granting or permitting a government servant to receive any honorarium or fee is required to pay due regard to the principle enunciated above and to also record reasons justifying the grant of the additional remuneration to the government servant concerned.
- (iii) The amount of Compensatory Allowance is to be so regulated that it is not on the whole a source of profit to the recipient.

House Rent and other compensatory allowances

3.2.13 Eligibility to House Rent and other compensatory allowances are determined with reference to the rules and orders relating to them. It should be seen in audit that:

- (i) the amounts drawn are in conformity with the rules and orders, and
- (ii) the claims are supported by the prescribed certificates, if any.

Reimbursement of expenditure on medical attendance

3.2.14 Gazetted government servants who draw their pay and allowances on the basis of the authorisations issued by the Accountant General (A&E) draw their claims relating to reimbursement of expenditure incurred on medical attendance and treatment in salary bills without any prior authority from the Accountant General. Bills relating to all such claims are posted in the Register of Medical Reimbursement to Gazetted Officers maintained in the office of the Accountant General (A&E) as a safeguard against double claims. In scrutinising these bills in audit, it should be verified that:

- (i) the claims are in accordance with the rules and orders of Government, and
- (ii) they are duly supported by proper certificates, receipts and vouchers.

Travelling Allowance Bills

3.2.15 The following should be looked into by Audit in the audit of travelling allowance bills:

- (i) The journey was necessary and authorised by general or special orders of the competent authority.
- (ii) The journey was actually performed and was done as expeditiously as possible,
- (iii) No claim in respect of the journey had been submitted previously.
- (iv) The amount had been correctly drawn with reference to the rates and general conditions in force.

3.2.16 The responsibilities for the scrutiny of travelling allowance bills are shared between the Controlling Officers and the Audit Officers because some of the checks prescribed above cannot be independently exercised by the Audit Office. Audit should ensure that the Controlling Officers properly exercise the scrutiny entrusted to them under the rules of the Government in relation to these bills.

3.2.17 In the majority of cases, countersignature of bills by the Controlling Officer is necessary. This requirement does not, however, dispense with the necessity for formal audit with reference to the rates and general conditions. Ordinarily, the countersignature by the proper authority, or the signature of the drawing officer when a bill does not require countersignature, should be accepted as final evidence of the correctness of the facts of the journey on which the claim is based, and of the Controlling or the Drawing Officer, as the case may be, having exercised the scrutiny entrusted to him under the rules of the Government. Occasionally, a test check should be undertaken to verify that bills have been scrutinised properly by these officers.

3.2.18 In cases where the mode of travel, class of accommodation, rates of daily allowance, etc. are determined on the basis of the pay of the government servant, particulars thereof shown in the bill should be checked, during audit, with reference to the pay bills or Gazetted Entitlement Register. The daily allowance, mileage allowance, etc. claimed in the bill should be admitted based on the rates prescribed in the rules; fares claimed in respect of different modes of travel should be similarly checked with reference to the applicable fare tables of the agencies concerned.

Passage Concessions

3.2.19 Gazetted Officers who are entitled to passage concessions will broadly fall under the following categories:

- (i) officers entitled to passage concessions admissible under certain State Government rules;
- (ii) officers of the Indian Foreign Service and other members and staff serving in Indian Missions and Posts abroad who are entitled to Home Leave Passages and Childrens' Holiday Passages; and
- (iii) contract officers entitled to passages under the terms of their contract.

The Passage Accounts are maintained by the Accounts Offices. Audit of claims relating to these concessions should be undertaken with reference to the terms and conditions governing their admissibility prescribed in the relevant rules or the contracts.

Service Books and Leave Accounts

3.2.20 Service Books and Leave Accounts are maintained by the Heads of Offices in respect of gazetted officers whose pay and allowances are drawn and disbursed by them as in the case of non-gazetted officers. The instructions relating to the scrutiny of service books and leave accounts of non-gazetted officers contained in Chapter-3 of this Section will apply *mutatis mutandis* to the service books and leave accounts of such gazetted officers.

Chapter-3

Establishment Audit

Audit Objectives and Scope

3.3.1 The instructions contained in paragraphs 3.2.4 to 3.2.6 and 3.2.12 to 3.2.19 relating to Gazetted Government Servants' audit are also applicable *mutatis mutandis* in the case of non-gazetted establishments.

3.3.2 The system of establishment audit consists essentially of the following components:

- (i) Audit of sanctions to establishment, check of classification of expenditure on such establishment and audit of general or specific sanctions to pay and allowances.
- (ii) Number audit or audit against sanctioned strength of the establishment.
- (iii) Nominal audit or check of correctness of pay and allowances drawn in the vouchers.
- (iv) Check of initial records maintained in departmental offices.

Source Documents

3.3.3 The important source documents to be checked in audit are;

- (i) Cash Books.
- (ii) Office copies of establishment bills.
- (iii) Acquittance Rolls.
- (iv) Treasury Bill Books.
- (v) Service Books.
- (vi) Leave Accounts.
- (vii) Establishment vouchers received in Central Audit Section.
- (viii) Sanctions in respect of various allowances.
- (ix) Employee module data contained in the VLC package.

Note: *The documents mentioned at sl. Nos. (i) to (vi) above are maintained in the departmental offices.*

Audit Approach

3.3.4 Audit of sanctions to establishment, check of classification of expenditure on establishment and audit of general sanctions to pay and allowances and specific sanctions relating to grant of special pay or compensatory allowances should be conducted in Central Audit with reference to the provisions contained in Chapter II.2 and those relating to Audit of Classification contained in Chapter III.16. Important points for information (including sanctions for establishment) should be entered in a separate register and made available to local audit parties for detailed check. Number audit or audit against sanctioned strength of establishment, nominal audit or check of correctness of pay and allowances drawn and check of initial records kept in departmental offices should be conducted in local audit.

3.3.5 Apart from the check of arithmetical calculations, Central audit of establishment vouchers will be limited to a general scrutiny to see that they are in the prescribed form and are complete in all respects. In offices where the VLC package has stabilised, certain additional data of immense use for audit has been captured in the Employee Module. This data should be intelligently analysed by using Computer Aided Audit Techniques (CAATs).

Issues for audit scrutiny

Service Books

3.3.6 A Service Book in the form prescribed in the Service Rules is to be maintained by the Head of office for every non-gazetted government servant for whom it is prescribed under the orders of the Government concerned and kept in his custody. For this purpose, a Register of Service Books should be maintained in which every entry should be made when new Service Book is opened or transferred from another office. Every event in the government servant's official life should be recorded in this book and the superior officer prescribed by the Government should attest each entry. Particulars of transfer to foreign service and reversion therefrom, including the fact of recovery of pension and leave salary contributions, will be recorded in the Service Books by the Pay and Accounts Officer in the case of departments having a separated accounts organisation and by the Accountant General (A&E) in other cases.

3.3.7 The Service Books of non-gazetted government servants should be checked in local audit to ensure that they are maintained in a satisfactory manner. The Service Book is one of the important basic records required, among others, for determining the pensionary benefits of an employee. While checking the Service Books, it should be verified that:

- (i) they are complete in all respects;
- (ii) events affecting pension have been clearly spelt out along with the remarks of the competent authority to clarify whether these events will have any implications for the admissibility of pensionary benefits and the periods relating thereto will or will not be taken into account for the purpose;
- (iii) the Controlling Authority has recorded the prescribed certificate relating to the periodical verification of the service rendered by the government servant with the pay bills or other documents and there are no missing links;
- (iv) Lower Division Clerks have not been considered for promotion before they either qualify in the prescribed type test or are specifically exempted from appearing in the test; and
- (v) nominations in respect of Death-cum-Retirement Gratuity, Provident Fund, etc. have been made and are available in the case of officers due to retire within the next twelve to eighteen months.

Besides, entries in Volume II of the Service books relating to the following should also be checked:

- (a) Relaxation, if any, of age and/or educational qualifications.
- (b) Declaration in regard to marital status
- (c) Declaration of home town and acceptance thereof.
- (d) Nominations in respect of death-cum-retirement gratuity and provident fund.
- (e) Details of family.
- (f) Options exercised in respect of service matters.
- (g) Condonation of breaks in service, if any.
- (h) Orders, if any, in regard to change in birth date.
- (i) Collateral evidence in respect of past service.
- (j) Change in name

Leave Accounts

3.3.8 The office in which the leave accounts of government servants are to be kept, the form in which they are to be maintained and the persons by whom the entries therein are to be attested are prescribed by Government. Before leave is sanctioned to a government servant, the authority sanctioning the leave should either consult the leave account and satisfy himself that the leave is admissible or obtain a certificate to that effect from the officers entrusted with the attestation of entries in the leave account. To ensure the correctness of entitlement to leave, leave accounts should be closed regularly. In certain cases (e.g. study leave under Central Civil Services (Leave) Rules, 1972), the rules prescribe that leave can be sanctioned only after obtaining a certificate of eligibility from the Accountant General (A&E)/Pay and Accounts officer.

Payment of Leave Salary

3.3.9 In the audit of leave salary payments, it should be verified whether:

- (i) the leave salary of a non-gazetted government servant is drawn over the signature of the head of his office, who is responsible for any over charge;
- (ii) the drawing officer has recorded, in the case of a non-gazetted Government servant on leave preparatory to retirement, refused leave, terminal leave or such other leave on the expiry of which he/she is not expected to return to duty, a certificate on the leave salary bill to the effect that he/she was not re-employed under Government, any local fund or a private employer during the period for which leave salary is drawn, such certificate being furnished after obtaining a declaration from the non-gazetted government servant; and
- (iii) all the conditions prescribed by the Union or State Government or the Union Territory Administrations concerned relating to the encashment of earned leave while availing of Leave Travel Concession or at the time of superannuation, such as ceilings on accumulation and encashment, duration of leave to be availed of as a condition precedent for encashment, retention of a minimum balance in the leave account, recording of relevant entries in the Service Books, etc., have been fully complied with.

Establishment Bills

3.3.10 The main work involved in audit of establishment bills by number is to calculate separately the number of persons in each section of the establishment (excluding those on terminal leave or on joining time on transfer from one post to another) (i) drawing substantive pay (S); (ii) on leave or suspension (L); and (iii) drawing officiating pay (O), and ensure that

- (a) S+L and S+O are each within the sanctioned strength in those establishments where officiating arrangements in leave vacancies are permissible; and
- (b) S+L+O does not exceed the sanctioned strength in sanctioned cadres having their own leave reserve and where no officiating arrangements in leave vacancies are permissible.

Notes;

- (i) *If S+L exceeds the sanctioned strength, it should be ensured before raising an objection that the excess is not attributable to more than one person being on leave against one post.*
- (ii) *In cases where the cadre includes its own deputation reserve, the number of persons on deputation should be excluded from the sanctioned strength.*
- (iii) *In the case of establishments borne on provincial or circle scales, the records maintained by the cadre controlling authority to ensure that the number of officials employed does not exceed the sanctioned strength should also be checked in addition.*

3.3.11 Nominal audit of pay and allowances drawn for individuals should be conducted with reference to the service rules and general and special orders of Government governing appointments, transfers, joining time, suspension, retirement, pay scales, different types of special pay and compensatory allowances and also with reference to the initial and primary records such as service books, increment certificates, orders of appointment/promotion/reversion, sanctions to leave, orders, if any, of suspension and the subsistence allowance admissible, etc.

3.3.12 Apart from comparing the pay and allowances drawn by each government servant in the pay bills of the month(s) selected for test audit with the corresponding entries in the service books and checking the acquittance rolls to ensure that the pay and allowances drawn have been disbursed and proper acquittance obtained, the admissibility of pay and allowances drawn for each individual should be checked completely as indicated above.

3.3.13 In addition to the audit of pay and allowances drawn in the pay bills of establishment for the months selected for detailed audit, cases of increments sanctioned to the members of establishment and cases of fixation of pay on promotion or reversion during the period covered by local audit should also be test checked.

Check of fixation of pay on revision of pay scales

3.3.14 When there is a general revision of pay, the administrative department should arrange for fixing the initial pay by an officer appointed for the purpose or by any other suitable means as may be deemed expedient. Fixation of pay in such circumstances should be test checked during local audit by the Accountant General (Audit) with reference to service books. When, however, a new time scale of pay is introduced or an existing time scale of pay is revised in isolated cases, the calculation of initial rates of pay and date(s) of next increment fixed for each incumbent should be scrutinized in the audit office, after calling for the service books and such other necessary particulars, or in local audit, as is deemed convenient.

Chapter-4

Audit of Contingent Expenditure

Introduction

3.4.1 The instructions contained in this Chapter govern the audit not only of contingent charges proper, but also of other expenditure, which according to the rules of financial procedure made by Government is to be treated in the same manner as contingencies. The term contingent charges or contingencies used in this Chapter covers all such charges.

3.4.2 The actual classification of contingent charges is determined by the orders of the Government concerned and, as a result, it may be different for different Governments. It will, however, be found that all contingencies fall into one or other of the following five categories:-

- (i) Contingent charges met from a lump sum grant placed at the disposal of a disbursing officer for expenditure, at his discretion, on certain specified objects. Such charges are known as Contract Contingencies and generally consist of charges the annual incidence of which can be averaged with reasonable accuracy.
- (ii) Contingent charges regulated by scale laid down by the competent authority. Such charges may be called Scale Regulated Contingencies.
- (iii) Contingent charges, whether recurring or non-recurring, which cannot be incurred without special sanction in each case of a superior authority. These may be termed Special Contingencies.
- (iv) Certain contingent charges may be incurred without special sanction. They nevertheless require the approval and countersignature of a superior authority before they can be admitted as legitimate expenditure against the Consolidated Fund of India or of a State. Such charges are known as Countersigned Contingencies. Countersignature is ordinarily obtained after the bills are paid but, in rare cases, it is necessary before payment.
- (v) Contingent charges which require neither special sanction nor countersignature, but may be incurred by the disbursing officer on his own authority subject to the necessity of accounting for them. Such Contingencies may be termed Fully Vouched Contingencies. In actual practice, however, the Comptroller and Auditor General dispenses with the production to audit of vouchers of less than a prescribed amount.

3.4.3 It must be recognised that the five categories of contingencies described in the foregoing paragraph are not necessarily mutually exclusive. There may be instances of Special Contingencies being regulated by scale, or of a bill relating to Scale Regulated Contingencies requiring countersignature. Where a contingent bill falls under two or more classes, the methods of audit prescribed for each of those categories should, as far as possible, be applied to it.

3.4.4 It is for the Government to prescribe what classes of expenditure will be brought under the contract system and to which departments the system will be extended. It is also the prerogative of Government to lay down any scale for regulation of contingent charges, to determine the authority competent to sanction special contingencies, and to designate the controlling authority whose signature will be necessary in respect of Countersigned Contingencies.

Source Documents

3.4.5 The source documents necessary to conduct audit are the following:

- (i) Documents containing details of Grants/appropriations provided by the Government and funds allotted by the Head of the Department.
- (ii) Sanctions accorded by Government and other competent authorities.
- (iii) Vouchers and sub-vouchers of contingent bills.
- (iv) List of abstract contingent bills received from Accounts and Entitlement Office.
- (v) Voucher Level Computerised accounts and packages maintained in the Accounts and Entitlement Office and relevant nodes supplied to the Audit Office.

Audit Approach

3.4.6 The responsibility for the effective control of contingent expenditure rests primarily upon the heads of offices and departments. The Audit office merely examines the fulfilment of that responsibility by auditing such expenditure, the extent of which varies greatly with the different categories of contingent charges. It is the least in the case of contract contingencies. It is somewhat greater in respect of Scale Regulated and Special Contingencies because Audit has to satisfy itself in the former case that the charges incurred are in accordance with the scale that governs them and watch the expenditure against the necessary sanction of the superior authority in the latter case. Apart from certain definite responsibilities to be discharged by Audit, the countersigning authorities exercise the major portion of the control over Countersigned Contingencies. The responsibility of Audit is the greatest in the case of Fully Vouched Contingencies. For all categories of contingent charges alike, other than Contract Contingencies, these responsibilities should be discharged only in so far as the rules relating to those contingencies permit.

Issues for audit scrutiny

General checks

3.4.7 The Accountant General (Audit) has the following minimum responsibilities in respect of all contingent bills audited. He must see:

- (i) that each class of expenditure:
 - (a) is a proper charge against the Grant or Appropriation concerned;
 - (b) has received such sanction as is necessary; and
 - (c) has been incurred by a Government servant competent to incur it;
- (ii) that such vouchers as are required by audit have been submitted (see paragraph 3.4.18 ff.);
- (iii) that any certificates required under the financial rules of the Government concerned have been provided;
- (iv) that the rates are apparently not extravagant and that standards of financial propriety have been properly observed;
- (v) that the bill is in proper form and the classification is correctly recorded thereon;

- (vi) that, unusually large incidence of expenditure in the month of March does not lead to irregularities; and
- (vii) that stores not immediately required or in excess of requirement have not been procured merely to avoid lapse of budget grant and remain unutilised.

In addition, the control system in the offices of the drawing and countersigning officers should be checked in local audit to ensure that adequate arrangements exist to prevent more than one drawal against a single sanction or a double payment of a recurring charge.

Audit of Contract Contingencies

3.4.8 Rules governing Contract Contingencies differ from Government to Government, the principal variations being in the types of expenditure brought under the contract system and in the department to which the system has been extended. In some cases, the contracts are entered into directly with the disbursing officers, while in others the contract grants are placed at the disposal of controlling officers, who distribute them annually among their subordinates, reserving a small portion for subsequent allotment in cases of need. In spite of these and other minor variations, the essential features of the system are common to all Governments. No details of the expenditure beyond such totals of the various contract items as may be required for purposes of classification, need to be furnished in the bills. Disbursing officers are held personally responsible for any expenditure in excess of the contract grant until the excess is regularised by sanction of the competent authority.

Audit of Scale Regulated Contingencies

3.4.9 Contingencies regulated by scale will include such charges as cost of liveries, rewards for destruction of wild animals, *batta* to witnesses and the like. The authority prescribing the scale will also lay down the conditions precedent for its applicability in each case, making it clear whether the special sanction of a superior authority is necessary, whether bills must be countersigned before or after payment, and what certificates should support the bills. According to the conditions laid down, charges regulated by scale may become Special, Contract, Countersigned or Fully Vouched contingencies. These should be audited under the rules applicable to the particular category within which they fall. In addition, the Accountant General (Audit) should satisfy himself that the charges incurred are in accordance with the scale governing them.

Audit of Special Contingencies

3.4.10 The principal duty of the Accountant General (Audit) in respect of Special Contingencies is to watch the expenditure against the necessary sanction of the superior authority. When an order or sanction contains no indication of the amount or ceiling of expenditure sanctioned, enquiry should be made from the issuing authority, and the charges should not be admitted in audit until complete sanction is received. When expenditure against a lump sum sanction is incurred in instalments, it should be verified in local audit that arrangements exist in the drawing and countersigning offices to watch the progressive outlay against the sanctioned total.

Audit of Countersigned Contingencies

A. Bills Countersigned after payment

3.4.11 In the case of bills countersigned after payment, the money is actually drawn on an abstract bill, and the approval of the superior authority as indicated by its countersignature is subsequently received by the Accountant General (A&E)/Pay and Accounts Officer on the monthly detailed countersigned bill. Both the abstract bill and the detailed monthly bill require scrutiny in audit.

3.4.12 Scrutiny of the abstract bill is limited to seeing that an authorized officer has drawn the bill, the necessary grant or appropriation is available, prescribed certificates have been furnished, the summations are correct and that the bills contains no extraordinary or unusual features. Receipt of a detailed bill in respect of each abstract bill drawn is watched by the Accountant General (A&E)/Pay and Accounts Officer. The Accountant General (A&E) shall arrange regular transmission of Drawing Officer-wise lists of abstract contingent bills along with the vouchers to the Audit Office for audit. The detailed bills received by him should be checked in audit with reference to the principles laid down in paragraph 3.4.8 *supra*.

3.4.13 In addition, it should be verified during the audit of detailed bills that:

- (i) the bills are duly countersigned;
- (ii) the charges included in the bills cover the amounts drawn on abstract bills and are classified as in the abstract bills; and
- (iii) complete details of the charges are given where necessary.

If any special or scale regulated contingencies included in the bills, the checks prescribed elsewhere in this chapter in this regard to should also be exercised.

3.4.14 Except to the extent indicated above, objections may not be raised on items included in a countersigned bill which are within the powers of the countersigning officer. The attention of the countersigning officer should, however, be drawn to any expenditure which seems questionable or excessive in regard to rates, prices or quantum in relation to similar charges incurred elsewhere. If considered advisable, this should also be specifically reported to Government.

B. Bills countersigned before payment

3.4.15 When countersignature is required before payment, there will be no abstract bill and payment is made on a detailed bill. These bills should be audited in the same manner as detailed bills pertaining to amounts drawn initially on abstract bills.

Audit of Fully Vouched Contingencies

3.4.16 Payments of Fully Vouched Contingencies are made on detailed bills. The audit of these payments should be conducted as in the case of amounts drawn on bills countersigned before payment. It is the duty of Audit to challenge extravagant rates, prices or amounts in charges not otherwise objectionable in character and to refer for orders of the competent authority any item of expenditure which is positively objectionable or even of doubtful propriety. A charge should not, however, be held to require the special sanction of Government merely because it is unusual in the sense that it does not occur at frequent intervals. For example, a clock in a Commissioner's office may be a necessary article of furniture, though the need of replacing it may not arise for years together. When the need does arise, the expenditure may be readily passed on the Commissioner's signature if, *prima facie*, the price be reasonable.

Contingent charges relating to wages of mazdoors and pay and allowances of staff paid from contingencies

3.4.17 Contingent charges on account of wages of mazdoors engaged on manual labour and paid at daily or monthly rates should be passed in Central Audit on the authority of a certificate signed by the disbursing officer to the effect that the mazdoors were actually entertained and paid. Contingent charges on account of pay and allowances of all other staff paid from contingencies should be admitted in Central Audit on the authority of the certificates regarding entertainment, disbursement, etc. prescribed in the Treasury Rules. In all cases, a test check of the paid muster rolls, acquittance rolls and payees' receipts should be undertaken during local audit. Names of offices in which coolies on daily or monthly wages are employed regularly, which come to notice in Central Audit, should be advised to the local audit wing to enable that wing to arrange for local audit in cases where these offices have not been included in the regular programme of local audit.

Audit of sub-vouchers and payees' receipts

3.4.18 The financial rules of Government prescribe the monetary limits of sub-vouchers and payees' receipts relating to different categories of contingencies which are to be retained by the drawing and disbursing officer and the countersigning officer. Other sub-vouchers and payees' receipts are to be attached to the contingent bills presented at the treasuries or forwarded to the Accountant General (A&E)/Pay and Accounts Officer. The supporting sub-vouchers contain details of the charges included in the contingent bill and they have to be checked in audit to establish that the amounts drawn in the bills are in order. The payee's receipt is the proof of payment, which enables Audit to satisfy itself that the amount drawn from the exchequer has been paid to the correct person. These documents, which are not received in the offices of the Accountant General (A&E)/Pay and Accounts Officer along with the contingent bills, should be test checked during local audit of the offices of the drawing and disbursing or countersigning officers concerned.

Audit of Payments against Contracts

3.4.19 Payments charged to contingencies are sometimes made against contracts entered into by Government for supplies of materials, stores, etc. Ministries/departments of the Central Government and State Governments enter into contracts either with domestic suppliers or foreign suppliers. The detailed procedure for payments against such contracts and arrangements for their audit (including audit of the contracts themselves) are described in Chapter-7 of this Section.

Chapter-5

Audit of Grants-in-aid

Introduction

3.5.1 The main aim of audit of grants-in-aid is to ensure that the grants are utilized for the purpose for which these are given and that sound economical financial management practices are duly followed while incurring expenditure out of such grants. Audit has also to bring to light instances of waste, failures, system weaknesses and deficiencies resulting in infructuous expenditure.

Audit approach

3.5.2 Audit of Grants-in-aid includes test check of records in Central Audit, local audit and the relevant records in the A&E office. Audit offices are required to plan for effective utilization of the VLC database in Central Audit as well as in field audit of expenditure from grants-in-aid.

3.5.3 Audit in the case of Grants-in-aid can be applied (i) to the original grant itself and (ii) to the expenditure that is subsequently incurred from it by the grantee.

3.5.4 In order to identify the bodies and authorities that attract audit under Sections 14 and 15 of the Act, Governments and Heads of Departments are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose(s) for which the assistance was sanctioned and the total expenditure of the institutions.

3.5.5 Audit is to be conducted with reference to the original sanction as well as the extent of and conditions governing the delegation of financial powers to different authorities of the Union, the State or Union Territory Governments. This may be done either in Central Audit or in local audit.

3.5.6 All sanctions relating to the grants and the corresponding utilization certificates are to be checked with reference to the Register of Grants-in-aid and the Grants-in-aid Audit Register maintained in the office of the Accountant General (A&E) in respect of each department.

3.5.7 The grants-in-aid vouchers are to be checked with reference to the Register of Grants-in-aid against the relevant sanctions recorded in the Register.

Issues for audit scrutiny

3.5.8 The audit of the grants itself is to be conducted according to the general principles and rules laid down for the audit of expenditure from the Consolidated Fund with particular emphasis on the following aspects.

3.5.9 Audit has to verify that each item of expenditure is covered by the sanction of the authority competent to sanction it. For this purpose, Audit has not only to see that the expenditure is covered by a sanction, either general or special, but also satisfy itself (1) that the authority sanctioning it is competent to do so by virtue of the powers vested in it by the provisions of the Constitution and of the laws, rules or orders made thereunder or by the rules of delegation of financial authority framed by the competent authority; and (2) that the sanction is definite and thus needs no reference either to the sanctioning authority itself or to any higher authority. Audit has also to see that the expenditure conforms to the provisions of the sanctions.

3.5.10 Audit should check that (i) the sanction conforms to the pattern of assistance or rules governing such grants-in-aid as approved by the Finance Ministry; (ii) the suitability of the institution seeking the grant has been assessed by the sanctioning authority; (iii) no grants are sanctioned where there is reasonable doubt or suggestion of corrupt practices unless the institution concerned has been cleared of the allegations; (iv) every order sanctioning a grant indicates whether it is recurring or non-recurring in nature and the object for which it is given and clearly specifies the general and special conditions, if any, attached to the grant, and (v) a provision to the effect that the accounts of the grantee institutions shall be open to inspection by the sanctioning authority/Audit whenever considered necessary by them is incorporated in all orders sanctioning grants-in-aid.

3.5.11 In the audit of sanctions to grants-in-aid and expenditure thereagainst, the guidelines/principles enunciated in Section II are required to be observed.

3.5.12 It frequently happens, however, that the power of sanctioning grants is delegated to subordinate authorities subject to the prior fulfilment of certain conditions by the grantees. Thus, grants may be made to educational institutions which attain specified standards in respect of number of scholars, methods of instruction, etc. In such cases, if the order sanctioning the grant quotes the relevant rules, Audit should ordinarily accept the expressed or implied certificate of the sanctioning authority that the prescribed conditions have been fulfilled, but it should utilize any opportunity available to scrutinize the methods by which the authority satisfied itself of such fulfilment. In addition, a test audit should be applied, where possible, to verify the fulfilment of the conditions in individual cases.

Notes:

- (i) *The test audit suggested in this rule can most conveniently be done in the office of the sanctioning authority where all the necessary records will be available. The precise method by which the check will be exercised for different categories of grants-in-aid may be settled by the Accountant General in consultation with the Comptroller and Auditor General and detailed in the relevant Office Manual.*
- (ii) *On the question of regulation of the quantum of the grants-in-aid to State Governments for developmental schemes after taking into account the miscellaneous receipts accruing from such schemes, the Central Government have decided as follows:*
 - (a) *Where recurring grants-in-aid are given, the quantum of such grants should be based on the net expenditure arrived at by deducting the estimated receipts from the gross expenditure.*
 - (b) *In respect of grants-in-aid of a capital nature (e.g. non-recurring grant for the construction of a building or acquisition of a machinery), not only the elements of possible receipts that would accrue to the State Government should be taken into account in determining the quantum of the grants, but any receipts from the disposal of property constructed or acquired by utilizing the grant relating to schemes which were closed or abandoned should also be reckoned proportionately.*

While conducting the test audit in the office of the sanctioning authority, it should be examined whether these instructions and similar instructions, if any, issued by the State Government have been complied with.

- (iii) Governments often stipulate that, before a grant is paid, the sanctioning authorities under its control should, as far as possible, obtain audited statements of the accounts of the grantee institutions in order to establish that the grant is justified by their financial position and also to ensure that any previous grant was spent for the purpose for which it was intended. Audit should verify that the sanctioning authorities duly adhere to the stipulation.
- (iv) Audit should ordinarily accept statements made by the responsible technical officers on purely technical matters.

3.5.13 It should be watched that, except in special circumstances, grants are not paid in excess of actual requirements of the grantee for the financial year or, say, for a period of one year from the date of issue of the sanction and that any general or special orders for releasing a particular grant in instalments are compiled with.

3.5.14 Unless the Government directs otherwise in any particular case, every order sanctioning a grant shall indicate whether it is recurring or non-recurring in nature and specify clearly the objects for which it is given and the conditions, if any, attached to the grant. In the case of non-recurring grants for specified objects, the order shall also specify the time limit within which the grant or each instalment of it is to be spent.

3.5.15 When recurring grants-in-aid are made to an institution, Audit will verify, as far as possible, that the institution continues to function as intended and that the circumstances in recognition of which the grant was sanctioned still continue to exist.

3.5.16 The extent of audit of the expenditure incurred from a grant by the grantee depends on whether the grant is conditional or unconditional. Where no condition is attached to a grant, Audit is in no way concerned with the manner in which the grant is utilized by the grantee.

3.5.17 Where conditions are attached to the grant, these generally relate to the particular objects on which the grant may be utilized or the timeframe within which the money must be spent. Whatever be the nature of the conditions, Audit has to verify that these have been fulfilled. The following procedure should be observed in such cases:

- (i) If, in any case, the Accountant General (Audit) audits the expenditure incurred from the grant either centrally or in the course of local inspection, the audit scrutiny should include a complete or test check of the extent to which the prescribed conditions have been fulfilled.
- (ii) Where the expenditure from a grant is audited locally, the auditor should either include in his report a certificate that the conditions attached to the grant have been or are being fulfilled, or furnish details of the deviations from or breaches of these conditions.
- (iii) The sanctioning authority is required to furnish to the Accountant General (A&E) a formal certificate confirming the proper utilization of the grant from the administrative, technical and financial points of view. Audit should watch the compliance of this requirement.
- (iv) In cases where the audit of local authorities and public or quasi-public bodies is conducted by an officer not subordinate to the Comptroller and Auditor General, a certificate, based on that officer's audit, to the effect that the grants have been utilized on the objects for which they were sanctioned and in accordance with the conditions attached to them, may be accepted from the administrative authority concerned.

- (v) In cases not falling under any of the above, the utilization certificates furnished by the authorities of the administrative Government to the Accountant General (A&E) may be accepted in audit. However, a test check should be applied, where possible, this being extended even to an examination of the adequacy of the procedures followed for obtaining the assurance upon which the certificates are based. Normally, the certificates should be based on audited statements of accounts and reports regarding the performance or achievements of the grantee in relation to the objects and conditions of the grants.

Submission of Utilization Certificates

3.5.18 Ministries and departments of the Central Government are not required to furnish utilization certificates.

3.5.19 State Governments directly incurring expenditure out of Central grants are also not required to furnish utilization certificates. If, however, such expenditure is incurred through local bodies or private institutions, the State Governments concerned should furnish the necessary utilization certificates.

3.5.20 In view of large amounts disbursed as grants-in-aid in connection with developmental schemes by the Central as well as State Governments to co-operative societies, private institutions, etc., it has become an important function of Audit to watch:

- (i) that there is no tendency on the part of Government to continue disbursing fresh grants to a grantee when substantial amounts out of the earlier grants remain unutilised;
- (ii) that an adequate machinery is available with the executive authorities to maintain a constant watch over the progress of expenditure from the grant, the continued solvency of the grantee and the safety of the funds provided;
- (iii) whether the intended developmental schemes are being implemented economically and efficiently and producing the results expected of them;
- (iv) the extent to which the agency or authority being audited is adequately discharging its financial responsibilities in relation to the schemes being implemented; and
- (v) whether there are instances of overpayment, loss, extravagance, avoidable excess or infructuous expenditure attributable to improper planning, incorrect sequencing of activities, delays in completion, etc.

Grant made for a specified object

3.5.21 Unless it is otherwise ruled by Government, every grant made for a specified object is subject to the following implied conditions:

- (i) If the sanctioning authority has not prescribed any time frame for the purpose, the grant will be spent upon the specified object within a reasonable time, which would normally be a period of one year from the date of issue of the sanction.
- (ii) Any portion of the grant not ultimately required for expenditure upon the specified object will be surrendered.

Audit scrutiny, when undertaken, should pay special attention to the fulfilment of these conditions.

Grants to non-government or quasi-government bodies or institutions

3.5.22 The Central Government have decided that where assets are to be acquired wholly or substantially out of Government grants paid to non-government or quasi-government bodies or institutions, it should be laid down that the assets should not, without the Government's prior sanction, be disposed of or utilized for purposes other than those for which the grants were sanctioned. Audit has to watch compliance with this requirement or any other similar stipulation made by the State Government in this behalf.

Audit of scholarships

3.5.23 Scholarship and stipend vouchers should be test checked during local audit of departmental offices. It should be ensured that a proper system exists in these offices for maintaining a continuous record of all such payments and that acquittances have been received and filed.

3.5.24 Audit should be conducted with reference to the names of the beneficiaries in respect of scholarships and stipend vouchers which fall under one or the other of the following categories:

- (i) Scholarships/stipends sanctioned by Government.
- (ii) Scholarships/stipends involving a monthly recurring payment of Rs 75 or more in each case sanctioned by heads of departments or other subordinate authorities under the powers delegated to them.
- (iii) Scholarships/stipend of less than Rs 75 p.m. in each case sanctioned by heads of departments and subordinate authorities under the powers delegated to them involving conditions, fulfilment of which would have an important bearing on the continuance of the scholarship/stipend.
- (iv) Overseas scholarships.
- (v) Any other category of scholarship/stipend in respect of which nominal audit is considered necessary by the Accountant General (Audit) on any special considerations.

3.5.25 Audit in all other cases should be conducted only numerically. This will consist in verifying that:

- (i) the sanctioned scale is not exceeded;
- (ii) the total amount sanctioned for the scholarships and stipends has not been exceeded; and
- (iii) scholarships and stipends are drawn only for the period for which they are admissible in terms of the sanctions.

3.5.26 It should also be ensured in audit that (i) the bills for educational scholarships and stipends have been drawn in accordance with the procedures prescribed in the relevant rules; and (ii) necessary certificates vouchsafing fulfilment of the prescribed conditions have been furnished. The accuracy and veracity of these certificates should be verified by a test check of the detailed records maintained by the executive authorities.

Chapter-6 Pension Audit

Audit Objectives and Scope

3.6.1 The objectives of audit of pensions are to verify that:

- (i) the qualifying conditions governing the grant of pension are fulfilled; and
- (ii) the amount of pension sanctioned and drawn is correct.

3.6.2 The term 'Pension' used in this chapter includes 'Gratuity'.

3.6.3 The instructions contained in this chapter apply to the audit of pensions paid out of the Consolidated Fund of the Union other than those paid to Railway and Defence personnel and out of the Consolidated Fund of the State Governments, regardless of whether these are authorised by the A&E Offices subordinate to the Comptroller and Auditor General or by departmental authorities of the Union, State or Union Territory Governments. In the case of Defence and Railway pensions, the accounts of which are maintained by agencies not under the control of the Comptroller and Auditor General, the work done by these agencies is subjected to test check by Audit Offices subordinate to the Comptroller and Auditor General.

Source Documents

3.6.4 The source documents to be audited are as follows:

- (i) Service Books
- (ii) Form 7 of the Central Civil Services (Pension) Rules, 1972.
- (iii) Pension Payment Orders.
- (iv) Register of Pension Payment Orders.
- (v) Register of Anticipatory/Provisional Pension Payment Orders.
- (vi) Register of Gratuity Payment Orders.
- (vii) Register of Commuted Value of Pension Payment Orders.
- (viii) Register of Territorial and Political Pension Payment Orders.
- (ix) Pension Vouchers.

These documents are to be checked chronologically in audit.

Audit Approach

3.6.5 Reports on the admissibility of claims for pension are prepared in the Accounts Offices and necessary authority for drawal of pension is issued by them. A specified percentage of the pension and commutation of pension cases finalized in the A&E Office are to be checked in Central Audit.

3.6.6 After issue of authorisations by the departmental authorities, pension cases should be checked in audit in their entirety wherever such checks are required to be exercised with reference to the documents available in the pension files, viz. the service books, the first page of the application form, statement of service, leave statement, etc. The reporting offices are to ensure that the service records and other documents received from the departmental offices along with the pension papers are, as far as possible, not sent back till the test check of pension cases is conducted by the Accountant General (Audit). A suitable working procedure for this purpose is to be evolved locally by the Accountant General (Audit) and the concerned departmental offices in mutual consultation. In case the service book is not available, the check will

be conducted with reference to other records available in the pension file. If any doubt is felt or any complication is noticed during the check, and the connected service or other record is not available in the pension file for verification, the departmental officer should be asked to obtain and make available these records for to enable further examination of the case.

3.6.7 In the case of pensions authorised by Pay and Accounts Officers, the service books and other service records may not be available with the pension papers in those offices at the time of local audit. In such cases, the check will be conducted in the offices of both the Pay and Accounts Officer and the Drawing and Disbursing Officer. The check in the Pay and Accounts Offices will be broadly confined to the arithmetical accuracy of the calculations and general application of relevant rules and orders. During check of pension cases in these offices, the efficiency of internal audit units will also come under scrutiny.

3.6.8 Under the extant orders, authorities issuing pension authorisations, such as the Accountants General (A&E), State departments, etc., are required to furnish monthly lists of such autohrisations, treasury-wise, to the Accountant General (Audit). These lists should be maintained in separate files and utilised while conducting local inspection of treasuries or banks responsible for pension payments. Apart from maintaining these treasury-wise lists, the Accountant General (Audit) will also maintain files organised according to the nature and type of the pensionary benefit for undertaking the test check of the payments in the treasuries or banks concerned. These lists will also be used to reconcile, in every respect, the details of the Pension Payment Orders, Gratuity Payment Orders, etc. contained therein with those entered in the relevant registers and to ensure that the treasuries have not made payments in respect of any other Pension Payment Order or Gratuity Payment Order not included in the lists.

Issues for audit scrutiny

Pension cases

3.6.9 On receipt of pension papers, the Accountant General (A&E) applies the requisite checks, records the account encasement in Part-II of Form 7 of the Central Services (Pension) Rules, 1972 and assesses the amount of pension and gratuity and issues the Pension Payment Order not later than one month in advance of the date of retirement of the government servant if the pension is payable in his circle of accounting unit.

3.6.10 When the pension is payable in another circle of accounting unit, the Accountant General (A&E) sends the Pension Payment Order along with a copy of Form 7 and the accounts encasement to the Accountant General (A&E) of that unit for arranging payment. Monthly lists of all payment orders issued by the Accountant General (A&E) are to be sent, treasury-wise, to the Accountant General (Audit) concerned.

3.6.11 In States where the work of reporting on and authorisation of pensions in respect of all or some of the employees has been taken over by the departmental offices, the Accountant General (A&E) maintains the treasury-wise lists of the copies of Pension Payment Orders and other authorisations received by him from the issuing authorities. The Accountant General (Audit) will also receive copies of these lists and maintain them treasury-wise and according to the nature and type of pensionary benefit.

3.6.12 The checks to be applied and the points to be seen in the course of audit of pension cases are briefly enumerated below:

- (i) The statement of service, statement of leave and spells of foreign service, if any, are to be checked with reference to the entries in the Service Book.
- (ii) The date of retirement/death mentioned in the pension papers should be tallied with corresponding entries in the Service Book.
- (iii) Correctness of the calculation of average emoluments based on the entries in the Service Book should be verified.
- (iv) It should be verified whether a note about the issue of authorities has been kept in the Service Book.
- (v) It should be examined whether claims for family pension and gratuity have been settled in accordance with the nominations provided by the government servant,
- (vi) Correctness of the computation of provisional pension and gratuity should be verified with reference to the qualifying service and other relevant particulars.
- (vii) It should be checked whether the provisional pension sanctioned/authorised has been restricted only to the period admissible.
- (viii) Recovery of amounts, if any, to be recovered from the provisional pension and gratuity should be verified.
- (ix) Correctness of the determination of the pension and gratuity admissible with reference to the average emoluments or emoluments last drawn, as the case may be, should be checked.
- (x) Correctness of the relief allowed as on the relevant date should be ensured with reference to the applicable orders.
- (xi) Correct rounding off of the amounts of pension and graded relief should be checked.
- (xii) It should be ensured that authorisation of death gratuity to the beneficiaries in the absence of valid nominations is supported by the prescribed legal documents.
- (xiii) It should be verified whether the apportionment of the charge between the Central and State Governments has been indicated in the Pension Report.
- (xiv) Pension payment authorisations should be scrutinised to verify if the payments have been authorised strictly on the terms stated in the pension papers and to the person(s) named therein.
- (xv) In cases involving recovery of dues yet to be assessed, it should be verified whether 10 *per cent* of the gratuity or Rs 1,000, whichever is less, has been withheld from the gratuity or provisional gratuity.
- (xvi) It should be ensured that the period for which family pension would be admissible has been worked out correctly with reference to the dates of birth of the children and correctly mentioned in the authority.

Note: *While verifying, the general application of the relevant rules and orders in the Pay and Accounts Offices, the checks referred to at sl. nos. (viii) to (xvi) will also be exercised.*

Pension vouchers

3.6.13 Pension vouchers are not required to be checked by the Central audit parties of the A.G. (Audit) in the office of A.G. (A&E). Such vouchers are to be checked during inspection of treasuries/banks.

3.6.14 Besides verifying that the bill has been drawn in the proper form and has been duly discharged, the process of audit of pension vouchers will also extend to ascertaining that the entries in the Pension Payment Order Register tally with the payments made and that necessary documents are available to support and justify the charge in the pension bill. As in the case of other vouchers, these bills should indicate the detailed head classification. It has also to be seen that the certificates required to be furnished under the rules have been appended to the vouchers and that income tax has been deducted wherever due.

Note: See also the Note below sl. no. (xi) of paragraph 3.1.20 in regard to verification of deductions on account of income tax.

3.6.15 Vouchers in support of payment of arrears of pension, which the Treasury or bank is not authorised to disburse without a special sanction, should be examined to verify that the necessary sanction is available.

Anticipatory/Provisional Pensions

3.6.16 Separate registers are maintained by the Accountant General (A&E) in respect of the anticipatory pension payments authorised by him and the provisional pension payments authorised on the basis of sanctions issued by heads of departments/offices in Form 102. These registers facilitate the recording of sanctions/orders issued for payment as well as the pension payments made in terms of these sanctions/orders. All the vouchers are noted against the relevant entries in these registers by the office of the Accountant General (A&E) after conducting a general review and exercising some preliminary checks.

3.6.17 The Accountant General (Audit) should undertake a test check of these vouchers as in the case of regular pension vouchers, laying particular emphasis on the following:

- (i) The amount should have been drawn only on the basis of a pension payment order and sanction of the competent authority.
- (ii) The period for which pension has been drawn should be covered by the Pension Payment Order of the competent authority,
- (iii) The bill should be in the prescribed proper form.
- (iv) All prescribed certificates should be attached, wherever necessary.
- (v) Payments should not have been extended beyond the period of six months without approval of the competent authority.
- (vi) No anticipatory or provisional pension should be paid after final pension has been authorised.
- (vii) The pension actually due should have been disbursed.
- (viii) Pay should not have been drawn in addition during the period for which pension has been drawn.
- (ix) The prescribed life certificate should be attached when pension is not drawn in person.
- (x) Details in the vouchers should tally with those in the registers.
- (xi) The payment should have been noted in the register and the vouchers should have been enfaced.

Gratuity

3.6.18 The Accountant General (A&E) maintains a Gratuity Register for authorising gratuity payments. In token of the payment having been checked, his office notes the number and date of the voucher in the register.

3.6.19 In the course of audit of gratuity payment vouchers, it should be verified that the amount paid corresponds to what has been authorised and that the person legally entitled to the gratuity or his legal guardian/heir(s) has furnished a proper receipt. In cases where the head of the office is authorized to draw and disburse the gratuity, the actual acquittance of the payee obtained and recorded by him should be checked at the time of local audit of the office.

Commutation of Pension

3.6.20 As in the case of gratuity, the Accountant General (A&E) maintains a separate register for authorising the commuted value of pensions and noting particulars of the payment vouchers against the relevant entries to ensure that payments have been correctly made.

3.6.21 The authorisations issued should be checked by the Accountant General (Audit) as in the case of authorisations for regular pension and gratuity. It should be verified that the commuted value has been correctly calculated and authorised. Audit of commutation payment vouchers should be conducted with reference to the entries in the authorisation. The process of audit will be similar to that applicable in the case of gratuity payment vouchers indicated earlier.

***Note:** Commutation of pensions authorised by Pay and Accounts Offices should be checked during local audit.*

Territorial and Political Pensions

3.6.22 A separate Register of Pension Payment Orders is maintained by the Accountant General (A&E) for the payment orders issued in respect of territorial and political pensions. The procedure for audit of other pensions as described in this chapter will apply *mutatis mutandis* to the audit of territorial and political pensions.

Chapter-7

Audit of Contracts

Audit Objectives and Scope

3.7.1 The responsibility for the conclusion of contracts for works to be done and supplies to be made and for enforcing them rests with the Executive. However, scrutiny of these contracts or agreements entered into by government servants on behalf of Government constitutes one of the important functions of audit. The objective of such a scrutiny is to see whether the contracts or agreements have led to loss or wastage of public money and also to ensure that the rules and regulations provide reasonable security against malpractices.

General principles governing audit of contracts

3.7.2 The Union Government has laid down the following fundamental principles for the guidance of authorities authorised to enter into contracts or agreements involving expenditure from the Consolidated Fund of India:

- (i) The terms of a contract must be precise and definite, and there must be no room therein for ambiguity or misconstruction.
- (ii) Standard forms of contracts should be adopted wherever possible, the terms being subjected to adequate prior scrutiny.
- (iii) As far as possible, legal and financial advice should be taken in the drafting of contracts before they are finally entered into.
- (iv) No contract involving an uncertain or indefinite liability or any condition of an unusual character should be entered into without the prior consent of the competent financial authority.
- (v) Similarly, terms of a contract once entered into should not be materially varied without the prior consent of the competent financial authority.
- (vi) Contracts should invariably be placed only after inviting open tenders and the lowest tender accepted. In cases where it is not considered practicable to invite open tenders or to accept the lowest tender, the reasons for the deviations should be recorded.
- (vii) In selecting the tender to be accepted, the financial status of the tendering individuals and firms must be taken into consideration, in addition to all other relevant factors.
- (viii) Even in cases where a formal written contract is not entered into, no order for supplies should be placed without at least a written agreement in regard to price.
- (ix) Provision must be made in contracts for safeguarding government property entrusted to contractors.
- (x) When a contract is likely to endure for a period of more than five years, it should include, wherever feasible, a provision for its unconditional revocation or cancellation by Government at any time after the expiry of six months' notice to that effect.

Though these guiding principles are primarily in the nature of financial rules, they are nevertheless of relevance from the audit perspective as well.

3.7.3 Deviations from contracts require authority not inferior to that required for the conclusion of the original contract. Audit should also see that any payments outside the strict terms of the contract or in excess of the contracted rates are not made without the consent of the competent financial authority.

3.7.4 Cases in which there is evidence that an officer or agent of a contracting department has an undue common interest with the other contracting party should be brought to the notice of the competent higher authority for such action as it may deem necessary.

3.7.5 Standing contracts should be reviewed occasionally and if Audit has reason to believe that the rates accepted in those contracts are considerably higher than the rates prevailing at the time of review, such variations should be brought to the notice of the competent authority.

Source Documents

3.7.6 The following are the main source documents to be checked in the audit of contracts and agreements:

- (i) Contract files maintained by the departments or institutions.
- (ii) Accounts and payment vouchers received from the treasuries.
- (iii) Administrative Approvals and Technical Sanctions of the competent authority forming the basis of the contracts.
- (iv) Portfolio Registers maintained by the Integrated Audit Unit Section.
- (v) Bills for supply of Stores.
- (vi) Copies of Contracts and Agreements.
- (vii) Any other documents that would facilitate effective audit.

Arrangements and procedures for Central Audit

3.7.7 The procedure for dealing with the contracts relating to the Public Works Department is contained in Section IV relating to Public Works Audit. In respect of civil departments, copies of contracts and agreements relating to purchases of the value of Rs 5 lakhs and above should invariably be obtained and examined in Central Audit. All rates and running contracts, as well as all important and unusual contracts, should be scrutinised irrespective of the amount of contract. Other contracts should be examined in local audit to a suitable extent determined with reference to local conditions. For this purpose, the departmental officers should be required to send monthly lists of all contracts entered into by them, besides copies of all contracts and agreements for purchases of the value of Rs 5 lakhs and above, all rate and running contracts, and of all important and unusual contracts included in the monthly lists for scrutiny.

3.7.8 In order to facilitate audit of payments against these contracts, relevant details of (i) sanction; (ii) contractors; (iii) the nature of the work or materials to be supplied; (iv) brief particulars of rates, important conditions, etc.; and (v) the delivery or completion schedule should be recorded in a Register (Form MSO (Audit)-I) maintained in the Central Audit Support Section (also known as Integrated Audit Unit Section in some offices) and made available to the Central Audit Parties who may refer, wherever necessary, to the copies of the contracts made available by the departments concerned. The Central Audit Party should note in the register only those payments that are audited. There may, however, be cases where all vouchers paid against contracts of the value of Rs 5 lakhs and above may not come up for audit. In cases where no payments have been noted in the register for as long a period as one year or so or during the entire contract period, which is generally very short in respect of contracts entered into by civil departments, specific inquiries may be made from the departments concerned to ascertain if the contract has actually been operative; if

so, details of the vouchers through which the payments were made and other relevant particulars may be called for.

3.7.9 Unusual items in the contracts and agreements should be scrutinised carefully if necessary in consultation with the Propriety Audit/Higher Audit Section in the headquarters. The OAD (Headquarters) Section should also be informed of such purchases without delay so that they may arrange a programme of local audit to enable scrutiny of the relevant purchase files.

Notes:

- (i) *The Principal Director of Audit, Economic and Service Ministries, conducts a detailed examination of selected contracts (other than those relating to contingent and miscellaneous expenditure to which the instructions contained in this paragraph will apply) entered into by the Directorate General of Supplies and Disposals under the Ministry of Commerce and by the Department of Food under the Ministry of Food and Agriculture with reference to the connected files and other documents during local audit undertaken concurrently.*
- (ii) *When payments included in contingent bills are made at contracted rates that need not be communicated to the Audit Office, a certificate should be obtained from the competent authority to the effect that the claim is correct with reference to such contracted rates.*

3.7.10 The Audit Officer of the Central Audit Support (Integrated Audit Unit) Section should review contract agreements critically and communicate its results to the departments concerned. Points noticed in the course of the review, which have to be borne in mind while conducting local audit, should be entered in the Register of Important Points for Local Audit and communicated to the local audit parties as and when the local audit of the concerned offices is taken up.

Issues for audit scrutiny

3.7.11 While the general principles underlying the audit of contracts have been discussed earlier, detailed instructions and procedures to be followed in this regard have been dealt with in the succeeding paragraphs. These are, however, not to be taken as exhaustive and may be adapted to suit the requirements of audit in specific cases in the light of the departmental rules and regulations.

A. Audit of sanctions

3.7.12 In conducting audit of sanctions to purchases, contracts, etc., the broad principles of financial propriety enunciated under in the chapter on 'Audit of Expenditure' should be borne in mind. In cases of doubt regarding the necessity for or the propriety of the expenditure sanctioned, the original records leading to the issue of the sanction should be called for and scrutinised in Central Audit. If the Accountant General (Audit) considers this necessary, the case may also be sent with a brief note to Propriety Audit Section or the local audit party for examination. It should further be seen that all requirements pointed out at the time of any pre-scrutiny of the sanctions have been duly complied with or resolved to the satisfaction of Audit;

B. Audit of Acceptance of Tender/Contracts/Agreements

3.7.13 Important points to be verified while auditing Acceptances of tenders (ATs), contracts or agreements are as follows:

- (i) Complete particulars of quantities and rates/prices should have been furnished, the rates/prices stipulated being firm.

Note: *Particulars of contracts containing a price variation clause or provisional rates should be sent to local audit for further examination.*

- (ii) Important and material clauses relating to delivery schedule, place of delivery, inspection of stores, despatch instructions, particulars of consignee, etc. should have been clearly specified and not omitted.
- (iii) Normally, the AT/purchase order should have been signed by an authority competent to enter into contracts. If, however, this has been signed by an authority not competent to enter into the contract, it should be verified that a certificate to the effect that the competent authority has approved the purchase is recorded thereon, mentioning also the designation.

Note: *The Purchase Officer concerned should sign in ink all copies of the AT, Supply Order, etc. including all attachments containing details of the rates/prices and other important conditions.*

- (iv) If the AT provides for payment to a party other than the contracting firm, a power of attorney should already have been registered in the books of the office.
- (v) Provisions relating to payment of sales tax, excise duty, etc. should be checked with reference to the instructions issued by the Government from time to time. Vague provisions such as "sales tax will be paid, if legally leviable" should be objected to and the contracting officers asked to state in definite terms whether sales tax, excise duty, etc. are payable and, if so, the rates, basis of payment, etc.
- (vi) ATs issued in the latter part of a financial year should be specially scrutinized and any tendency on the part of the department to resort to rush of expenditure brought to notice.
- (viii) If the AT provides that the supplier should furnish a solvency certificate for the contractual amount, Audit should verify that there no facts have been suppressed in the documents connected with the solvency certificate and that the financial interests of Government have been adequately protected.
- (ix) The contract should have been sanctioned by a competent authority and signed for and on behalf of the President of India, Governor of a State, Administrator of a Union Territory or the Chairman or any other authorised official of a quasi-public body, as the case may be.
- (x) In respect of contracts entered into with a firm, each one of the partners, or the duly constituted attorneys in the case of absent partners, should have signed all the documents constituting the contract. In the latter case, the original powers of attorney duly registered in a court of law will be verified and an attested copy obtained for audit purposes.
- (xi) The contract should not have been entered into by or on behalf of a minor.
- (xii) Security deposit, if any, should have been furnished in the appropriate form and of the correct amount and within the period stipulated in the contract.
- (xiii) All the conditions and requirements printed on the contract form should have been complied with.

- (xiv) Penalties leviable under the terms of the contract should have been enforced in the event of any default or breach of the conditions.
- (xv) Requests for despatch of heavy goods by passenger train involving payment of freight charges disproportionate to the value of the materials should be reported to the local audit party for detailed examination. In such cases, the party should examine whether higher rates of freight charges were also agreed to on earlier occasions on grounds of urgency and whether the circumstances really justified the additional expenditure.

3.7.14 If considered necessary, cases of the following type may be scrutinised in consultation with the Propriety Audit Section:

- (i) Inclusion of any new item not originally contemplated in the contract.
- (ii) Cases involving extension of the stipulated delivery schedule when payment of higher prices had been agreed to initially on grounds of urgency of requirements and early delivery.
- (iii) Cases involving payment of compensation to contractors/suppliers' firms.
- (iv) Contracts, even if sanctioned by the competent authority including the Government, containing any extraordinary or unusual stipulations.
- (v) Cases involving adoption of any special and apparently objectionable procedures of purchase, inspection and payment.
- (vi) All contracts concluded on on cost plus profit basis.
- (vii) All contracts entered into with private firms for functioning as Government stockists.
- (viii) Sanctions to *ex gratia* payments.

C. Audit of bills for purchases and supplies of stores

3.7.15 Before auditing expenditure on bills for purchases, the Audit Officer should satisfy himself that the sanctions and agreements have been properly audited and bear suitable audit endorsement.

3.7.16 Besides the checks prescribed in paragraph 3.1.20, it should be verified in auditing bills of contractors or suppliers that:

- (i) the purchase of the stores has been sanctioned by the competent authority;
- (ii) all purchases of stores are made in accordance with the instructions laid down in Chapter 8 of the Compilation of General Financial Rules (Revised and Enlarged), 1963, or the similar rules of the Governments concerned, with special reference to the rule that no purchase which requires the sanction of a superior financial authority is sanctioned by a lower authority in instalments by splitting the requirements so as to obviate the necessity for sanction of the competent authority;
- (iii) the rates charged in the bills are in conformity with those in the agreements;
- (iv) the necessary inspection certificates have been furnished with the bills in cases where the contract stipulates inspection in stages, at the time of manufacture or after erection at site;

- (v) claims in respect of railway freight, insurance charges, etc. are duly supported by cash receipts, irrespective of the amount involved, when orders have been placed FOR destination basis;
- (vi) the prices claimed in respect of contracts concluded on the basis of prices prevailing in the market on the date of receipt of the order by the firm or on the day of supply are not at variance from the market prices as intimated by the suppliers and have also been confirmed by the purchasing officers.
- (vii) the actual dates of despatch/delivery of stores conform to those stipulated in the contracts/agreements in cases where deliveries are to be spread over and made in phases at different times, involving varying prices linked to deliveries;
- (viii) no payments on account of customs duty or increase in customs duty have been made except under the provisions of the contract or under orders of the competent authority in respect of stores procured from outside the country;
- (ix) discrepancies or deficiencies, if any, pointed out by the consignees in their receipt certificates have been duly taken into account and appropriately dealt with before releasing final payments for supplies in respect of which the advance or part payments stipulated in the contracts; and
- (x) the stores have been delivered within the stipulated period and belated deliveries or slippages, if any, have been regularised by the competent authority.

D. Audit of accounting of stores

3.7.17 It should be seen that the provisions contained in Chapters 8 and 9 and Appendices 8 and 9 of the General Financial Rules (Revised and Enlarged), 1963, and Schedule V of the Delegation of Financial Powers Rules, 1978, have been complied with.

E. Local audit of contracts, bills for purchases, etc.

3.7.18 The following are the main types of cases that may be examined in local audit:

- (i) Acceptances of tenders, including Rate/Running Contracts and Supply Orders.
- (ii) Amendments to Acceptances of Tenders.
- (iii) Contracts placed from India directly on suppliers in UK, USA and other overseas countries.
- (iv) Contracts placed by Indian Missions and Trade Commissioners abroad (other than those in UK and USA).
- (v) Timber Purchase Orders.
- (vi) Office orders and other instructions issued by the Purchase Organisation on incidence of sales tax, excise duty, etc.
- (vii) Disposal contracts.
- (viii) Arbitration cases

3.7.19 The following are some of the points that should be kept in view and examined in local audit:

- (i) Whether, so far as can be ascertained from the purchase files, demands received from other indenting officers received at the relevant time were consolidated and bulked as far as possible to secure the advantage

of lower prices for bulk supplies and, if so, whether the aggregate of the quantities ordered for the individual indentors in the contracts entered into for the purpose was in excess of the quantities actually indented and so consolidated.

- (ii) Availability of sanction of the competent authority for effecting purchases on the basis of a single tender or negotiations and of recorded reasons for resorting to this method of purchase.
- (iii) Opening of all tenders on the due date and their authentication by the designated officer numbered and initialled with date by the officer opening them.
- (iv) Availability on record of the comparative statement and whether it was verified with reference to the original tenders.
- (v) Whether any tender received belatedly after the stipulated date had been included in the comparative statement and considered, and whether orders of the competent authority were obtained for doing so.
- (vi) Whether the lowest offer was accepted in each case. In case this was not done, whether adequate justification adequate reasons had been provided in writing for rejecting the lowest offer should be examined; the difference between the lowest offer and that accepted should also be quantified.
- (vii) In cases where more favourable or advantageous offers were rejected on the ground that the firms were untried, it should be examined whether the feasibility of placing a trial order on the firms was considered with a view to achieving economies and appropriate action taken.
- (viii) Whether the successful tenderer had indirectly derived any advantage over the other tenderers because of the insertion of certain special conditions; it should be particularly examined whether acceptance of these special conditions resulted in any increase over the prices actually quoted.
- (ix) Whether the difference between the purchase price finally accepted and that estimated in the tender is within the limits prescribed; if not, it should be examined whether confirmation about the availability of additional funds was obtained.
- (x) Whether the contract was placed on a registered firm; in case this was not done, whether sanction of the competent authority was obtained and obtaining appropriate security, guarantees, etc. were insisted upon for adequately safeguarding government's interests.
- (xi) Whether, in the case of contracts placed directly on firms in the United Kingdom, payments in advance linked to progressive deliveries had been agreed to and, if so, this was done only after ascertaining the practice followed by the India Stores Department (India Supply Mission), London.
- (xii) Whether the accepted rates/prices had been modified or revised in any case after the conclusion of the contract and, if so, whether this was done with the approval of the competent authority, and the reasons justifying the revision were adequate.

- (xiii) In case any supplementary contract had been negotiated or payments authorised for any additional services required of the supplier subsequent to the acceptances of the tender, the appropriateness thereof should be examined from the competency and propriety angles.
- (xiv) Whether the interests of Government were adequately safeguarded and protected in arbitration proceedings by the officers concerned with the defence of the cases.

Audit of transactions relating to contracts of Department of Supply

3.7.20 The detailed instructions to be followed by the Office of the Principal Director of Audit, Economic and Service Ministries, in the audit of contracts entered into by the Directorate General of Supplies and Disposals (DGS&D) under the Central Department of Supply and of payments made there against are contained in the Manuals of that Office's Concurrent Audit and Central Test Audit Sections. The DGS&D was relieved of the responsibility for ad hoc purchases w.e.f 1st January, 1992, when such purchases were decentralised and entrusted to the respective departments of the Central Government. Consequently the DGS&D's role at present is confined mainly to the finalisation of rate contracts for commonly used items required on a recurring basis by the Central Government departments, State Governments, quasi-public bodies such as municipalities, city corporations and government undertakings. Central Government departments not having their own infrastructure for purchases can, however, utilise the services of the DGS&D even in respect of their ad hoc requirements. The audit of contracts, bills, etc. pertaining to the ad hoc purchases made directly by the departments is to be conducted by the Audit Officers of the concerned departments. In so far as the stores purchased through the agency of the DGS&D are concerned, the division of responsibility for audit between the Principal Director of Audit, Economic and Service Ministries, and the Audit Officers of the indenting departments is as follows:

- (i) The Principal Director of Audit, Economic and Service Ministries, will be responsible for the audit of the bills against the contracts.
- (ii) The Audit Officers of the departments indenting and receiving the stores will be responsible for auditing the charge to ensure that (a) it is a proper charge against a work, office or other expenditure unit under their audit; and (b) that it has been duly sanctioned. It is not necessary for them to check arithmetical calculations of the vouchers.
- (iii) In cases where advance claims are made by the Pay and Accounts Officers, Ministry of Commerce, without the consignees' certificates vouching receipt, the Audit Officer of the consignee should ensure that adequate and prompt action is taken to obtain the requisite certificates/acknowledgements and to settle, in consultation with the consignees, the discrepancies or deficiencies pointed out in the certificates of receipt.

3.7.21 It is obligatory on the part of each and every department of the Central, State and Union Territory Governments to procure stores required on a recurring basis, and borne on the rate contracts entered into by the DGS&D, either through the Directorate General or, if the officer concerned has been declared as a Direct Demanding officer, directly from the firm concerned. Failure to avail of the benefit of these rate contracts and resorting instead to local purchases at higher prices, either by splitting the purchase orders so as to ensure that the financial powers delegated to the officers for

local purchases are not exceeded, or under some other pretext, including the ground that the officer concerned was not aware of the conclusion of the rate contract for the particular item, results in avoidable extra expenditure to Government. The Accountant General (Audit) and the Principal Directors of Audit should point out such cases, if any, noticed in the course of audit of the accounts of the departments concerned. In case such failures are found to be widely prevalent in a department or of a large magnitude, appropriate comments should be proposed for inclusion in the Audit Report.

Payments made abroad for stores, supplies, etc.

A. Stores purchases

3 7.22 Stores transactions passed on to India through the Remittance Account between England and India or the accounts of the India Supply Mission, Washington, as well as transactions pertaining to the separated accounts offices, which are initially classified under "Pay and Accounts Offices" and intimated to the Accounts Officers in India under the heading "Miscellaneous Transactions", can be classified broadly as follows:

- (i) Stores obtained directly from firms abroad on FOB basis subject to inspection by the Director General, India Stores Department, London, or the India Supply Mission, Washington.
- (ii) Stores purchased through the agency of the Director General, India Stores Department, London, or the India Supply Mission, Washington in terms of Rule 7 of Appendix 8 of the General Financial Rules (Revised and Enlarged), 1963).
- (iii) Food grains, fertilizers, etc. purchased through other agencies.

3.7.23 The duty of auditing the contracts and the payments in respect of (i) above devolves on the Audit Officers in India. In exceptional cases where direct payments by the High Commissioner for India in the United Kingdom or by the India Supply Mission, Washington, as the case may be, are authorised for such purchase of stores, the necessary authority for payment is sent to the overseas paying authorities along with a copy of the contract. The bills are prepared in duplicate and the overseas paying authorities will retain the original vouchers, with reference to which the Principal Director of Audit, India Audit office, London, or the Director of Audit, Indian Accounts, Washington, as the case may be, should audit the payments. The Remittance Account or the accounts of the India Supply Mission or those sent to the separated Accounts Offices should be accompanied by the duplicate copies of the vouchers to enable the Audit Officer in India to undertake the necessary final audit of the payments in all respects.

Note: *In all cases of contracts entered into by the ministries of the Government of India directly with suppliers in the United Kingdom and United States of America, the ministries are required to furnish copies of all such contracts to the Audit Officers concerned in India by the 20th of the month following that in which the contract is signed. The Principal Director of Audit, Indian Accounts in the UK, London, or the Director of Audit, Indian Accounts, Washington, should report to the Audit officers in India any special features coming to his notice during scrutiny of in any of these cases and, whenever possible, the prices at which similar articles were purchased or could be purchased by the Director General, India Stores Department, London, or the Director, India Supply Mission, Washington, as the case may be.*

3.7.24 In respect of stores purchases falling under categories (i) and (ii), the Audit officer of the consignee in India should audit the expenditure against the sanctions issued by the competent authorities in India and should also exercise the checks prescribed in the Chapter (II.4) on the audit of accounts of stores and stock, in relation to the audit of subsidiary accounts of commercial undertakings, as well as of the departments/offices.

3.7.25 As regards (iii) above, the Principal Director of Audit, Indian Accounts in the UK, London, and the Director of Audit, Indian Accounts, Washington, are responsible for the audit of tenders, contracts and payments when the purchases are made through the High Commissioner for India in London and the India Supply Mission, Washington, respectively and the related contracts are entered into in those countries. If the contracts are entered into by Central ministries or the State Governments in India and the payments in the United Kingdom or the United States of America are authorised by the Accounts Officer concerned in India, the Principal Director of Audit, Indian Accounts, London, or the Director of Audit, Indian Accounts, Washington, as the case may be, will audit such payments only with reference to the authorisation. The Audit Officer in India will then be responsible for the audit of sanctions, tenders and contracts. If the contracts are entered into in India and the related payments are also made in the, the Audit Officer in India will be responsible for the audit of the sanctions, tenders, contracts, etc, as well as the connected payments.

B. Freight Charges

3.7.26 The responsibility for auditing freight charges on purchases from abroad will be as follows:

- (i) In all cases where the High Commissioner for India in London makes the payments on this account, the Principal Director of Audit, Indian Accounts, London, is responsible for detailed audit of the payments.
- (ii) In cases where the High Commissioner for India in London arranges shipment of the stores and payments are made by his Chief Accounting Officer, the Principal Director of Audit in London is responsible for checking the classification of stores, the correctness of the freight and its reasonableness and all other preliminary requirements relating to the payment of freight.
- (iii) The checks prescribed at (ii) above are exercised by the Director of Audit, Indian Accounts, Washington, in cases where shipments are arranged by the India Supply Mission, Washington, and the payments are made on the basis of the authority of the Mission's freight forwarders by the Chief Accounting Officer to the High Commissioner for India in London.
- (iv) In cases where the shipments are arranged by other Missions abroad and the relevant documents leading to the determination of freight rates are in India, the Audit Officer in India is responsible for the checks specified at (ii) above; he will also maintain a close liaison with the Audit Officer concerned abroad.
- (v) The consignees' Audit Officers are responsible for verifying that the freight payments have been correctly linked in the connected records with the cost of stores.

C. Other Payments to Suppliers Abroad

3.7.27 In all other cases of purchases of stores from abroad not specifically mentioned in paragraphs 3.7.22 to 3.7.25 *supra*, payments are generally arranged through the respective Indian Missions abroad. The Audit Officer of the purchasing department in India is responsible for the audit of the contracts with reference to the related records as well of the debits in respect of payments even in cases where the payments are covered by other arrangements.

3.7.28 The instructions in paragraphs 3.7.22 to 3.7.25 are applicable *mutatis mutandis* to the transactions of Defence, Railways and Posts and Telecommunications. The Pay and Accounts Officers of departments the accounts of which have been separated from audit have also generally adopted these instructions. In these cases, the audit of sanctions, contracts entered into in India, etc. will devolve on the statutory Audit Officer.

Chapter–8

Efficiency-cum-Performance or Value for Money Audit

Audit Objectives and Scope

3.8.1 Regularity audit and propriety audit, which are generally applied to individual transactions, alone are not adequate for an assessment of the implementation and results of a plan, project, programme or scheme, or the functioning of an organisation in terms of its goals and objectives. Such an assessment can be made only on the basis of a comprehensive review of the projects, programmes, schemes, organisations, etc. in terms of their goals and objectives aimed at ascertaining the extent to which the expected results have been achieved from the use of available resources of money, men and materials. This audit is known as Efficiency-cum-Performance Audit (ECPA) or Value for Money (VFM) Audit. ECPA is a technique of audit adopted to assess and evaluate the economy, efficiency and effectiveness of development schemes, projects or organisations and hence this branch of audit is also known as Economy, Efficiency and Effectiveness Audit or the Three Es Audit. Economy means operation at the lowest possible cost, while efficiency is the maximization of outputs from a given input. Effectiveness deals with achieving the programmed objectives and goals and ensuring that intended benefits arise in real terms

3.8.2 A review of the working of a project/scheme/organisation with a view to assessing and evaluating the achievements should cover both financial and socio-economic aspects. The financial aspects to be seen are whether (a) the agency maintains an effective control over its income, expenditure, assets and obligations; (b) the agency is responsible for its resources, obligations and operations; and (c) its reports include specific, true and useful data. The socio-economic aspects to be seen are how far the time-specific goals/targets set have been achieved and the intended benefits to the community/area have accrued.

3.8.3 ECPA is directed towards an examination of the systems and procedures for the planning and implementation of projects, schemes, programmes, activities, etc. and an evaluation of their performance and achievements. The objective is to bring out, among other things, weaknesses and deficiencies as well as lapses of different kinds, including those relating to individual transactions, for appropriate action. The audit envisages a comprehensive review of the project/scheme/programme/activity to ascertain:

- (i) the extent to which the physical and financial targets and the intended impact have been achieved;
- (ii) how far the socio-economic objectives have been realised;
- (iii) whether the operations are being conducted economically;
- (iv) whether the scheme/programme was implemented with due regard to economy and instances of overpayment, loss, extravagance, avoidable excess or infructuous expenditure attributable to improper planning, delays in execution, overstaffing, overcapitalisation, adoption of unsound policies, etc. were avoided; and
- (v) whether the utilisation of resources was in accordance with the projected outlays and, if not, the reasons for deviations.

3.8.4 The audit coverage should be at least *25 per cent* of both the expenditure and the number of administrative units involved. The total size of the sample will vary in different reviews depending upon the objectives, the basis of the targeted coverage,

etc. For instance, the sample size in respect of the Command Area Development Agency (CADA) or the Drought Prone Area Programme (DPAP), this could be determined with reference to the total command or drought prone area sought to be covered in hectares; similarly, the total population of Scheduled Tribes could form the basis in respect of the Tribal Area Sub-Plan.

Aspects to be covered and source documents

3.8.5 Some of the aspects to be looked into in the course of ECPA or VFM Audit are as follows :

- (i) Adequacy of investigations, surveys and feasibility studies.
- (ii) Schedule of implementation.
- (iii) Systems and procedures in force for implementation, monitoring progress, procurement of plant and machinery, special equipment, stores, other supplies, etc.
- (iv) Correlation of physical and financial achievements with envisaged targets.
- (v) Arrangements for materials management and inventory control.
- (vi) Outcome of mid-term appraisals.
- (vii) Impact of changes in scope, if any.
- (viii) Procedures or norms adopted for identification of eligible beneficiaries in the case of schemes meant to benefit certain specified sections of the population, such as families below the poverty line, tribals, scheduled castes, unemployed youth, women and children, etc.
- (ix) Adherence to programme schedules and Time and Cost Overruns, if any.
- (x) Realisation of projected/anticipated revenues in the case of projects/schemes intended to generate revenue.

These are, however, only illustrative and not exhaustive.

3.8.6 Some of the documents or records that would need to be examined for the purpose of comprehensive review are project or feasibility reports; survey or investigation reports; Plan and Budget documents; guidelines formed for the project/scheme; administrative and technical clearances; reports of periodical inspections undertaken by personnel at various levels; reports of evaluation by departmental and external agencies; periodical or mid-term appraisal reports; records of field-level implementing agencies, revenue records, etc. The review would also extend to the records in the Secretariat and the Heads of Departments concerned and of a pre-determined percentage of the field units responsible for implementation.

Approach for Reviews

3.8.7 Obviously, it will not be practicable to prescribe a uniform pre-determined approach or guidelines for comprehensive reviews because schemes vastly differ in their concept, objectives, scope and content, methodologies, etc. Information available for analysis will also be diverse in nature. Audit methodologies could include reviews of systems and structures, examination of files, interviews with officials, analysis on departmental databases, etc.

3.8.8 Active cooperation of the departments concerned and their proper appreciation of the purpose of reviews by Audit are essential for them to be meaningful. Therefore, it should be mandatory for pre-review discussions or an entry conference to be held

between the Group Officer and the Head of the Department/Secretary to Government concerned when suggestions could be sought or views exchanged on areas and aspects to be taken up for study. These discussions could also be utilised for ensuring that all assistance would be forthcoming from the departmental officers in making available all necessary data and records. A similar meeting or exit conference should also be arranged with the Head of the Department on completion of the review audit to discuss its findings and to obtain further clarifications if any, from the department.

Criteria Based Audit

3.8.9 As the first criterion, it is necessary to see whether the goals and results were defined in concrete terms and whether reliable methodology and data were used for determining how the goals would be achieved. It is a common fact that the more general the goals, the weaker are the control functions since vague or uninformative goals cannot be assessed, achieved or audited. This criterion would prompt audit staff to seek answers to questions whether impractical or unattainable goals were projected. Alternatively it is also possible that benefits were under projected and thus the scheme was cost inefficient from the beginning. Another criterion would be the linkage of the individual components of the programme to the desired goals. Where no agreement is reached between Audit and the Heads of Government Departments regarding the criteria evolved by Audit and the evaluation is taken up nevertheless, Audit should clearly mention this fact. Similarly, as many criteria as possible should be developed for each component of Audit.

Selection of Subjects

3.8.10 Subjects for All India reviews are usually communicated by headquarters office after taking into account the criteria of materiality, coverage and the impact on the life of the people. The selection of projects/schemes for review should, therefore, be done with utmost care after making a preliminary study taking into account various factors other than the financial outlays involved. Normally major schemes involving substantial outlays with activities spread throughout the State should be selected. However, the complexities and content of the scheme and the apparent difficulties in its implementation should also be factors for selection. Schemes implemented in a smaller geographical area should be accorded priority in preference to those implemented throughout the State with a restricted annual budget. Further, schemes that are of interest to the public as well the members of the Public Accounts Committee would merit selection. The State level reviews selected by the Accountants General should include (a) an integrated audit of a department including manpower management; (b) one or two topics relating to the Public Works and Irrigation Departments; (c) one or two reviews on subjects of topical interest and utility, etc.

Planning for Reviews

3.8.11 Review of the selected project/scheme is to be planned and carried out in an effective manner. Various phases of scheme reviews can be broadly categorised as follows:

- (i) Preliminary study of the selected project/scheme.
- (ii) Development of Audit Plan.
- (iii) Execution of the Audit Plan, including substantive testing and adoption of other detailed audit procedures to gather evidence.
- (iv) Drafting of the Review Report and draft recommendations.
- (v) Approval of Review.

Preliminary Studies

3.8.12 Preliminary study of the selected scheme is an essential part of the review. The objective is to obtain a more comprehensive insight into the broad picture that was available at the time of initial selection to locate areas and aspects that would require in-depth examination. Budget and Plan documents, performance budget of the department, progress reports, administrative reports, reports of periodical appraisal by the departmental officers and nominated external agencies, reports of Working or Study Groups of the Planning Commission, the Public Accounts Committee, Estimates Committee, Bureau of Public Enterprises, etc. would provide the necessary background material about the scheme, its aims and objectives, financial targets and actual expenditure, arrangements for implementation, etc.

3.8.13 While conducting a review of a project/scheme, it is essential to understand its nature of the project right from the stage of its conception. During the preliminary study it should be seen whether:

- (i) adequate surveys were undertaken before launching the project/scheme;
- (ii) proper feasibility reports were prepared;
- (iii) a detailed project report is available and there are any deviations therefrom;
- (iv) the specifications and performance of various items of equipment are properly matched so as to avoid large idle capacities;
- (v) proper systems and procedures for inventory control and materials management are in place; and
- (vi) the functioning and performance of a completed/scheme are as envisaged.

Besides, the preliminary study should also be aimed at ascertaining (i) the systems and procedures prescribed for conclusion of contracts; and (ii) operational problems, if any, and the steps taken to overcome or eliminate them.

Formulation of Audit Plan

3.8.14 An Audit Plan should be prepared indicating scope/coverage of audit, objectives of audit, allocation of resources and the time frame for completion. This will also include the formulation of a detailed audit programme. Necessary formats and questionnaires should be devised for collection of important data and information relating to various aspects of the scheme not only from the offices of the units proposed to be visited but also from other units for consolidation and processing. In respect of All India Reviews selected by the Office of the Comptroller and Auditor General, the detailed guidelines in respect of each review will be issued by that office or by the Director General of Audit, Central Revenues/Principal Director of Audit, Economic and Service Ministries.

Execution of Audit Plan

Systems approach to Reviews

3.8.15 The review should commence with an in-depth study of the expenditure finance proposals in the offices of the administrative departments and heads of departments concerned. The following aspects will need the special attention of Audit:

- (i) Extent to which the objectives of the project/scheme have been clearly defined and are in conformity with the policies and decisions of Government.

- (ii) Whether the schemes/programmes have been formulated in accordance with these objectives and are being implemented based on specific and well-defined procedures and whether appropriate structures and systems are in place to enforce accountability.
- (iii) Whether sound management information and monitoring systems are available for collection of reliable data and evaluation of implementation and progress and the extent to which the data is effectively utilised to bring about improvements or remedy deficiencies with utmost expedition.
- (iv) Adequacy and relevance of the internal control mechanisms for effective control over various areas of implementation and prevention of leakages, losses, avoidable and wasteful expenditure etc.
- (v) Availability of specified performance indicators. If these are not in existence, the procedures followed or yardsticks/norms adopted to assess the performance of the project/scheme and their validity.

3.8.16 This approach, which has a substantial element of systems audit, will provide necessary ideas and guidance for further studies and probe in the field units. The formats and questionnaires prepared for collection of detailed information from base level offices should be reviewed on the basis of the studies conducted and modified, if necessary.

Field studies/investigations

3.8.17 The next stage is carrying out studies and collection of information from field units. The examination and audit scrutiny of selected samples of transactions should be thorough and complete without the need for a second visit to the same office. In order to derive reasonable audit findings, it is necessary that the sample size determined for detailed check in audit is adequate and is fairly representative of the whole. For eliciting the maximum information, it will also be useful to discuss details of the project/scheme with the officers of the institutions visited.

3.8.18 Some of the other broad guidelines for field studies/investigations are as follows:

- (i) It should be verified whether sound systems and procedures exist in all disciplines of management control and monitoring and whether these are being followed both in letter and spirit at all levels including the operational level. Weaknesses and lapses, if any, should be identified.
- (ii) Where the performance *prima facie* appears to be less than efficient, the reasons therefor should be ascertained and examined in detail in consultation with the departmental authorities concerned, if considered necessary. Where performance indicators or efficiency norms have been evolved, the performance should be compared with these to evaluate the efficiency.
- (iii) Reasons for delay in execution of projects should be analysed and bottlenecks, if any, identified.
- (iv) It should be seen whether evaluation methodologies like PERT (Programme Evaluation and Review Technique), guidelines for holding inventories, yardsticks in respect of inputs and outputs, delegation of powers, etc. are available and effectively put to use.

- (v) In order to assess whether the returns anticipated are actually accruing, the benefits realised should be evaluated by comparing the actual cost-benefit ratio with the projections made at the sanctioning stage.
- (vi) The extent to which the social objectives have been realised should be assessed. For instance, where a scheme provides for subsidy for establishing industries in backward areas, the achievement of social objectives will have an impact on development of the backward areas in different spheres, such as improvement in standard of living, increase in per capita income, generation of employment, availability of literacy and health facilities, etc.
- (vii) In examining the information collected, attention should also be paid to cases where inefficient planning and execution of a programme or project adversely affect the exchequer and also the flow of benefits to the intended beneficiaries.

Overall macro assessment

3.8.19 A review is not a narration of instances of aberrations/shortcomings in the execution of the programme but is an ‘appraisal’ intended for expressing an ‘opinion’ on the quality of internal controls and information systems, achievement of objectives, quality of execution and expenditure and realisation of value for money. A specific pattern of shortcomings noticed in the course of this appraisal should lead to the audit opinion. Expression of opinion is possible only when the audit examination and evaluation are carried out with a view to establishing the pattern. Isolated and sporadic instances of aberrations do not support an opinion. Accountants General and Principal Audit Officers will give due importance to the audit of functions for which the State Government Departments and the Ministry at the Centre are responsible and formulate specific comments on the quality of planning and utilisation of resources, organisational arrangements, monitoring mechanisms, reporting, supervision and direction, etc. after a thorough examination of the documents over the period under review and after obtaining replies to specific and detailed audit observations issued for the purpose.

Defining the Sample

3.8.20 Sample in terms of numerical and financial parameters should be defined in as much detail as possible with the appropriate sample annexed to the review. This annexure should be sufficiently explicit to present a clear picture for the State/Country as a whole. The sample annexure should indicate the names of the districts/administrative units; the targeted population such as families below the poverty line etc.; funds provided and expenditure incurred against the provision, etc. besides providing the overall picture for the State as a whole on the same parameters. Once the sample is defined in the scope of audit, it is presumed that all observations relate to the sample and it should not be necessary to use in the review expressions such as ‘test-check revealed’, ‘test check disclosed’, etc. A specimen sample is contained in Annexure-1.

Overlapping Programmes

3.8.21 Special efforts will be necessary to examine the usefulness of programmes that overlap and to determine whether the same individuals or target groups are stated to have derived the benefits from more than one programme implemented within the same area, either by the same agency or by different agencies.

Financial Management

3.8.22 Apart from the adequacy of resources, the examination of documents in the executing agencies as well as in the administrative department concerned should cover the following aspects:

- (i) Budgetary assumptions and their reliability.
- (ii) Release of funds without assessing requirements based on utilisation of earlier releases or in excess of requirements resulting in retention of unspent balances.
- (iii) Timely release of the budgeted funds to the executing agencies is of vital importance. Instances of belated release of funds leading to their not being utilised and resulting in an adverse impact on the implementation of the project/scheme, as well as of unnecessary releases even when the pace of implementation is slow and progress inadequate should be specifically commented upon.
- (iv) Arrangements for receipt and scrutiny of periodical reports on utilisation of funds.
- (v) Inter-State/Inter-district comparisons with reference to their target population.
- (vi) Irregular treatment of advances and deposits as expenditure and consequential false reporting of financial achievements.
- (vii) Funds retained in excess of requirements by the State Government, District Rural Development Agency (DRDA), etc. should be aggregated and accountability established in the State and Central Governments for excessive release of funds and/or poor performance.
- (viii) Investment of surplus funds and unspent balances, interest earned/forgone, and utilization of interest, etc.
- (ix) Quality of maintenance of basic records, such as cash books, ledgers, bank accounts and the integrity and reliability of financial reports.
- (x) Extent to which the maintenance of accounts facilitates audit and inspection trails distinctly in respect of each scheme executed or administered by the same agencies without the accounts of different schemes being mixed up so as to create confusion.
- (xi) Extent to which the State Government adhered to the approved financing arrangements by the timely release of its *pro rata* contributions with reference to the budget provisions and actual releases.

3.8.23 Deposit of funds by Government and autonomous bodies such as the DRDAs, Zila Parishads (ZPs), etc. responsible for implementing schemes in the State Public Account in the form of revenue deposits and civil deposits is against the ethos of sound financial management and contrary to the objectives of setting up DRDAs and ZPs, which are supposed to maintain their accounts with banks. Instances of State Finance Departments specifically directing these implementing agencies to deposit their funds in the Public Account should be commented upon after scrutiny of the Secretariat files. DRDAs, District Collectors or autonomous agencies also retain large unspent balances of funds year after year. An analysis of the annual availability of funds for implementation of the project/scheme taken up for review should include details of deployment of unutilized funds, indicating separately the opening balance, receipts during the year, utilization and closing balance, in order to establish the

temporary or permanent transfer of funds to Personal Ledger Accounts or deposits and their subsequent utilization. If the funds are deposited in bank accounts, the basis of selection of the bank(s) as well as the accounting and utilization of the interest earned from such deposits should also be examined. Accountants General should trace the flow of funds from the Central Government to the State Government and to various executing agencies to establish their end use and diversion or misappropriation at each level. Instances of funds being merely retained in Personal Ledger Accounts, civil deposits, banks etc. should be specifically highlighted.

Relationship of financial and physical performance

3.8.24 A relationship between physical and financial performance should be established and commented upon for the State as a whole as well as for the sample districts. The unit cost of implementing the scheme should be arrived at and analysed in absolute terms. For instance, if the unit rate of expenditure per beneficiary is fixed at around Rs 10,000, a budget provision of Rs 20 crores in one year or a five-year period can be expected to cover 20,000 beneficiaries. If, in this example, the actual expenditure is only Rs 15 crores and 25,000 beneficiaries are stated to have been covered, one of the following three conclusions is possible:

- (i) the estimation was incorrect;
- (ii) the benefit flowing was insufficient and less than what was intended;
or
- (iii) the reporting of the input or output itself was erroneous.

On the other hand, if in the same example, only 5,000 of the target population are stated to have benefited from the scheme, it could be concluded that the lower achievement is suggestive of leakage, mismanagement, etc. In the macro analysis and correlation of financial and physical performance, only the financial input actually utilised for the scheme should be used.

Misuse of Funds

3.8.25 A distinction should be made between bonafide negligence or omissions and blatant and deliberate misuse of funds in utter disregard of the principles of propriety. For example, unauthorised utilisation of funds meant for employment generation or food subsidy or for providing assistance to the weaker sections for the purchase of consumer durables, such as vehicles, television sets, etc., or acquisition of buildings for individuals responsible for managing the scheme programme or for use by any other person should be construed as a serious breach of trust reposed in those officers. In all such cases, accountability of those who approved such unauthorised expenditure should be established and appropriate recommendation for action against them included in the review. The subsequent utilisation of such assets should also be ascertained and commented upon.

Procurement procedures

3.8.26 Procurement of materials, equipment, consumables, etc. in substantial quantities is an important component of many schemes. The systems and procedures in force for procurement and purchases should be examined in detail from the point of view of their adequacy and appropriate comments proposed. Records relating to procurement and purchases, comparative bids, actual receipt of stores and equipment and their end use should be examined in depth.

Accountability procedures

3.8.27 In almost all schemes, accountability procedures and levels ultimately responsible for planning, sanction, execution and overall results (performance) at different stages are not defined at all or only inadequately defined. In the result, most of the programme managers at the grass-root and middle levels function without being accountable for their performance and for achieving the stated objectives. Absence of accountability levels and procedures in the schemes reviewed should be highlighted and linked to the shortcomings and deficiencies commented upon in the Draft Review. As far as possible, appropriate recommendations should also be included for establishing or strengthening accountability procedures.

Establishment expenditure

3.8.28 Some State Governments spend a large part of the funds on establishment in disregard of the limitations placed in this regard in the schemes. In fact, many State Governments carry a large establishment even when the schemes do not have a significant works component. Establishment expenditure in excess of the norms should be quantified and highlighted. Where the expenditure on establishment is disproportionately high, the excess number of staff should be represented in terms of the ratio to the normative strength. Its implications in financial terms should also be stated. The ratio of the establishment cost to the actual expenditure on the scheme objectives should also be worked out and mentioned appropriately.

Joint Physical inspection

3.8.29 In many schemes, particularly those in which the resources are spread thinly over many small works and similar works are taken up for execution under different schemes, assurance of actual physical existence of the assets assumes importance. Accountants General may select the assets stated to have been created at random and request the District Magistrate or Executive Officer at a fairly senior level to arrange for a joint inspection of these assets to generate independent evidence. The findings of the inspection should be recorded. If the District Magistrate or Executive Officer refuses to comply with the request, this fact should also be mentioned in the review after issuing a suitable audit observation. The Group Officers' involvement in joint inspections should be necessary in all cases. As far as possible, efforts should be made to get the evidence attested. Accountants General may devise appropriate guidelines for achieving this objective and monitoring the fulfilment of this requirement. Audit of agencies actually implementing the works and other major components should also be undertaken wherever possible to ascertain the end use of the funds and other resources and to frame suitable comments. Besides, as and when it is decided to engage an outside agency for beneficiary survey, Accountants General shall provide necessary assistance to them.

Manpower resources

3.8.30 Human/manpower resources should constitute a distinct theme in all reviews. Shortages of core personnel essential for programme implementation/management should be commented upon bringing out clearly the implications. Computerised enumeration data in the A&E Office should be used for the purpose as far as possible.

Vigilance and grievance redressal

3.8.31 Vigilance is a system to ensure output delivery and to prevent misuse. The review personnel should identify the features of the system available and test its efficacy, sample check the extent of adherence and offer specific opinions based on their examinations.

Drafting the Review

3.8.32 Drafting of the Review is the final stage of the review process. The data collected or obtained from the departmental and field units should be consolidated and collated for interpretation and detailed analysis. The Review Report should be drafted after careful, detailed and analytical dissection of the results of the preliminary study, the consolidated data and the findings of investigations undertaken and after taking into account any mid-course appraisals of the scheme/programme and remedial measures taken as a sequel.

Style of Drafting

3.8.33 The third person active voice should be adopted in the Review as far as possible unless the use of passive voice is inescapable at some places. The drafting should be simple, precise and crisp. All opinions and comments of Audit included in the Review should be supported by substantive evidence.

3.8.34 Every statement and comment included in the Review should be specific and vagueness should be eschewed. Statements or comments that are not specific in terms of location, the office involved, the person responsible, etc. would enable to administrative ministry or department either to ignore them or evade furnishing replies on the pretext that the comments not being specific, response is not possible. To cite an example, a comment such as "in one district due to the negligence of an executive officer misappropriation of Rs 5 lakhs took place" is not specific and does not enable identification of (i) the district; (ii) the nature of the negligence that facilitated the misappropriation; (iii) the person(s) who misappropriated the amount; etc. The comment does not also facilitate an appreciation of the follow-up action, if any, taken and its current status.

Use of statistical data

3.8.35 The body of the Review should not normally be cluttered with excessive statistical data or too many tables. It will be desirable to organise the detailed data in appropriate tables to be annexed to the Review and to extract from these tables only the more important information/data forming the basis of the audit observations and present these in an appropriate abstract form in the body of the Review.

Use of charts, diagrams, photographs, etc.

3.8.36 If considered appropriate and necessary to emphasise or enhance the appeal of any important audit finding, relevant and suitable charts, diagrams, photographs, etc. could be included in the Review. Due care should be taken to get photographs authenticated by the department audited.

Accountability-centred observations and opinions

3.8.37 Except for the Government, which is an entity with shared responsibilities, all reporting shall be accountability-centred only. There can be no audit point unless the system or the person is faulted and the reporting is specific and positive. It should be borne in mind that individuals are always responsible for the implementation/execution of schemes, programmes, etc., and it is, therefore, incumbent on the auditor to pinpoint the extent of their accountability after issuing the accountability-centred half margin memos containing the audit observations. Accountability is an essential element in good governance and programme evaluation is fundamental to accountability. Evaluation by Audit of the impact of government spending plugs the accountability loopholes and strengthens accountability.

Suggestions and recommendations of Audit may also flow in some cases from the results of impact studies. Therefore, results of impact studies undertaken in ECPA may be included clearly and unambiguously under separate and distinct sections in the Review. The criteria adopted for assessing the impact as well as the fact that these criteria had been agreed to by the implementing agency and the Government should be briefly mentioned. However, if no clear conclusions emerge, it would be preferable to exclude the section on impact studies.

Recommendations/suggestions by Audit

3.8.38 Any observation or opinion that is not strengthened by appropriate recommendations would render a Review incomplete to a reader in general and to the ministries and departments and the Public Accounts Committee in particular. The Review should therefore contain well-considered and well-articulated suggestions to address the shortcomings disclosed as a result of audit. Utmost care should, however, be taken in presenting the suggestions, which should be done with due regard to the requirements of rules and orders, operational constraints and the prevailing milieu. Suggestions proposed to be incorporated in the Review should be discussed with sufficiently high level functionaries and their acceptance obtained as far as possible.

Suggested Layout

3.8.39 The following layout with such modifications as may be necessary in respect of individual reviews based on their scope and content or special features could be adopted in respect of audit reviews of State schemes and programmes:

- (i) Introduction -- Brief description of the project/scheme/programme and its objectives with sub-objectives; details of the inputs or action plan identified in the project/scheme document to achieve the stated objectives.
- (ii) Scope of Audit – Extent of coverage, size of sample, etc.
- (iii) Organisational arrangements.
- (iv) Highlights.
- (v) Allocation of financial resources and flow of funds.
- (vi) Physical and financial targets.
- (vii) Utilisation of financial assistance/ resources – Critical analysis of the expenditure actually incurred on the project/scheme with reference to allocations/targets, including irregularities in expenditure, instances of diversion or misuse of funds (see Annexure-2).
- (viii) Output analysis – Critical analysis of the goals, achievements and shortfalls in respect of each component/sub-component of the project/scheme, including deficiencies in implementation.
- (ix) Utilisation of materials/equipment.
- (x) Creation of assets and their utilisation.
- (xi) Manpower resources and their utilisation.
- (xii) Impact assessment – Realisation of socio-economic objectives – Achievements and shortfalls -- Observations on efficacy and cost effectiveness of the project/scheme.
- (xiii) Arrangements for monitoring and evaluation.

3.8.40 While forwarding the Draft Review to the Secretary of the Department, Audit should solicit his specific responses to the various audit observations stating that it would be desirable to include these in the Review because of its likely inclusion in the Audit Report of the Comptroller and Auditor General to be presented to the State Legislature (in cases where the Review is intended for inclusion in the State Audit Report). The letter forwarding the Review should contain a gist of the audit findings for the Secretary's immediate attention. As a rule, the departmental Secretary should also be invited for a discussion on the observations/conclusions proposed to be included.

Annexure –1
(Referred to in paragraph 3.8.20)
Specimen Sample

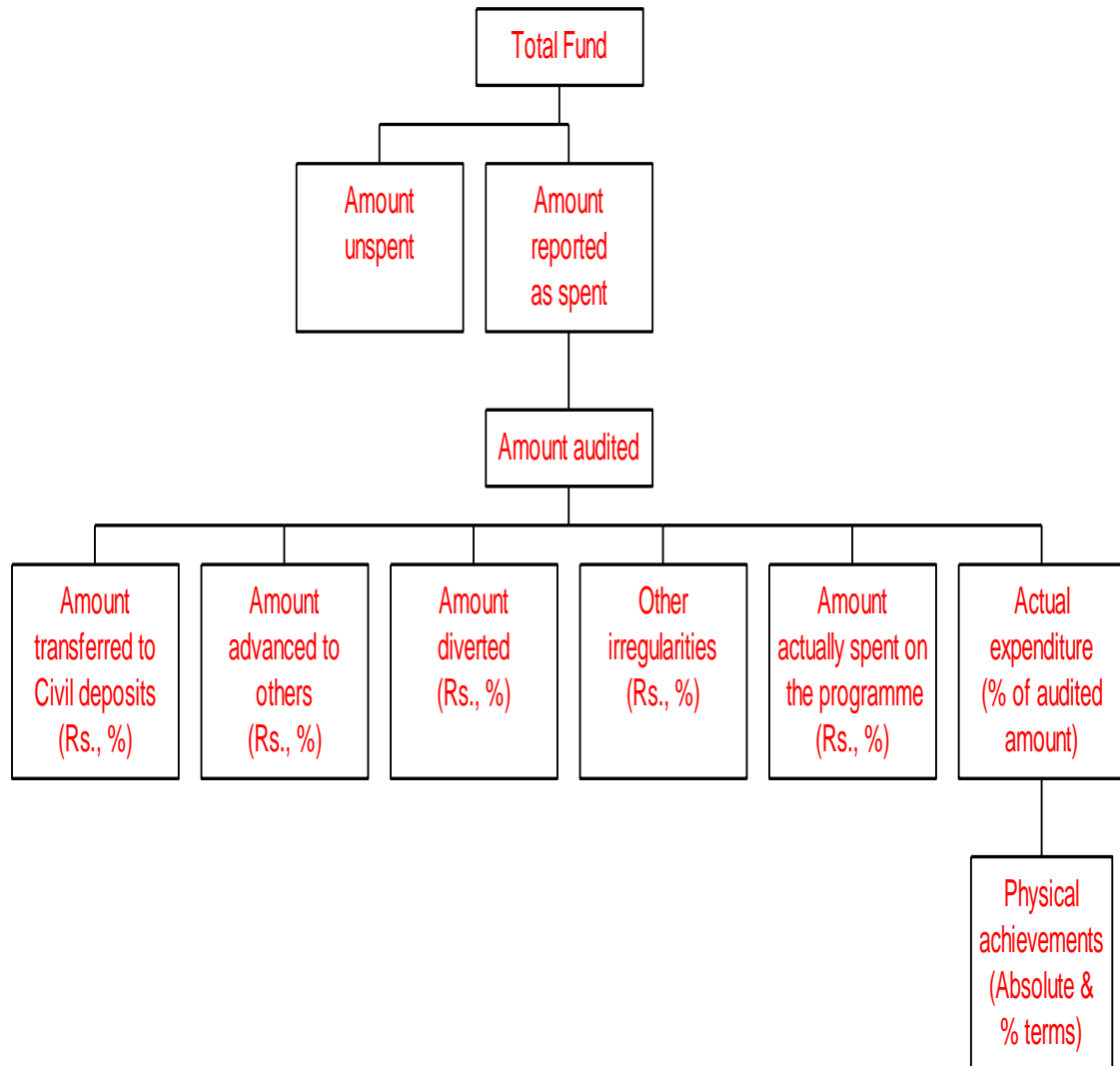
(A) SAMPLE DEFINITION

- Total Population
- Total area covered under the programme
- Target
- Achievement
- Total number of Districts where programme is being implemented
- Total number of Blocks where programme is being implemented.
- Total provision and expenditure during the review period for the State as a whole

(B) SAMPLE FOR TEST CHECK

- Total Number of of Districts in the sample, along with their names
- Total Number of Blocks/Units in the sample
- Total expenditure in the sample Districts
- Total expenditure in the sample Blocks or Units
- Number of sample Blocks/Units *divided by* Total number of Blocks/Units X 100
- Total Expenditure in the sample *divided by* Total expenditure in the State X 100

Annexure-2
(Referred to in paragraph 3.8.39)



Chapter-9

Integrated Audit of Departments

Audit objectives and scope

3.9.1 Comprehensive or an integrated audit of a department will involve examination of the efficiency and economy in its 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, but may transcend both in terms of scope, analysis and results. It will involve, on the one hand, examination of the quality of financial management, including the soundness and appropriateness of internal control systems in its key areas of activity, and, on the other, VFM or 3E (Economy, Efficiency and Effectiveness) issues covering management and delivery of programmes and services. The broad end-objectives would be to identify the weaknesses and failures in financial and programme management and to formulate recommendations aimed at improvements in the department's functioning.

3.9.2 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, centre around 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.

3.9.3 The scope of integrated audit is consequently much wider. In order to achieve the desired results within a given time frame, it will be necessary, at the outset, 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 the definition of the audit objectives will also ensure that the audit is focussed and concentrates on the more significant aspects of the entity and its operations and thereby avoids wastage of precious audit resources on the less important aspects.

3.9.4 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.

Normally, the period covered for the purpose of integrated audit would be three years.

Approach to Integrated Audit

3.9.5 A shift in emphasis and wider coverage than is resorted to in the audit of schemes and programmes are necessary in undertaking comprehensive audit of a government department. This audit will also require the adoption of newer 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.

3.9.6 Integrated Audit of a department may ideally begin at the level of the Government and the concerned Directorate and should be preceded by a detailed study of the following to obtain an integrated view of the department:

- (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) Schemes—Central as well as State—implemented by the department.
- (i) Policy initiatives taken by the department.
- (j) Reports, if any, of Parliamentary Committees and other external agencies.
- (k) Internal manuals.

3.9.7 In addition, information gathered from an analysis of 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 prepared for further analysis with reference to the corresponding vouchers. Inputs available in the A&E office, such as the 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).

3.9.8 Before taking up the field inspection for integrated audit, the Accountant General should meet the Secretary and explain to him/her 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.

3.9.9 Audit of the selected drawing and disbursing officers may be taken up simultaneously thereafter by deputing the requisite number of audit teams. Each of these teams or parties may be provided with all the leads and information that had emerged from the central audit as well as audit at the levels of the Government and the Directorate. Results of these audits may be summarised and, if necessary, another spell of audit may be arranged at the Government and Directorate levels.

3.9.10 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. On conclusion of the audit, the Accountant General should write demi-officially to the Secretary of the Department briefing him/her about the main findings of audit and the suggestions proposed and requesting a discussion thereon. Any suggestions or recommendations should be included in the Audit Report only after discussion with the Secretary.

3.9.11 Given the wider coverage and the shift in emphasis involved in integrated audit, it will require a professional approach that concentrates on highlighting in the report only significant findings of a comprehensive nature and avoids trivia. If this is not kept in mind, the report may turn out to be only a loose collection of disparate audit observations that do not present a complete picture of the department or provide any insights into its functioning. The report may consequently fail to evoke the interest or engage the serious attention of legislators, policy formulators, the press or the lay readers.

Issues for audit scrutiny

Financial Management

Budget Formulation

3.9.12 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 following aspects 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 drawing and disbursing officers 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 drawing and disbursing officers 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 an in-depth scrutiny of a few estimates with reference to the actual expenditure.

Expenditure Control

3.9.13 Financial rules provide that the Head of the Administrative Department should exercise effective control over expenditure. The following aspects could be looked into by 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 drawing and disbursing officers concerned, the Accountant General and the Treasury Officers.
- (iii) Machinery for exercising expenditure control and monitoring expenditure incurred by field units and its adequacy.
- (iv) Timely receipt of monthly expenditure statements from the drawing and disbursing officers, 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 drawing and disbursing officers 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 analysed 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 the following:
 - (a) Unconscionable or persistent delays in release of funds to the drawing and disbursing officers for implementation of the schemes.
 - (b) Instances of drawal of funds in anticipation of requirements.
 - (c) Irregular diversion of funds and arrangements available centrally for control over utilisation 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.
 - (f) Instances of drawal of funds to avoid lapse 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.

Grants to autonomous bodies, non-governmental organizations, etc.

3.9.14 Grants provided by the department to various autonomous institutions, non-governmental organisations, 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 utilisation and these are adequate to safeguard against mis-utilisation and other irregularities; and
- (ii) the systems and procedures are appropriate and adequate for the achievement of the department's objectives.

Programme Management

3.9.15 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 3Es 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.

Personnel Management

3.9.16 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 in the chapter on Manpower Audit may also be duly kept in view in this context.

Inventory Management and Control

3.9.17 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.

Internal control

3.9.18 Integrated audit should comprehensively and in a focussed manner comment on the quality of internal control exercised by the department at the Secretariat and Directorate levels as well as by its field units 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.

Accountability aspects

3.9.19 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.

Chapter–10

Audit of the Accounts of Embassies and Missions Abroad

Audit Objectives and Scope

3.10.1 The important objectives of auditing the accounts of embassies and missions abroad are to ascertain whether:

- (i) remittances received for meeting fund requirements are properly accounted for and are not in excess of immediate requirements;
- (ii) payments made on behalf of the ministries and departments of the Central Government, State Governments and public sector undertakings and other autonomous bodies are based on valid sanctions;
- (iii) clearance, from the foreign exchange angle, of the Ministry of Finance or other competent authority has been obtained for incurring expenditure involving the outgo of foreign exchange;
- (iv) various entitlements and personal claims of personnel posted in missions and posts abroad have been regulated strictly according to the applicable rules and instructions and the objectives of audit of expenditure are satisfied; and
- (v) revenues collected by the missions and posts for rendering various consular services have been properly accounted for and remitted to the Ministry of External Affairs.

Source Documents

3.10.2 In addition to the normal establishment bills and contingent bills, other important source documents that are to be test checked in audit are as follows:

- (i) Book of Reserve Bank of India Drafts.
- (ii) Records relating to investments of surplus funds.
- (iii) Sanctions received from various ministries and departments of the Central and State Governments.
- (iv) Special Seal Authorities received from the State Accountants General.
- (v) Letters received from public sector undertakings, statutory bodies, etc., containing requests to make payments on their behalf against advance deposits.
- (vi) Vouchers.
- (vii) Contract Agreements.
- (viii) Tender documents.
- (ix) Accounts of remittances received from India.
- (x) Monthly Accounts.
- (xi) Instructions and documents relating to:
 - (a) Foreign Allowance of India-based personnel.
 - (b) Rental ceilings for hired accommodation.
 - (c) Engagement of local employees.
 - (d) Payment of Cash Allowance on first arrival abroad.
 - (e) Reimbursement of cost of car insurance.
 - (f) Payment of Children's Education Allowances.
 - (g) Admissibility and utilization of Representational Grant.
 - (h) Payment of Garden Grants.
 - (i) Personal files of officers.

- (xii) Documents relating to expenditure relating to visits of dignitaries and delegations from India.
- (xiii) Stock Register of Passports.
- (xiv) Documents relating to consular and visa services.

Audit Arrangements

3.10.3 The accounts of the High Commissioner for India in London are audited by the Principal Director of Audit, India Audit Office, London. The Director of Audit, Indian Accounts, Washington, is responsible for the audit of the accounts of the Embassy of India, Washington, and its Supply Wing. The Director General of Audit, Central Revenues, New Delhi, is responsible for the audit of the accounts of the Ministry of External Affairs and its affiliated offices and departments. He is also responsible for reviewing the cash accounts of all the Missions and Posts abroad that render accounts to the Controller of Accounts, Ministry of External Affairs. Two Resident Audit Parties have been created for this purpose. The detailed functions and Audit procedures are contained in the Manual of the Embassy Audit compiled by the Director General of Audit, Central Revenues, New Delhi.

Note: *The results of review of vouchers of the Missions and Posts abroad conducted by the Resident Audit parties should be communicated in duplicate to the Director (Finance), Ministry of External Affairs, the Head of Chancery of the Mission or Post concerned; and the Controller of Accounts, Ministry of External Affairs.*

3.10.4 The local audit of all the Missions and Posts abroad is arranged at periodical intervals by the Officers mentioned below:

- (i) *Principal Director of Audit, India Audit Office, London:*
All Missions and Posts in Europe, other than the Missions in Turkey and Cyprus.
- (ii) *Director of Audit, Indian Accounts in U.S.A., Washington:*
All Missions and Posts in North and South America.

In addition, he is also responsible for (a) the concurrent audit of contracts for supply of stores entered into by the Supply Wing of the Indian Embassy in Washington and of payments relating thereto; and (b) the audit of tenders and contracts in cases where the purchases are made through the Supply Wing and the contracts are entered into in the United States of America and payments relating thereto.

- (iii) *Director General of Audit, Central Revenues, New Delhi:*
All Missions and Posts other than those mentioned above, namely those in Asia, Africa, Australia, New Zealand, Turkey and Cyprus.

Notes:

- (i) *The periodicity of local audit will be regulated in terms of the orders on the subject issued by the Comptroller and Auditor General from time to time.*
- (ii) *A gist of the important and interesting cases noticed in the local audit of Missions and Posts abroad should be mutually exchanged between the three Audit Officers mentioned above. Lists containing the gist of these cases may be exchanged among the three Audit Officers twice a year, in the months of January and July.*
- (iii) *Copies of the inspection reports issued by the these three Audit Officers may invariably be sent to the Office of the Comptroller and Auditor General and the Ministry of External Affairs.*

- (iv) *Detailed instructions and guidelines for the settlement of outstanding audit observations and inspection reports on the accounts of Indian Missions and Posts abroad and of overseas branches of Central public sector undertakings and in regard to interaction between the Overseas Audit Offices and Audit Offices in India for the further processing of and follow-up action on important audit objections and potential draft paragraphs are contained in the Annexure to this chapter.*

Audit arrangements in respect of particular transactions

3.10.5 The Audit Officer abroad is responsible for the audit of vouchers to verify that (i) the payments have been made according to the rates authorised or the scales prescribed by competent authority; (ii) the vouchers are in proper form; and (iii) the amount has been paid to the proper person and has been duly acknowledged. On the other hand, the Audit Officer in India should ensure that it is a proper charge against the grant concerned and is in conformity with and not in excess of the sanction. He will also be responsible for the scrutiny of sanctions, if any, received by him.

3.10.6 The final audit in respect of payments made in London by the High Commissioner for India (a) to staff on behalf of the Embassies to which they are attached and for miscellaneous supplies made to them; and (b) on account of expenditure of Indian delegations to the United Kingdom and elsewhere should be conducted by the Audit Officer in India with reference to the sanctions issued by the Government.

3.10.7 The general principle to be adopted for the audit of miscellaneous payments of a heterogeneous character, such as occasional payments in respect of general average subscriptions to the United Nations Organisation, should be that the items in respect of which payment authorities are issued from India should be audited by the Audit Officer in India and transactions relating to payments made by the Indian High Commission in London or the Indian Embassy in Washington on any scale prescribed by rules or orders should be audited by the Principal Director of Audit, India Audit Office, London, or the Director of Audit, Indian Accounts, Washington, as the case may be. There should, however, be proper liaison between the Audit Officers abroad and the Audit Officers in India. If some particulars are not available, these should be obtained from the Audit Officer concerned.

3.10.8 The responsibility for the final audit of payments made by Indian Missions, other than the High Commission in London and the Embassy in Washington, on behalf of Central and State Governments with reference to the sanctions, vouchers, etc. will rest with the Audit Officer concerned in India.

Issues for audit scrutiny

Financing Arrangements

3.10.9 The High Commission of India, London, maintains two accounts--‘Stores Accounts’ and ‘Chancery Accounts’--with the State Bank of India, London. The Stores Account, which is replenished daily to the required extent from the Reserve Bank of India's account with the Bank of England, is operated for payment for stores purchased against contracts finalised through the supply wing of the Mission. The Chancery Account is operated for making payments of personal claims, establishment charges and miscellaneous payments on behalf of other Missions, departments, State Governments. etc. and is financed through the Stores Account against authorisations issued by the Ministry of External Affairs.

3.10.10 The Embassy of India, Washington, is financed by:

- (i) funds periodically remitted by the Ministry of External Affairs through the Reserve Bank of India;
- (ii) Interest earnings on term deposits and other short-term investments made by the Embassy; and
- (iii) Aid receipts from international financial institutions.

All the diplomatic offices of the Government of India located in North America, Canada, and Latin America are financed through the Chief Accounts Officer of the Embassy's Supply Wing. Surplus funds available with the Chief Accounts Officer are invested in term deposits or other securities.

3.10.11 Foreign exchange requirements of other diplomatic Missions and Posts abroad, with the exception of the Mission in Nepal, are met by the Ministry of External Affairs and also by the Ministry of Commerce in the case of trade sections not attached to the Mission by means of remittances through the Reserve Bank of India. The Embassy of India, Nepal, Kathmandu, obtains funds directly from the Reserve Bank of India, Calcutta. The Missions maintain books of Reserve Bank of India drafts for making payments in India to their employees and their nominees. The remittances are designed so as to ensure that the monthly closing balance of the Mission does not exceed its six weeks' net average requirement for recurring expenditure. Special remittances are also made for non-recurring expenditure. But if these remain unutilised for over two months, the balance funds are adjusted by suitable reductions in the normal monthly remittances to the Mission.

3.10.12 In regard to these transactions, it is verified in audit that:

- (i) the calculations involved in converting amounts in foreign exchange into their Indian currency equivalent at the approved rates of exchange are correct;
- (ii) the transactions are properly accounted for by the Bank and the classification is correct;
- (iii) the remittances on account of recurring expenditure do not exceed the net average requirements of the Missions for six weeks, after taking into account the closing balance;
- (iv) remittances for non-recurring expenditure are required for disbursement during the next two months; and
- (v) the funds required are within the sanctioned budget provisions/financial limits.

The Director of Audit, Indian Accounts, Washington, will also ensure that the investments made by the Chief Accounts Officer out of the surplus funds available with the Embassy in Washington have been profitably made with due regard to the ways and means position.

3.10.13 Normally other Missions are not required to invest funds surplus to their requirements in interest-bearing fixed deposits and make efforts to neutralise its impact by cancelling or reducing future or successive remittances. However, large funds are sometimes remitted to Missions prior to the visits of important dignitaries, Indian Naval ships, etc. and the visits are subsequently cancelled resulting in these funds remaining unutilised for the intended purpose. Similarly, on occasions, the total miscellaneous receipts of some of the Missions are more than their monthly expenditure. If the Missions concerned retain such surplus funds for some time, these

can be invested in short-term deposits so that Government does not lose on this account. After every third month, the Mission should seek the Ministry's directions/approval in regard to the future disposal of the surplus funds or return them, after retaining an amount representing their requirements for four weeks only, quarterly in April, July, October and January through a Bank Draft in hard currency drawn in favour of the Controller of Accounts, Ministry of External Affairs. Audit should verify that these requirements are being complied with.

Payments by High Commission in London and Embassy in Washington

3.10.14 The following provisions apply to all payments (other than those relating to stores and freight that have been dealt with in Chapter 7) made by the High Commission in London and the Embassy in Washington on behalf of other ministries, departments, State Governments, public sector undertakings and statutory bodies. Following departmentalisation of Accounts of the Ministry of External Affairs w.e.f. 1 October 1976, the Accounts Departments under the Chief Accounts Officers in London and Washington function as multi-departmental Pay and Accounts Officers, in addition to performing their own financial and budgetary functions.

A. Payments on behalf of other Central ministries and departments

- (a) Payments to deputations/delegations of officials and/or non-officials sponsored by various ministries and departments

3.10.15 The two Missions at London and Washington make payments to officials and non-officials deputed abroad individually or as members of Government delegated by various ministries and departments of the Central Government. Where the sanctioned period of such deputations exceeds three months, the officer can draw his entitlements of pay and allowances in foreign exchange from the Mission on the authority of his Last Pay Certificate and the sanction containing the terms and conditions of his/her deputation.

3.10.16 If the period of deputation does not exceed two months, the Mission may make all payments other than salary to the Officer concerned on the basis of the sanction issued by the sponsoring department in consultation with the Ministry of Finance (Department of Expenditure) without waiting for the Last Pay Certificate. The Mission will make the necessary final adjustments on receipt of the Last Pay Certificate. Where the sanctioned period of deputation exceeds two months, the Mission may not make any payment to the Officer except on the authority of his Last Pay Certificate with the sanctioned deputation terms being entered therein. Missions may, however, pay advances of Daily Allowance and Travelling Allowance based on the Officer's probable period of stay. The advances so paid should be adjusted at the end of the deputation if the period is less than one month or at the end of each month if it exceeds one month, the final adjustment being made at the end of the sanctioned deputation period.

- (b) Other payments

3.10.17 In respect of other payments made on behalf of other Central ministries and departments, no authorisation from the Controller of Accounts of the Ministry of External Affairs is necessary. Instead, all such payments will be made by these Missions on the basis of valid sanctions of the ministries/departments concerned containing, *inter alia*, the approval of the Ministry of Finance (Department of Economic Affairs) for payment in foreign exchange. The Missions will act on such authorisations only if it is received duly signed in ink through the Principal Accounts Officer of the ministry/department concerned, who will indicate either the exact

amount payable in the designated authorised foreign currency or the manner in which the amount may be ascertained by the Mission.

B. Payments on behalf of State Governments

3.10.18 Payments on behalf of State Governments will be made by the Missions in London and Washington on the authority of a valid sanction duly signed in ink received through the State Accountant General who, under his Special Seal Authority, will either specify the exact amount payable in the designated authorised foreign currency or indicate the manner in which the amount is to be ascertained by the Mission. The sanction should also contain a specific mention about clearance from the foreign exchange angle by the Ministry of Finance (Department of Economic Affairs) or other competent authority.

C. Payments on behalf of public sector undertakings, autonomous bodies, etc.

3.10.19 Public sector undertakings, autonomous bodies, statutory bodies, etc. under the Central or the State Governments requiring payments to be made on their behalf by either of these Missions will arrange to send a rupee draft of an amount equivalent to the likely expenditure in the designated foreign currency at the prevailing commercial rate of exchange to the Controller of Accounts, Ministry of External Affairs, duly supported by the foreign exchange sanction of the Ministry of Finance (Department of Economic Affairs).

3.10.20 Payments against such advance deposits will be made by the Missions in London and Washington on receipt of requests from the undertakings/bodies concerned duly supported by a duplicate copy of the receipt/acknowledgement issued by the Controller of Accounts, Ministry of External Affairs. The latter will also directly send to the Missions in London or Washington, as the case may be, a simultaneous intimation furnishing full particulars of the deposits. Individual disbursements in foreign exchange will be made at the commercial rate of exchange prevailing on the day the individual payments are made.

3.10.21 On receipt of the accounts from the Missions, the Controller of Accounts, Ministry of External Affairs, will pair off the debits and credits under the Deposit head and refund any amount found to be refundable to the organisation concerned; if, on the other hand, any amount is recoverable, he will initiate action to effect the recovery.

D. Transactions financed out of foreign loans

3.10.22 So far as payments in respect of transactions financed out of foreign loans as well as debt servicing payments against such loans by the two Missions are concerned, the existing instructions will continue to be followed.

E. Special classes of payments

3.10.23 Certain special classes of payments, such as pensions, overseas scholarships of the Ministry of Education, certain categories of payments relating to the Ministry of Defence, etc., hitherto to be made by these two Missions under standing arrangements or in terms special orders issued in this behalf will continue to be made on the basis of the sanctions/payment authorities as specified in those orders.

Payments in India on behalf of the High Commission in London and the Embassy in Washington

3.10.24 In cases where the Missions in London or Washington have to request the State Accountants General to make certain payments in India on their behalf, they will, while doing so, forward in each case Reserve Bank of India drafts for the amounts in question, along with a specific authorisation.

Payments by other Indian Missions on behalf of the High Commission in London and the Embassy in Washington

3.10.25 The Missions in London and Washington may authorise other Indian Missions abroad to incur expenditure on their behalf without any authority from the Controller of Accounts, Ministry of External Affairs. The debits relating to such payments appearing in the cash accounts of the other Missions will be directly incorporated in the main accounts compiled by the Controller of Accounts, who will also intimate details of such payments made by the other Missions by him to the Missions in London and Washington for the purpose of expenditure control.

Foreign travel on behalf of Public Sector Undertakings/Autonomous Bodies

3.10.26 Officers of Government proceeding on tour on behalf of various public sector undertakings, autonomous bodies/institutions, etc. should get their foreign tour programmes approved by following the normal procedure either under the delegated powers of the administrative ministry/department concerned or with the prior approval of the Screening Committee of Secretaries as may be applicable in each case. These organisations will bear the cost of deputation abroad of the Government official concerned only on the scale applicable to them under Government instructions. It will be ensured that these officers are extended facilities in respect of cash allowance, accommodation, and class of travel by air, etc. strictly according to their entitlements under the Government rules. The entire expenditure will be borne by the public undertakings/autonomous institutions directly without the expenditure entering Government accounts.

Payments through other Indian Missions

3.10.27 The following provisions apply to all payments (other than those relating to stores and freight that have been dealt with in Chapter 7) made by Missions and Posts abroad other than the High Commission in London and the Embassy in Washington on behalf of other ministries, departments, State Governments, public sector undertakings and statutory bodies.

A. Payments on behalf of other Central ministries and departments

3.10.28 The procedure prescribed in paragraphs 3.10.15 to 3.10.17 *supra* will be applicable.

B. Payments on behalf of State Governments

3.10.29 The State Accountant General concerned will forward two copies of the relevant sanction issued by the State Government Authorities to the Controller of Accounts, Ministry of External Affairs. One copy of the sanction, duly signed in ink, should bear the Special Seal Authority of the Accountant General. The sanction will either specify the exact amount payable in the designated authorised foreign currency or indicate the manner in which the amount is to be ascertained by the Mission. The Controller of Accounts, Ministry of External Affairs, will thereafter authorise the payment by forwarding the copy signed in ink and bearing the Special Seal to the concerned Mission.

3.10.30 In respect of these transactions, Audit should verify that:

- (i) payments on behalf of the State Governments are made only on the basis of the Special Seal authority, signed in ink, and the sanctions issued by the State Authorities duly forwarded by the Controller of Accounts, Ministry of External Affairs; and
- (ii) the payments are not made in excess of the amount specified in the sanction order.

C. Payments on behalf of public sector undertakings, autonomous bodies, etc.

3.10.31 Public Sector Undertakings, autonomous or statutory bodies, etc. under the Central or State Governments requiring payments to be made outside India on their behalf through an Indian Mission will arrange to remit the amount in foreign exchange (or in Indian rupees in the case of countries to which such remittance is authorised) directly to the Mission concerned under intimation to the Controller of Accounts, Ministry of External Affairs, and Finance-II Section of the Ministry. In case of payments not exceeding Rs 5,000, the organisations concerned may, at their option, send a rupee draft equivalent to the likely expenditure in the designated foreign currency at the prevailing commercial rate of exchange to the Controller of Accounts, Ministry of External Affairs, duly supported by the foreign exchange sanction of the Ministry of Finance (Department of Economic Affairs). In the latter case, the payments will be made by the Missions on receipt of requests from the organisations duly supported by a duplicate copy of the receipt given by the Controller of Accounts, Ministry of External Affairs.

D. Special classes of payments

3.10.32 Certain special classes of payments (also referred to in paragraph 3.10.23 *supra*) hitherto being made by the Missions under standing arrangements or in terms of special orders issued in this behalf will continue to be made on the basis of the sanctions/payment authorities as specified in the relevant orders.

3.10.33 In all cases of sanctions involving expenditure in foreign exchange, a specific mention should be made in the sanction about the clearance from the foreign exchange angle obtained from the Ministry of Finance or other competent authority.

3.10.34 In respect of these transactions, Audit should verify that:

- (i) advance deposits of the public sector undertakings, autonomous bodies, etc. precede payments made on their behalf by the Missions and the payments do not exceed the amount of deposits;
- (ii) necessary clearance of the Ministry of Finance is available for sanctions issued by the competent authorities, involving expenditure in foreign exchange;
- (iii) party-wise deposit accounts are maintained and necessary steps are taken to realise outstanding payments, if any;
- (iv) payments originating from the Commercial and Cultural wings of the Missions are properly accounted for by the Missions and adequate follow-up action is taken for realisation of payments made by them;
- (v) there is proper reconciliation of outstanding dues at any given point of time between the Missions and the Office of the Controller of Accounts; and

- (vi) Government officers proceeding on tour on behalf of various public sector undertakings, autonomous bodies/institutions, etc. are extended facilities in respect of cash allowance, accommodation, and class of travel by air, etc. strictly according to their entitlements under the Government rules and the entire expenditure has been borne only by the public undertakings/autonomous institutions concerned.

3.10.35 In view of the considerable expansion in the activities of the Missions and Posts and the overseas units of public sector undertakings and autonomous bodies and in the context of the increased emphasis on Value For Money Audit, comprehensive performance evaluation and reviews of the transactions and other activities of these agencies abroad may also be undertaken with the approval of the Comptroller and Auditor General. Detailed questionnaire on each selected topic could be circulated to collect and collate relevant information/data from the missions, ministries, etc. and such additional information/data as considered necessary being collected in local audit of the missions and posts in the normal course.

Annexure
(Referred to in Note (iv) below paragraph 3.10.4)

1. In order to tackle the problem of non-receipt of effective replies to audit observations contained in the inspection reports pertaining to Indian Missions and Posts abroad, and to secure expeditious settlement of the outstanding inspection reports and audit observations, the following additional steps should be taken:

- (i) All the old objections may be broadly categorised into (a) those in respect of which replies are to be furnished by the Heads of the Missions; and (b) those that are required to be settled finally by the Ministry of External Affairs either by regularisation or by issue of appropriate orders of recovery.
- (ii) The Ministry of External Affairs may be requested to nominate an officer of the status of Counsellor in each Mission, who will be responsible for coordinating with Audit and various Wings in the Mission for expediting their replies.
- (iii) The Inspecting Officer should keep aside half a day or more before the commencement of or during the audit inspection for discussing the settlement of old outstanding audit observations and inspection reports with the Heads of Missions or the nominated officer.
- (iv) Audit objections in respect of which action is pending with the Ministry of External Affairs should be brought demi-officially to the notice of the Secretary of the Ministry and the Financial Adviser so that adequate and prompt attention is bestowed on them. A copy of the list may also be endorsed to the Principal Director of Audit (External Affairs), New Delhi, to enable him to take up the matter during the meeting of Ad hoc Committees and to keep the Principal Director/Director concerned of the developments in this regard from time to time.
- (v) Wherever possible, the outstanding objections of all Missions for a few years should be grouped and analysed under broad categories and processed for inclusion as draft paragraphs in the Audit Reports. Some of these categories could be instances of expenditure being incurred without proper sanction, failure to recover overpayments, excess drawal of pay and allowances, etc. The Principal Director of Audit (External Affairs), New Delhi, will coordinate and process the consolidated paragraph.
- (vi) Apart from endorsing copies of the inspection reports to the Ministries of External Affairs and Finance, important audit observations should be brought to the notice of senior officers in the Ministry to elicit a quick response.
- (vii) The Ad hoc Committees for settlement of outstanding audit observations should be got constituted in the Ministry of External Affairs and activated in case these already exist but are dormant.

2. The following additional instructions may be adhered to in order to strengthen the existing system of mutual exchange, between the three Audit Officers responsible for the audit of the accounts of Indian Missions/Posts abroad and the Ministry of External Affairs, of the gist of important and interesting cases noticed in the course of their local audit:

- (a) Copies of all important objections included in the potential draft paragraph register pertaining to all Ministries other than the Ministry of External Affairs (e.g. Ministries of Defence, Commerce, Tourism, etc.) should be sent to the Director General/Principal Directors of Audit concerned. These Officers will include these objections in their registers of potential draft paragraphs and watch progress of the cases. In all such cases, there should be regular communication between the Director General/Principal Director of Audit and the Officers responsible for Embassy audit.
- (b) Wherever necessary, the Principal Director/Directors in-charge of audit of Missions/Posts abroad will refer cases to the Director General/Principal Director concerned in India for scrutiny of the relevant files of the Ministry with a view to collecting further background or additional material for the draft paragraphs. The latter will extend all cooperation in such cases and keep the former informed, from time to time, of the developments in such cases.
- (c) The audit of various foreign branches of Central public enterprise and commercial undertakings is undertaken by the Principal Director/Directors responsible for audit of Missions/Posts abroad who forward the inspection reports to the Principal Directors of Commercial Audit and Ex-officio Members, Audit Board, concerned for further follow-up action. The former are, however, are not aware of the development in such cases. The Principal Director of Commercial Audit should, therefore, provide a proper feedback to them on the response of the management to the important points raised in audit so that they can properly brief their parties in regard to further pursuance in the course of the subsequent audit of the branches concerned. The Principal Directors of Audit responsible for the audit of various Ministries as well as the Principal Directors of Commercial Audit should feel free to make references to the Principal Directors/Directors of the overseas Audit Offices for assisting them in the collection of any information or verification of any particular transaction. This will enable proper coordination of the audit activities both in India and abroad.

Chapter–11 **Audit of Deposits**

Audit Objectives and Scope

3.11.1 The main objectives of audit of deposits are to ensure that:

- (i) funds are not diverted from the Consolidated Fund and unnecessarily accumulated in deposits, thus affecting the basic discipline of budgetary control;
- (ii) deposit accounts are opened only when necessary and strictly according to the prescribed rules and regulations; and
- (iii) credits to, withdrawals from and closure of deposit accounts are supported by the necessary documents and strictly conform to the rules and regulations.

3.11.2 The deposits covered in this chapter may be classified broadly as (i) Civil Deposits that include revenue deposits, civil court deposits, criminal court deposits, etc.; (ii) Local Fund Deposits; and (iii) Special Deposits Accounts of government companies, corporations etc. These deposits may or may not earn interest depending on the decision of the Government.

Source Documents

3.11.3 The source documents to be audited are the following:

- (i) Plus and minus Memoranda.
- (ii) Challans and list of challans to be cross-checked with the plus and minus memoranda
- (iii) Challans relating to Transfer Credits.
- (iv) Broadsheets maintained by the Accountant General (A&E).
- (v) Deposits Register.
- (vi) Authority for opening of Deposit Accounts.
- (vii) Vouchers relating to Corpus Fund.
- (viii) Expenditure sanctions.
- (x) Personal Ledger Accounts Ledgers maintained at treasuries.
- (xi) The Deposits Module of the VLC database maintained by the Accountant General (A&E) containing details of Personal Ledger Accounts.

Audit Approach

3.11.4 The monthly plus and minus memoranda, duly supported by the repayment vouchers, and the annual statements of lapsed deposits received from the treasuries, courts, etc. are checked in the office of the Accountant General (A&E) and posted in the relevant broadsheets. That office also carries out necessary adjustments for crediting the lapsed amounts to Government account.

3.11.5 Treasuries and departmental offices, on the other hand, maintain accounts of receipts and payments in respect of all kinds of deposits. It will, therefore, be necessary to exercise many of the audit checks in local audit, instructions relating to which are dealt with later in this chapter, in addition to certain audit checks to be exercised in central audit. Checks relating to deposits such as unclaimed Provident Fund deposits, the detailed accounts of which are maintained in the A&E office should, however, be exercised only in Central Audit.

Issues for audit scrutiny

Receipt and repayment or withdrawal of deposits

3.11.6 The main points to be checked by Audit with reference to the receipt and repayment of deposits are as follows:

- (i) Audit should satisfy itself that no monies are received for deposit in the Public Account of the Government unless the deposits are such as are specifically required or authorised to be held in the government custody by virtue of any statutory provisions or of general or special orders of the Government.
- (ii) It should also be verified that no item, which could be credited as a revenue receipt or in reduction of ordinary expenditure of Government, is credited as a deposit in the accounts of that Government.
- (iii) Audit should ensure that monies received on account of revenue deposits, civil court deposits, criminal court deposits, etc. are duly supported by challans and necessary vouchers are available in support of withdrawals from such deposits.
- (iv) Similarly, the deposits into Local Fund Accounts and Special Deposits Accounts of government companies, corporations, etc. should be supported by the relevant challans, including those relating to transfer credits. Repayments of such deposits should be made only by cheques.
- (v) Principles and Rules of audit that govern audit of expenditure apply *mutatis mutandis* to disbursements under deposit heads as well. Repayments of deposits should be examined to verify that proper vouchers in support of the amounts repaid are available; each repayment should also be checked either individually against the original receipt or against the total of the particular account in order to ensure that it is not in excess of the amount originally received and credited to Government.
- (vi) Transfer, using the facility of transfer credit, of sums from the Consolidated Fund to deposit accounts for utilization in subsequent financial years violates basic budgeting principles. Audit should verify from the records maintained by the Deposit Section in the A&E Office the actual amounts transferred from Service Heads by transfer credit to each sub-head of the Deposit Account. These should agree with the amounts accounted for in the Register of Nil Payment Vouchers maintained in the Account Current Section. Appropriate audit comments on the irregular transfers should be included in the Audit Report.

Closing Balances

3.11.7 While reviewing the closing balances of deposits, Audit should ensure that:

- (i) balances in deposit accounts have been correctly carried over from year to year and the correctness of the balance in each account at the close of the year has been acknowledged by the person or body concerned where necessary and practicable; and
- (ii) deposits that have remained unclaimed for such period(s) as may be prescribed by Government in this behalf and are to be credited as revenue receipts of Government have been properly adjusted to the revenue head in the accounts.

Lapsed Deposits

3.11.8 An Annual return of transactions of the Government relating to revenue and civil and criminal court deposits is to be rendered to the Accountant General (A&E). The amounts in respect of deposits that have lapsed should be deducted from the plus and minus memoranda for the month of March. On receipt of the Statement of Lapses in the A&E Office, the total will be checked and a transfer entry proposed for crediting the amount to Government.

3.11.9 Audit of lapsed deposits involves verification:

- (i) whether the lapsed amounts have been correctly written off in the plus and minus memoranda for March;
- (ii) whether deposits lapsing on 31 March each year are transferred to the credit of Government under the Head “0075-Miscellaneous General Service-00.101-Unclaimed Deposit-Deduct Refund”. The annual transfer entry crediting the amount to the Government may be made on the basis of the figure reported by the treasury officers in the March Final or March Supplementary accounts; and
- (iii) in regard to receipt of the prescribed applications for refund of lapsed deposits and exercise of necessary checks with reference to the original deposits in the Lapsed Deposit Register before issuing authority for payment of refund.

Personal Deposits

3.11.10 Personal Deposits are maintained in the treasuries in the nature of banking accounts. These are commonly known as Personal Ledger Accounts or Personal Deposit Accounts and are established either under statutory provisions of the Government or created under any law or rule having the force of law by transferring funds from the Consolidated Fund of the State for discharging liabilities of the Government arising out of special enactments. Ordinarily, Government sanctions the opening of a banking deposit account or of a Personal Ledger Account after consultation with the Accountant General (A&E). It is generally recognized that Government should not agree to the opening of such an account unless it is satisfied that the initial accounts of moneys in the Personal Ledger Account are properly maintained and are subject to audit.

3.11.11 Besides, Personal Ledger Accounts may also be opened, after prior consultation with the Accountant General (A&E), in favour of specified Government Officers by transferring funds from the Consolidated Fund of the State for discharging the liabilities of the State Government in respect of execution of various projects, schemes, etc. The corpus of such Personal Ledger Accounts is recouped after incorporating the expenditure incurred every month and reflected in the monthly accounts in the Civil Accounts. Except where Personal Deposit Accounts are created by law or rules having the force of law for discharging liabilities arising out of special enactments, other Personal Deposit Accounts shall be closed at the end of the financial year by minus debit of the balance to the relevant service heads in the Consolidated Fund of the State, the Account being opened again in the following year, if necessary, in the usual manner.

3.11.12 The Accountant General (Audit) shall determine whether or not the audit of initial accounts should be conducted and also whether such audit should be conducted locally in the office in which the detailed accounts are maintained or centrally in the

A&E Office where the detailed monthly accounts of lump sum deposits/withdrawals are received along with the supporting challans/vouchers. If he decides that this audit need not be undertaken by him on the ground that the money involved belongs to a local fund or a private fund not administered by a government servant or for any other reason, the Government may entrust audit of the initial accounts to another recognized authority like the Examiner, Local Fund Accounts, or a qualified auditor.

Other Deposit Accounts

3.11.13 The audit of other deposit accounts which are governed by special rules and directions issued by Government for the receipt and repayment of the deposits (e.g. deposits for work done for public bodies or individuals, deposits of government companies, corporations, etc) should be conducted with reference to those rules and directions.

Local Audit

3.11.14 Local audit of deposits should be conducted with reference to the relevant rules and regulations. The following are the main points to be verified:

- (i) Deposits made on behalf of departmental officers have been properly noted in the prescribed records and reconciled with the treasury records.
- (ii) Repayment or part repayment has been made only to the correct depositor and the fact thereof has been noted against the entry in respect of the original deposit as a safeguard against double payment.
- (iii) Deposits remaining unclaimed for more than three completed financial years have been credited to government revenue as having lapsed and the relevant entries deleted from the Deposit Register, and the lapse statements sent to the treasury and the Accountant General (A&E) for adjustment in the accounts.
- (iv) No deposit that has lapsed has been repaid without the authority from the Accountant General (A&E) or the treasury.
- (v) Personal Deposit (Ledger) Accounts have been opened with proper authority and with the prior concurrence of the Accountant General (A&E).
- (vi) Personal Ledger Accounts required to be closed at the end of financial year have been duly closed and unutilised balances, if any, have been refunded by cheque for credit to the relevant functional service major head.
- (vii) Scrutiny of all expenditure with reference to the vouchers and other relevant documents retained in the local office to ascertain whether the expenditure was incurred for discharging Government's liabilities according to rules and orders in force from time to time.
- (viii) Adherence by administrators of deposit accounts to the applicable acts, rules and regulations and to requirements relating to maintenance of initial accounts records and of the prescribed scheme-wise records.
- (ix) Regular reconciliation of balances in deposit accounts by the concerned administrators with the treasury.

In respect of deposits received on behalf of private individuals, public bodies, Public Works and Forest Departments and various other funds, Audit shall confine its scrutiny to ensuring that (i) the deposits made and expenditure met therefrom conform to the relevant rules and orders; and (ii) in respect of deposits maintained by the departmental officials, regular statements of expenditure from the deposits are sent to the authority concerned and acceptance of expenditure by the authority is watched.

Central Audit

3.11.15 Checks to be exercised in Central Audit are as follows:

- (i) Verification of plus and minus memoranda to determine whether (a) Personal Ledger Accounts have been opened according to statutory provisions or with the specific authority of the Accountant General (A&E); (b) Accounts that are required to be closed at the end of financial year have been closed; and (c) credits shown under various deposit heads of account have been correctly classified.
- (ii) Vouchers furnished by the administrators of Personal Ledger Accounts along with the monthly accounts should be audited to verify that the payments have been made in conformity with the relevant rules.
- (iii) Examination of minus balances, if any, in the Deposit heads of account.
- (iv) Scrutiny of vouchers relating to repayments of Civil Deposits to ascertain if these have been made correctly from the concerned Deposit head of account and the officer authorising repayment is competent to do so.
- (v) If the Financial or Treasury Rules of the State Government provide for maintenance of the Local Fund Accounts with reference to various individual schemes or projects, it should be verified from the plus and minus memoranda that the relevant provisions have been duly observed.

Chapter–12

Audit of Service, Provident and Other Funds

Audit Objectives and Scope

3.12.1 Government is the custodian of Provident Funds, which form a part of the Public Account in Government Accounts. The objective of audit of Provident Funds is to see that:

- (i) the accounts of these Funds are maintained properly in accordance with the rules governing them; and
- (ii) accumulations in the Funds are utilised/invested in accordance with the provisions of the relevant Acts.

3.12.2 Government Provident Funds within the meaning of the Provident Fund Act, 1925, which are dealt with in the A&E offices, Pay and Accounts offices or the Provident Fund Organisation of the State Governments, and to which the provisions of this chapter are applicable are the following:

- (i) General Provident Fund.
- (ii) All India Service Provident Fund.
- (iii) Contributory Provident Fund.
- (iv) Other miscellaneous Provident Funds.

Source Documents

3.12.3 The following are some of the important source documents to be checked by Audit:

- (i) Paid vouchers.
- (ii) Ledger Accounts.
- (iii) Recovery Schedules.
- (iv) Sanctions to withdrawals from the Fund.
- (v) Broadsheets.
- (vi) Index Registers.
- (vii) Applications for enrolment.
- (viii) Register of missing credits/debits.
- (ix) Register of unposted credits/debits.

Audit Approach

3.12.4 Except in those States where the Comptroller and Auditor General has been relieved of this responsibility under the provisions of Section 10(1) of the Act, the Accountant General (A&E) is responsible for the maintenance of detailed accounts of Service and Provident Funds controlled by various State Governments. The Central Government departments themselves, however, continue to be responsible for the maintenance of Provident Fund Accounts of their own employees. Similarly, the entire work connected with the maintenance of individual Provident Fund accounts of the Group 'D' employees of the Central Government has been entrusted to the departmental authorities themselves. The detailed procedure for the maintenance of Provident Fund Accounts is explained in Chapter 12 of the Manual of Standing Orders (Accounts and Entitlements), Volume I.

3.12.5 Audit by Accountant General (Audit) is limited only to the concurrent scrutiny in central audit of the paid vouchers in the A&E Office in accordance with the quantum prescribed in this regard. In States where maintenance of Provident Fund Accounts of their employees has been taken over by the State Governments and entrusted to the departments, the accounts are subject to test check during local audit by the Accountant General (Audit) to the extent prescribed. Audit of Provident Fund vouchers relating to these accounts received in the A&E Office is limited to sanctions only.

Issues for audit scrutiny

Audit of vouchers relating to drawals from the Fund

3.12.6 Audit of vouchers relating to drawals from the accounts of individual subscribers consists in examining *inter alia* the following:

- (i) The competent authority has sanctioned the advance or withdrawal to which the voucher pertains.
- (ii) The amount sanctioned is in conformity with the rules governing the admissibility of such advances or withdrawals and is not in excess of the balance at the credit of the subscriber.
- (iii) Advances from the Fund are recovered regularly in terms of the sanctions.
- (iv) Payment of the advance or amount withdrawn has been posted in the subscriber's ledger account.

Local audit of Provident Fund Accounts

3.12.7 Local audit of the Provident Fund Accounts maintained by departmental officers will involve the following:

- (i) Selection of representative sample for test check, keeping in view the efficiency of the internal control mechanism in the department concerned.
- (ii) Tracing of the entries in the selected accounts from the recovery schedules, payment vouchers, personal ledger cards and broadsheets and verification of the correctness of the debits/credits as reflected in the broadsheets with reference to the corresponding details appearing in the monthly accounts.
- (iii) Examination of the efficacy of system followed by the departmental officers for the periodical reconciliation of the debits and credits with the accounts maintained by the A&E Office.
- (iv) Scrutiny of systems and procedures in force for enrolment of subscribers and maintenance of Index Registers.
- (v) Verification of annual closure of accounts and despatch of annual account statements to subscribers on the scheduled dates.
- (vi) Analysis of un-posted debits and credits and missing credits, particular attention being paid to minus balances in the ledger accounts to ascertain the reasons for the minus balances.
- (vii) Scrutiny of ledger accounts to verify that sanctions to advances or withdrawals and acceptance of balances have been noted therein.
- (viii) Examination of the adequacy of the action taken to locate missing debits.

- (ix) Verification of (a) the correctness of carry forward of closing balances at the end of the financial year as opening balances of the subsequent year and of the interest calculations with reference to the applicable rates; and (b) the reporting of adjustment of interest afforded to individual accounts to the A&E Office before closure of accounts for the year.

Note: *In States where the Accountant General (A&E) is responsible for maintaining the Provident Fund accounts of State Government employees, the Central Audit Branch of the Audit Office will look into the aspects mentioned in paragraphs 3.12.6 and 3.12.7.*

Utilisation/investment of accumulations

3.12.8 After closure of the accounts in the A&E office, the utilisation/investment of the funds accumulated in the Provident Fund should be analysed in the course of audit of the Finance Accounts to ensure that this has been done in accordance with the Provident Fund Rules.

Chapter–13
Audit of Borrowings, Loans, Advances, Guarantees, Reserve Funds, Suspense Transactions and Interest Payments

Audit objectives and scope

3.13.1 The primary objective of audit of borrowings of the Government, loans, advances and guarantees given by the Government, operation of the reserves, reserve funds and sinking funds is to ensure that;

- (i) the transactions are within such limits, if any prescribed and are in tune with the authority that govern them;
- (ii) the transactions are correctly reflected in the detailed accounts;
- (iii) the balances relating to these accounts represent amounts which are realisable and there exists a mechanism for periodic confirmation of balances.

3.13.1(a) The instructions contained in this chapter apply to the following:

- (i) Internal and external borrowings of the Union Government including interest payments on such borrowings.
- (ii) Open market borrowings and borrowings from the Union Government by the State Governments including interest payments on such borrowings.
- (iii) Loans and advances given by the Union and State Governments to *quasi-* public bodies.
- (iv) Contingent liabilities on account of guarantees given by the Government.
- (v) Sinking Funds and investments out of such funds.
- (vi) Reserves, Reserve Funds and investments out of such funds.
- (vii) Suspense Accounts.

Audit arrangements

3.13.2 Pay and Accounts Officers and the departmental officers maintain the records relating to the loans given by the Government. The departmental officers also maintain the detailed accounts in respect of revenue advances, permanent advances and advances to individual government servants. These records and accounts will be scrutinised in local audit.

3.13.3 Audit of interest payments on the borrowings managed by the Public Debt Offices is divided between the Audit and Accounts Department and the Public Debt office concerned. The former is responsible for ensuring that (i) the amount of promissory note is correctly stated in the voucher; and (ii) interest due has not been paid twice for the same half year. In all other respects, and especially in respect of the correctness of interest calculations, income tax deductions and other arithmetical computations, the vouchers are subject to regular examination in Audit. After the Accountant General (Audit) has audited the vouchers, the Accountant General (A&E) forwards these to the Public Debt Office. The Accountant General (Audit) or the Principal Director of Audit concerned also undertakes a test audit of the work done in the Public Debt Offices.

Borrowings

3.13.4 Under Article 292 of the Constitution, the Union can raise money by borrowing upon the security of the Consolidated Fund of India within such limits, if any, as may from time to time be fixed by an Act of Parliament. These borrowings comprise of both internal and external debt. Internal debt represents loans raised in India and includes market loans, bonds, special securities issued to the Reserve Bank of India, rupee securities issued to external agencies like the International Monetary Fund, World Bank, Asian Development Bank, etc. It also includes borrowings through Treasury Bills issued to the Reserve Bank of India, the State Governments and other parties. External debt refers to the loans raised abroad by the Government of India.

3.13.5 Under Article 293 of the Constitution, a State may borrow within the territory of India upon the security of the Consolidated Fund of the State within such limits, if any, as may from time to time be fixed by an Act of the Legislature of the State. However, a State may not, without the consent of the Government of India, raise any loan if any part of a loan made to the State by the Government of India is still outstanding or if that Government has guaranteed the repayment of any loan. A State Government may also obtain loans from the Government of India subject to such conditions as may be laid down by or under any law made by Parliament. The Accountants General (A&E) maintain the detailed accounts of such loans and also arrange for payment of the principal and interest whenever due.

3.13.6 The important points to be looked into in the course of audit of borrowings have been discussed below:

- (i) Audit has the responsibility to ensure that the borrowings of a Government are so regulated as not to exceed the limits, if any, fixed by the Legislature from time to time and that the conditions laid down by or under an Act of Parliament are duly observed in respect of a loan granted by the Government of India to a State or guaranteed by it.
- (ii) In the case of loans raised by State Governments, Audit should monitor the compliance, by the State Governments, with the conditions imposed by the Government of India while giving consent to their raising the loans or guaranteeing their repayment, or while granting a loan to them.
- (iii) Audit should ensure that the proceeds from borrowings have been properly brought to account and have been expended only on the objects for which the loans were raised or to which borrowed moneys may properly be applied in accordance with the sound principles of public finance.
- (iv) Audit should also examine whether adequate arrangements have been made for amortisation of the debt and bring to the notice of the Government instances in which this requirement has been ignored or the arrangements made appear *prima facie* to be inadequate. The following general principles will govern the examination of amortisation arrangements:
 - (a) Amortisation arrangements in respect of loans availed of for unproductive purposes may be related to some extent to their maturity period and also to the likelihood of an increase in unproductive debt.

- (b) It would, however, be more prudent to relate the arrangements to the objective of the borrowing rather than to the actual currency of the loan. The period should be comparatively short in cases where (i) the loan is intended for an unproductive purpose, expenditure on which should more appropriately be met from revenues; (ii) the life of the assets created by utilising the loan is comparatively short; or (iii) the extent of borrowings for such unproductive purposes is likely to increase rapidly.
- (c) Where a material asset is created, the amortisation period should never exceed its life.
- (d) Arrangements for amortisation of loans for productive purposes must depend on the peculiar circumstances of each case. Normally, the rate of amortisation should be related to the life of the revenue-producing asset for the creation of which the debt was incurred.
- (e) Where the net earning power of an asset substantially exceeds the interest on the debt, it may not be necessary to insist upon amortisation. Where depreciation or renewal reserves are constituted for the replacement of assets created from loan funds, amortisation is often omitted altogether or its rate scaled down. However, even in both these types of cases, it is a sound and prudent financial policy to make amortisation arrangements.
- (f) In the case of borrowings to finance loans to cultivators and others, the actual recoveries of principal may be sufficient for debt repayment if used for that purpose, provided all losses are written off to revenue.
- (v) The responsibility for the audit of transactions connected with the Debt Redemption Scheme of the Union Government or of any such scheme adopted by State Governments devolves on the Indian Audit and Accounts Department. It should be verified that the conditions governing these schemes are scrupulously observed. It should be seen, in particular, that the annual debits against revenue under the schemes are calculated strictly in accordance with the approved programmes, that the appropriations for reduction or avoidance of debt are applied to the objects for which the money has been set aside, and that the liquidation of debt proceeds at the rate and on the lines prescribed.

Loans and advances

3.13.7 Government makes loans and advances to public and quasi-public bodies and to individuals. Some of these loans and advances are made under special laws and others for special reasons or in pursuance of a recognised policy. Audit has an important role to play in the present day context of large loans being granted to state governments, statutory corporations, government companies, quasi-public bodies, and private institutions for developmental and other purposes. Apart from watching the fulfilment of various conditions on which the loans are sanctioned, the responsibilities of Audit in relation to loans and advances will extend to the following:

- (i) Except in the case of loans and advances made under special laws or in respect of which the Government has issued any general rules or orders, Audit may require that the reasons for making the loans or advances as well as the conditions attached to them should be stated clearly and completely in the relevant sanction orders. Any unusual conditions, such as the remission of interest in an individual case, included in the sanction would merit special scrutiny with a view to ascertaining the justification therefor.
- (ii) Audit should ensure that the debtor has complied with the conditions governing repayment of a loan or advance and payment of interest.
- (iii) In reviewing the outstanding loans and advances, special attention should be paid to irregularities in repayment, acknowledgement of balances and unrealised and doubtful assets.
- (iv) In order to protect the financial interests of Government, the Accountant General (Audit) should communicate to Government any information that comes to his notice in the course of his official business in respect of the financial position of a debtor, along with such comments as he may consider appropriate. He should perform this duty personally and with the utmost care and discretion; the related communications should also invariably be confidential.
- (v) Audit should ascertain whether adequate security has been obtained, particularly from private debtors, to safeguard Government's interests, and whether Government has made adequate arrangements to keep itself informed of the continued solvency of the debtors.
- (vi) It should also be verified that further loans have not been granted for the same purpose when substantial unutilised balances out of the previous loans are still available to the debtors and that there is adequate basis to establish that the loans have been utilised only for the purposes and on the objectives for which they were sanctioned.

The instructions contained Chapter 5 of this Section relating to audit of expenditure incurred by grantees from grants-in-aid provided by Government also apply *mutatis mutandis* in the case of loans given to any body or authority from the Consolidated Fund of India, of any State or of any Union Territory having a Legislative Assembly.

Loan accounts

3.13.8 The financial rules and orders issued by Government prescribe the authority which should maintain detailed accounts of loans and watch recoveries and payment of interest. In cases where the Accountants General (A&E) maintain such detailed accounts, subsidiary loan registers are also maintained by them for advising the loanees about the instalments of principal and interest falling due periodically and for watching their remittance. After departmentalisation of accounts, the Pay and Accounts Officers also maintain similar subsidiary registers in respect of loans the detailed accounts of which are maintained by them. These registers contain details, in respect of each loan, of the amount disbursed, the interest accrued from time to time, the instalments of principal and interest paid by the beneficiaries and the balances outstanding. The Accountants General (A&E) and the Pay and Accounts Officers also maintain suitable broadsheets in respect of loans accounted for in their books. Other departmental officers, who are required to administer loans and maintain the related accounts, also maintain similar subsidiary registers and broadsheets. In the case of

loans granted by Government of India to the State Governments, besides maintaining detailed accounts, the State Accountants General (A&E) also arrange for payment of the instalments of principal and interest due to the Government of India. This is arranged through the Reserve Bank of India after obtaining the consent of the State Governments wherever necessary.

3.13.9 The registers and the broadsheets maintained by the Pay and Accounts and departmental offices should be reviewed in local audit to verify whether:

- (i) payment, on the due dates, of the instalments of principal and interest by the loanees is properly monitored;
- (ii) penal interest has been levied on overdue instalments;
- (iii) loans paid and repaid and the interest remitted have been properly accounted for;
- (iv) conditions, if any, prescribed by the sanctioning authority have been fulfilled;
- (v) any amount paid has been erroneously treated and credited as repayment of the principal when any sum is due on account of unpaid interest; and
- (vi) acknowledgments have been obtained periodically from the debtors in respect of outstanding balances.

Note: *In cases where the Public Works Department incurs expenditure on works executed under special orders and such expenditure is treated as a loan, the amounts debitible to several loan accounts will appear in the monthly accounts of the divisional offices and these would be deemed to have been advanced on the last day of the month in which the expenditure appeared in the divisional accounts.*

Revenue advances

3.13.10 Revenue Advances include takavi advances under the Land Improvement Acts and any other advances made by Revenue Officers in connection with land revenue, agriculture or famine under any Act of the Legislature or under any orders of Government. The departmental officers maintain individual detailed loan accounts.

3.13.11 Audit checks in respect of such advances will be confined to verifying that:

- (i) the transactions conform to the rules governing them; and
- (ii) proper control records are maintained to ensure that the expenditure on this account does not exceed the allotment, where such allotment is placed at the disposal of more than one Head of Department/Controlling officer by Government, out of the funds voted for such purposes under a single unit of appropriation.

Permanent advances

3.13.12 Permanent advances are normally granted to officers who are required to make payments before they can obtain the necessary funds by drawing proper bills. Accountants General (A&E) or Pay and Accounts Officers in the case of departments having separated accounts organisations maintain a Register of Permanent Advances which serves as a standing list of all such advances sanctioned for each office. They also maintain in a guard file the acknowledgements obtained from the actual incumbents holding the permanent advances. In April every year fresh acknowledgements for the advances held on 31st March are obtained.

3.13.13 Sanctions to permanent advances are scrutinised in audit to verify that:

- (i) these have been sanctioned by a competent authority;

- (ii) advances have been sanctioned only for a subordinate office and not for the office of the sanctioning officer;
- (iii) amounts sanctioned as permanent advances do not exceed the ceilings prescribed by Government for the offices concerned or the powers delegated to the sanctioning authority;
- (iv) the advance sanctioned is not more than what is absolutely necessary and is based on the average monthly contingent expenditure in a year; and
- (v) the advances have not been sanctioned repeatedly even when not necessary.

Advances to government servants

3.13.14 Accountants General (A&E) or the Pay and Accounts Officers maintain detailed accounts of loans and advances granted to government servants that are recoverable in not less than sixty instalments while the departmental officers themselves maintain detailed accounts of other short-term loans and advances. However, the former also maintain detailed accounts of short-term loans and advances granted to gazetted officers when they are also responsible for regulating their entitlements.

3.13.15 Various loans and advances, such as those intended for construction of houses, purchase of conveyances, etc., are accounted for under the specific loan heads. Many other advances, such as advances of travelling allowance, advances of pay on transfer, advances for contesting law suits, festival advances, etc. are granted to government servants by debit to the final heads of account. In certain cases, advances against gratuity dues and/or provident fund accumulations are also granted to families of deceased government servants.

3.13.16 Some of the important points to be looked into in the course of audit of these loans and advances are dealt with below:

- (i) It should be verified that competent authorities alone have sanctioned the loans and advances to government servants in accordance with the rules and orders governing them.
- (ii) The broadsheets and other records maintained by the pay and accounts officers and departmental officers to watch repayment of the loans and advances and the recovery of interest should be reviewed in local audit to see that they are properly maintained and that the payments or adjustments made in this regard are in accordance with the conditions prescribed.
- (iii) In cases where utilisation certificates are required to be furnished by the beneficiaries, it should be verified that the departmental officers have been obtaining these.
- (iv) Audit should also verify the fulfilment of the conditions relating to mortgage, insurance, etc.
- (v) In the case of long-term advances, it should be ascertained whether appropriate and adequate action is being taken by the offices responsible for maintaining their detailed accounts to ensure that the individual balances outstanding in their books are reconciled periodically with the balances shown in the recovery schedules.

Investments

3.13.17 Audit is responsible for keeping a watch over the investment of funds forming part of the Public Account of India or of a State. In doing so, Audit should ensure the following:

- (i) The investments made on account of any regularly constituted sinking or other Funds administered by the Union or State Governments are of the category authorised by the relevant statutory provisions or the instruments by which the Funds are governed. When there are no governing statutory provisions or instruments, proper authority for the investment should be demanded. This principle also applies to the investment of cash balances of the Union or any of the State Governments.
- (ii) The Accountant General (Audit) should promptly take up with the Government any of the investments which he considers to be unauthorised, irregular or unsound.
- (iii) Any ascertained losses connected with the investments or unusual depreciation in their market price should be reported to Government along with such comments as the Accountant General (Audit) may consider appropriate.

Contingent liabilities on account of guarantees given by Government

3.13.18 Under Articles 292 and 293 of the Constitution, the Union and the States are empowered to give guarantees in respect of loans raised by others within such limits as may be fixed from time to time by an Act of Parliament or of the State Legislature, as the case may be. Such guarantees constitute contingent liabilities of Government. It is an essential duty of Audit to maintain a close watch over guarantees given by Governments to ensure that:

- (i) the ceilings prescribed by the Legislature are not exceeded;
- (ii) any general or special orders of the Governments concerned prescribing the levy of a commission for giving guarantees are duly observed; and
- (iii) a sound system in place to maintain proper records of the guarantees given along with their terms and conditions.

It is also necessary that the total amount of such guarantees as well as the amount involved in guarantees, if any, invoked during the year are mentioned in the Audit Report on the accounts of the Union or the State Government concerned, as the case may be.

3.13.19 In order to safeguard government's financial interests in respect of such contingent liabilities, the Accountant General (Audit) concerned should satisfy himself that the accounts of the public body or institution whose loan or loans have been guaranteed by Government are subject to audit by qualified auditors acceptable to Government. Examination of the books of accounts of such a body or institution would not be in order unless its accounts are otherwise subjected to regular audit by the Comptroller and Auditor General. If, however, any guarantee is discharged by actual payment, the audit of the accounts of the body or institution can be considered subject to the provisions contained in the Act governing the duties, powers and conditions of service of the Comptroller and Auditor General. Scrutiny of the accounts of any Sinking Funds created by such a body or institution in pursuance of a

scheme for the liquidation of debt under a statutory provision or otherwise should be directed to ascertaining that:

- (a) the scheme of liquidation prescribed as the basis of the Sinking Fund is financially sound and consistent with the principles governing amortisation arrangements discussed earlier in this chapter;
- (b) the Fund contains the amount that should have been accumulated if the prescribed scheme had been adhered to in respect of both the amounts to be credited to the Fund and the anticipated interest; and
- (c) the investments of the Sinking Fund are sound and are valued at not more than their market price.

Defects in the scheme of liquidation, deficiencies noticed in the Fund, and any unsound investments or unusual depreciation in their market price should be brought prominently to the notice of Government.

Sinking Funds

3.13.20 In auditing the transactions connected with Sinking Funds regularly constituted for the redemption of loans raised by the Union and State Governments, Audit has to satisfy itself that credits to these Funds are in accordance with the undertakings given by Government and set forth in the prospectus of the loans and that payments are eventually utilised for the purpose for which the Funds themselves were created.

Reserves and Reserve Funds

3.13.21 There exist a number of Reserves and Reserve Funds under the Sector 'J. Reserve Funds' in the accounts of the Union and the State Governments which have been created for specific and well-defined purposes and are fed by contributions or grants from the Consolidated Fund of India, of a State or of a Union Territory, or from outside agencies. In relation to the transactions pertaining to such funds, it should be seen in audit that:

- (i) the transactions are classified and accounted for according to the principles laid down under the heading "Transactions pertaining to Reserves and Reserve Funds" in paragraphs 3.16.35 to 3.16.37 in the chapter on "Certification of Finance Accounts and Appropriation Accounts";
- (ii) these transactions conform to the rules or orders framed by the competent authority governing the administration of each Fund;
- (iii) the balance standing in the account of each Fund at the close of the year has been verified; and
- (iv) the instructions relating to investments contained in this chapter are kept in view in cases where the whole or any part of the balance of a Fund is invested.

Suspense accounts

3.13.22 All transactions as are ultimately removed either by payment or recovery in cash or by book adjustments are recorded under suspense heads. Unless otherwise permitted by the rules, the use of suspense heads for provisional adjustment of transactions that are ultimately adjustable under ordinary revenue and service heads should be avoided as far as possible.

3.13.23 Audit of transactions under suspense heads consists not only in applying the ordinary procedures of audit of expenditure and receipts but also in seeing that:

- (i) the unadjusted balances under these heads continue to represent bonafide assets or liabilities of Government capable of being realised or settled, as the case may be; and
- (ii) satisfactory action towards such realisation or settlement is being taken by the officers responsible; and

All balances under suspense heads must be reviewed at short intervals, ensuring that no item remains unadjusted longer than is reasonably necessary to bring about its clearance in the ordinary course with due regard to the rules applicable to each case.

Interest payments

3.13.24 Loans obtained from autonomous institutions like the Life Insurance Corporation of India, National Cooperative Development Corporation, National Bank for Agriculture and Rural Development, etc. are managed by the departmental officers of Government. On the other hand, the Public Debt offices of the Reserve Bank of India manage the open market borrowings of Government (other than Treasury Bills).

A. Interest on open market loans

3.13.25 Audit of interest payments on open market loans managed by the Public Debt offices is divided between the Indian Audit and Accounts Department and the Public Debt office concerned. The latter's responsibilities in regard to these payments extend to verifying that (1) the amount of promissory note is correctly stated in the voucher; and (2) the interest has not been paid twice for the same half-yearly period.

3.13.26 The work done in the Public Debt offices is subjected to test audit by the Accountant General (Audit) concerned, who is to assume that the principal sum mentioned in the interest voucher is the correct amount on which interest is due and that interest has not already been paid for the half year claimed in the voucher. However, in all other respects, and especially in respect of the correctness of the calculation of the interest and income tax and the casting of totals, the vouchers are subject to regular examination in audit. The Accountant General (A&E) forwards the vouchers to the Public Debt office on completion of their audit by the Accountant General (Audit).

3.13.27 In the course of audit of these interest vouchers, it should be verified that:

- (i) the amount entered in the voucher as the half-yearly interest in fact represents one half year's interest due on the amount of the loan mentioned in each promissory note;
- (ii) the total amount due is the half year's interest multiplied by the number of half years as entered in the column provided for the purpose;
- (iii) the amount shown as being due in the voucher has been correctly computed;
- (iv) the receipt is properly signed, either by the person named as the holder or by his representative; and
- (v) income tax at the maximum rate has been deducted from the interest due unless the owner of the security has produced with his receipt for interest a declaration under Section 193 or 197A of the Income Tax Act, 1961, or a certificate issued by the Income Tax Officer authorising exemption from tax or levy of a lower rate of tax.

Note: Also see Chapter 6.4.

B. Interest on loans from autonomous bodies

3.13.28 During audit of interest vouchers relating to borrowings from institutions like the Life Insurance Corporation of India, National Cooperative Development Corporation and other financial institutions, it should be seen that the payments are covered by sanctions accorded by a competent authority. The correctness of the amounts sanctioned should be verified during local audit of the records in the office of the authority responsible for maintaining the detailed accounts of the loan.

Chapter-14

Audit of Remittance Transactions

Audit objectives and scope

3.14.1 Remittance transactions are not booked to the final heads of account but are taken to merely adjusting heads. Their clearance may be by payment in cash or by book adjustment under the relevant service or revenue heads of account. The primary objectives of audit of these transactions are:

- (i) to verify that the debits and credits have been cleared respectively by corresponding credits and debits within the same or in another audit circle; and
- (ii) to scrutinize the balances from month to month in order to ensure their early clearance and to determine the accuracy of the outstandings at the end of the year.

Main points to be checked in different audit areas

Audit of transactions included in Remittance Accounts

3.14.2 In regard to vouchers relating to Remittance Accounts (Settlement Account), the Audit Officer of the adjusting department is responsible for auditing the charge to ensure that (1) it is a proper charge against a work, office or other expenditure unit under his audit; and (2) it has been duly sanctioned. The general principles and rules of audit governing audit of expenditure apply to disbursements under remittance heads as well.

Note: *If, as in the case of supplies received from another department, the admissibility of the charge depends upon the competence of the officer at whose instance the supplies were received or to order the supplies, the charge should be examined with reference to the authority or sanction required, and, if necessary, it should be placed under objection in the same manner as if the charge had been met by an actual payment by the officer concerned.*

3.14.3 As an exception to the general instructions contained in the preceding paragraph, the audit of charges in the following cases is conducted by an Audit Officer other than the one responsible for the adjustment of the charge:

Sr. No.	Particulars of transactions	Audit Officer	Adjusting Officer
1.	Charges incurred in the Navy, Civil, Public Works, Railways, Posts and Telecommunications and other departments on account of a Field Service Force	Audit Officers of the respective departments	Defence Accounts officer
2.	Revenue and expenditure transactions connected with works of the following departments of Central Government, the execution of which is entrusted to the Public Works Department as a standing arrangement:		
a.	Military Engineering Service, Indian Air Force, Indian Navy and Army Factories.	Accountant General (Audit) who audits the accounts of the Public Works Division concerned	Regional Controller of Defence Accounts in whose jurisdiction the works are executed

b.	Railways, Posts & Telecommunication Department and Archaeological Department	--do--	Accounts Officers of the respective departments
3.	Payments of commuted value of pensions on behalf of other Governments	Accountant General (Audit) in whose jurisdiction the payment is made	Accountant(s) General (A&E) in respect of the Government(s) concerned
4.	Payments on account of pensionary charges on behalf of other Governments, debits for which are passed on through settlement accounts without supporting vouchers and details.	--do--	--do--
5.	Transit pay of a Government servant lent to another Government on reversion to the lending Government	Accountant General (Audit) in respect of the lending Government	Accountant General (A&E) in respect of the borrowing Government
6.	Cost of the printing work (including the cost of stationery used in printing) done by the following Presses of the Central Government, for the State Government and Commercial departments and other paying departments of the Central Government:		
a.	Government of India Press, New Delhi	Director General of Audit, Central Revenues	Accounts Officer of the Government Department concerned
b.	Government of India Press, Calcutta	Accountant General (Audit), West Bengal.	--do--
c.	Forms Press, Aligarh	Accountant General (Audit) Uttar Pradesh	--do--
d.	Government of India Press, Shimla	Accountant General (Audit) Himachal Pradesh	--do--
e.	Government of India Press, Nashik	Principal Director of Audit (Central), Mumbai	--do--
7.	The charge on account of pay, travelling allowance, etc. in cases in which a Government requisitions from another Government the services of Government servant of a commercial department as a witness or of any other Government servant	Accountant General (Audit) in whose jurisdiction the Government servant serves	Accounts Officer of the requisitioning Government

	as a technical or expert witness provided the arrangements exist under a mutual agreement between the two Government		
8.	Pay and allowances drawn during the first phase of training by IAS/IPS Probationers allotted to different States	Accountant General (Audit), Uttar Pradesh	Accountant General (A&E) of the State concerned
9.	Charges incurred by treasury officers on conveyance and freight of postal stationery and stamps	Accountant General (Audit) concerned	Accounts Officer of P&T Department

Notes: *The relative responsibilities of Audit Officers in India and abroad in respect of payments made by the Indian Missions abroad and passed on to the Accounts Officers in India and the sharing of responsibility for the audit of charges relating to stores purchased through the Directorate General, Supplies and Disposals between the Principal Director of Audit, Economic and Service Ministries, and the Audit Officer of the department receiving the stores have been dealt with in Chapter 7 of this Section on Audit of Contracts.*

Audit of Cash Remittances

3.14.4 Besides the cash remittances made by departmental officers rendering compiled accounts, cash remittances take place between treasuries and also between treasuries and currency chests. Every entry of 'remittance into' or 'withdrawal from' accounted for by an account rendering unit has to be cleared by a corresponding opposite entry in the accounts of the unit receiving the remittance or permitting the withdrawal.

3.14.5 The Accountant General (A&E) maintains necessary broadsheets for watching the clearance of remittances relating to the Public Works and Forest Departments, departmental commercial undertakings, State Excise Officers, etc. that render compiled accounts to him. He also maintains a Remittance Check Register for checking cash remittances between treasuries *inter se* and remittances between treasuries and currency chests. Currency transfers in the non-banking treasuries and sub-treasuries in the Union Territory of Lakshadweep are treated as transactions of the Union Government and separate Central Remittance Check Registers are maintained for watching clearance of the debits and credits relating to these transfers. In all these cases the unadjusted debits and credits worked out every month in the registers are carried forward to the next month with complete details.

3.14.6 Audit should ascertain whether proper enquiries have been instituted in respect of all remittances remaining unadjusted for unduly long periods with a view to ensuring early settlement of the outstanding items.

Audit of Reserve Bank of India Remittances

3.14.7 The office of the Accountant General (A&E) ensures that there is a voucher for each entry relating to Reserve Bank of India Remittances in the schedules of payments, and that the amounts mentioned therein agree with those shown in the schedule. The audit of these remittances will be confined to verifying that:

- (i) the total of the issues as reported by the treasuries in the daily schedules is credited to the Reserve Bank of India and the total of the payments as reported in the daily schedules of treasuries is debited to the Bank; and

- (ii) the net receipts or payments for the month under the head 'Reserve Bank of India Remittances' for the whole account circle as worked out in the Detail Book agree with the corresponding adjustment for the month made by the Reserve Bank of India against the balance of the Government concerned.

The responsibility for verifying the encashment of individual telegraphic transfers and drafts against the corresponding drawings rests with the Reserve Bank of India, Central Accounts Section, Nagpur.

Audit of Sterling /Dollar Remittances

3.14.8 The detailed procedure in regard to these remittances intended for financing the Indian High Commission in the United Kingdom and the India Supply Mission in Washington has been discussed in Chapter 10 of this Section on the audit of the accounts of Embassies and Missions abroad.

Chapter–15

Appropriation Audit

Introduction

3.15.1 The general principles and rules governing audit against provision of funds are contained in Chapter 2 of Section II. The responsibility for watching the progress of expenditure against a Grant or Appropriation devolves on the Executive, which is ultimately responsible for restricting the expenditure within the Grant or Appropriation. The progress of expenditure against each unit of appropriation and against each Grant or Appropriation is watched by the Accounts officer of the department where a separated accounts organisation exists or by the Accountant General (A&E) who compiles the accounts. These officers maintain necessary Appropriation Audit Registers and issue warning slips to the departmental officers wherever necessary. Detailed instructions to be followed by the Accountant General (A&E) are contained in the Manual of Standing Orders (Accounts and Entitlements), Volume 1.

Audit Objectives and Scope

3.15.2 The primary objectives of Appropriation Audit are to:

- (i) ascertain whether the money expended has been applied to the services and purposes that the Grants and Appropriations were intended to provide;
- (ii) verify whether the expenditure against each Grant or Appropriation is within the amounts authorised by the Legislature; and
- (iii) check whether the orders of allotment of funds and re-appropriation orders conform to the rules and regulations.

Source documents

3.15.3 The following are the important source documents for audit:

- (i) Orders of allotment of funds and re-appropriation orders.
- (ii) Appropriation Accounts of earlier years.
- (iii) Appropriation Audit Registers.
- (iv) Departmental files containing reasons for excess/savings.
- (v) Abstract Contingent Bills Register maintained by Drawing and Disbursing Officers.
- (vi) Monthly expenditure reports sent by the Drawing and Disbursing Officers to the Controlling Officers.
- (vii) Reconciliation Registers maintained in the A&E Office containing details of reconciliation done by controlling officers.
- (viii) Statements of monthly expenditure submitted by the administrative departments to the Finance Department.

Audit Approach

3.15.4 The Appropriation Audit Wing of each Audit Office will conduct Appropriation Audit every month as soon as intimation is received from the A&E office about the closure of the accounts for the month and availability of the Monthly Civil Accounts containing details of major head-wise totals. Based on this monthly check, the Accountant General (Audit) will identify departments and areas where substantial excess expenditure has been incurred and undertake in-depth scrutiny

thereof in consultation with the departments. Apart from facilitating the selection of areas for undertaking reviews or identification of selective comments in the shape of draft paragraphs for inclusion in the Audit Report, this will provide material for the final appropriation audit.

Audit of Sanctions

3.15.5 Orders of allotment of funds and re-appropriation orders received in Audit should be scrutinised to ensure that:

- (a) these have been issued by an authority competent to do so;
- (b) the allotments made are not in excess of the amounts authorised under the relevant Grant or Appropriation;
- (c) the amount appropriated is available under the unit from which it is allotted;
- (d) amounts re-appropriated are not intended for meeting expenditure on a 'New Service' or a 'New Instrument of Service';
- (e) no amount has been re-appropriated from one Grant or Appropriation to another Grant or Appropriation;
- (f) no amount has been re-appropriated from the 'Charged' Section to the 'Voted' Section and *vice versa*;
- (g) no amount has been re-appropriated from Revenue to Capital and *vice versa*; and
- (h) funds provided under 'Plan' heads have not been re-appropriated to 'Non-Plan' heads without the previous consent of the Finance Ministry/ Department.

Review of variations

3.15.6 Instances of unnecessary and injudicious re-appropriation of funds and surrender of funds based on a study of the trends of actual expenditure and the reasons furnished by the departments for abnormal variations in the Appropriation Accounts should be probed in detail by scrutinising the departmental files. The Accountant General (Audit) should identify and select key areas requiring such detailed probe. Comments on such variations should be incorporated in Chapter II of the Audit Report.

3.15.7 The Accountants General (Audit) should also conduct a comprehensive review of the budgetary procedures followed and the expenditure control exercised in respect of five to ten Grants every year. He may select the Grants for such review on the basis of persistent savings disclosed in past Appropriation Accounts. It should be seen during such review whether the provisions made in the budget/supplementary demands were based on concrete or firm proposals for the speedy implementation of the schemes. The results of these reviews should also be mentioned in Chapter II of the Audit Report.

3.15.8 The Accountant General should also examine independently the reasons for excesses and savings in at least two departments where substantial excess expenditure or savings might have taken place and frame appropriate comments based on the results of the examination. Such detailed appropriation audit should provide an insight not only into the nature of and reasons for the excess expenditure or savings in relation to the budgeted grants but also focus attention, more importantly, on the control failures and deficiencies, delays in decision-making, etc. that might have facilitated the excesses/savings and on the failure of superior authorities to detect and rectify them. Comprehensive instructions for examination of the reasons for excess expenditure/savings are contained in the Annexure.

Annexure
(Referred to in paragraph 3.15.8)

Comprehensive instructions for examination of excess expenditure/savings

1. It will be necessary for audit to examine the veracity of the explanations on excesses or savings in expenditure furnished by the departments. These should be analysed with reference to departmental records and the systems, if any, in place for monitoring expenditure under each unit of appropriation against each Grant or Appropriation. This analysis will be conducted with reference to the excesses or savings under various detailed heads administered by the department concerned and will necessarily be confined to only significant and material variations. While expenditure on Non-Plan items should be examined with greater care, the Plan expenditure should be analysed to ascertain whether the excess expenditure or savings took place in respect of State Plan or Centrally Sponsored schemes and specific and precise reasons therefor should be collected from the relevant files and records. The arrangements, if any, available at the macro level for the scheme-wise monitoring by the department of expenditure on the State Plan and Centrally Sponsored schemes should be examined and failures or deficiencies in such monitoring should be commented upon. In both these cases, the drawing and disbursing officers responsible for the excess expenditure or savings should be identified; it should also be examined *inter alia* whether large amounts drawn through Abstract Contingent Bills to avoid lapse of budget provision remained unadjusted even though the accounts revealed expenditure was incurred in excess.
2. The following aspects will require special attention and probe with reference to the failure of the controlling and drawing and disbursing officers to restrict their expenditure within the allotted amounts:
 - (i) Deficiencies in budgetary procedures and processes that might have resulted in under provisioning or incomplete estimation of requirements based on insufficient information.
 - (ii) Reliability of the estimates and their basis and the extent to which the excess expenditure was avoidable.
 - (iii) Adequacy of mechanisms for budgetary and expenditure control by controlling officers.
 - (iv) Arrangements for reporting of progressive monthly expenditure by the drawing and disbursing officers to the controlling officers and their monitoring by the latter and their adequacy.
 - (v) Adequacy of arrangements for the periodical and prompt reconciliation of expenditure with that accounted for by the Accountant General to facilitate timely detection of the likelihood of the expenditure exceeding allotments and appropriate corrective action.
3. The monthly Civil Accounts, containing the summarised progressive expenditure under each major head, sent by the Accountant General (A&E) to the Finance Department and the administrative Head of the Department concerned should also be seen to determine whether any warning slips were issued by the former to the Executive when the grants were either being exceeded or were almost utilised fully. The corrective action, if any, taken on these intimations by the Finance Department and the administrative Secretary or the controlling officer should also be looked into to determine if it was adequate.

Additional avenues of examination by the audit party reviewing departments incurring excess expenditure persistently

4. Reasons for excess expenditure or savings could be many and varied. Audit parties undertaking reviews of specific departments that persistently incur expenditure in excess of allotments could, with advantage, examine the following and frame appropriate comments after obtaining the explanations of the departments concerned:

- (i) Scrutiny of proposals for supplementary grants to determine whether these were submitted only after a proper assessment of the trend of expenditure or ascertaining the actual expenditure incurred.
- (ii) Instances where amounts surrendered exceeded the overall savings in the grant and analysis of the causes.
- (iii) Cases of expenditure exceeding the amount of deposits received for execution of works. The reasons for the excess and the source from which the excess expenditure was met by the departments concerned should also be ascertained.
- (iv) Instances of expenditure incurred in fulfilment of decrees, which should correctly have been met out of Charged Appropriations, being irregularly met out of voted provisions.
- (v) Cases of excess expenditure attributable to the repayment of overdrafts and shortfall obtained from the Reserve Bank of India. The circumstances leading to the excess expenditure would need to be examined in detail.
- (vi) Cases of conversion of loans given to public undertakings and other autonomous bodies into grants or investments even in the absence of the necessary budget provision. The circumstances in which such necessity arose should be examined in depth.
- (vii) Instances of failure of drawing and disbursing officers to include in their estimates/demands appropriate provision for meeting undischarged liabilities of past periods.
- (viii) Instances of non-adherence by the departments to the prescribed Annual Plan ceilings while incurring expenditure.
- (ix) Adequacy of arrangements for periodical reconciliation of departmental expenditure with that accounted for in the books of the A&E office.
- (x) Action taken by the Finance Department to intimate details of the cuts imposed in the estimated demands of the departments concerned while communicating the approved budget estimates to them and action taken, in turn, by the departments to inform the field units about these cuts.
- (xi) Instances of delays, if any, on the part of the Finance Department in communicating details of approved revised estimates to the departments.
- (xii) Cases of default by the department in furnishing regularly the statements of monthly expenditure to the Finance Department and the Accountant General.

- (xiii) Instances of budget provision being made by the departments for vacant posts held in abeyance on account of a ban on filling up these posts.
- (xiv) Cases of failure of departments concerned to formulate re-appropriation proposals for submission to the Finance Department.
- (xv) Instances of issue of financial sanctions by the Government towards the close of the financial year without ensuring the necessity for drawal of funds and feasibility of their utilisation.

Chapter–16

Certification of Finance Accounts and Appropriation Accounts

Introduction

3.16.1 According to the provisions contained in Section 11 of the Act, the Comptroller and Auditor General shall, from the accounts compiled by him or by the Government or any other person(s) responsible in that behalf, prepare in each year accounts (including, in the case of accounts compiled by him, the Appropriation Accounts) showing under the respective heads the annual receipts and disbursements for the purpose of the Union, of each State and of each Union Territory having a Legislative Assembly and shall submit those accounts to the President or the Governor of the State or Administrator of the Union Territory as the case may be. The President/Governor of a State may, after consultation with the Comptroller and Auditor General by order, relieve him from the responsibility for preparation and submission of the accounts relating to annual receipts and disbursements for the purposes of the Union/State or a Union Territory having a Legislature.

3.16.2 The Comptroller and Auditor General has been relieved from the responsibility for the preparation of Finance Accounts of the Union Government, State Government of Goa and the Union Territory Government of Pondicherry but continues to be responsible for their submission to the President/Governor/Administrator of the Union Territory for being laid before the Parliament/Legislature. The Finance Accounts, covering the accounts of the Union Government as a whole (including transactions of the Departments of Posts and Telecommunications, Defence and Railways and transactions of Union Territory Governments under the Public Account) are prepared and signed for each financial year by the Controller General of Accounts and countersigned by the Secretary to the Government of India, Ministry of Finance (Department of Expenditure). The Union Government Appropriation Accounts (Civil) are prepared and signed by the Controller General of Accounts and countersigned by the Secretary to the Government of India, Ministry of Finance (Department of Expenditure).

3.16.3 The Appropriation Accounts of the Departments of Posts and Telecommunications are prepared separately by the respective Departments. The Appropriation Accounts of the Department of Posts are signed by the Member (Finance), Postal Services Board, and Secretary to the Government of India, Ministry of Telecommunications, (Department of Posts) whereas the Appropriation Accounts of the Department of Telecommunications are signed by the Member (Finance), Telecommunications, and Secretary (Telecommunications). The Financial Advisor, Defence Services and Secretary, Ministry of Defence sign the Appropriation Accounts of Defence Services. Similarly, the Ministry of Railways prepares the Appropriation Accounts of Railways and these are signed by the Financial Commissioner, Railways, and the Chairman, Railway Board, who is also Ex-officio Principal Secretary to the Government of India, Ministry of Railways.

3.16.4 The Accountants General (A&E) concerned prepare the annual accounts (including Appropriation Accounts) in respect of State Governments other than the the State Government of Goa. Accounts relating to the State Government of Goa and the Union Territory Government of Pondicherry are prepared by the State/Union Territory Government.

3.16.5 The Accountant General (Audit)/Principal Director of Audit concerned are required to audit the annual accounts prepared by these authorities before submission to the Comptroller and Auditor General for certification and submission to the President/Governor of the State/Administrator of the Union Territory, alongwith his Report thereon in terms of Article 151 of the Constitution of India/Section 49 of the Government of Union Territories Act, 1963, for being laid before the Parliament/Legislature.

Objectives of Certification

3.16.6 The primary objectives of certifying the annual accounts are:

- (i) to verify whether the accounts prepared are correct and complete in all respects;
- (ii) to ascertain whether the systems followed in the compilation of accounts leading to the Finance Accounts and Appropriation Accounts are satisfactory and fault free;
- (iii) to examine whether acceptable Government accounting standards for financial reporting and disclosures have been complied with; and
- (iv) additionally, in the case of Appropriation Accounts, to verify whether moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been charged or applied.

Audit Procedure

3.16.7 In order to ensure that the submission of the annual accounts is not delayed, it will be necessary to take up scrutiny of the materials forming the basis of the final accounts sufficiently in advance. To facilitate this process, monthly preparation and check of Appropriation Accounts has been introduced. Annexure-1 contains brief details of the procedure followed for the audit and certification of the Finance Accounts and Appropriation Accounts (Civil) of the Union Government. A similar procedure may be evolved locally by mutual consultation between the Accountants General (A&E) and Accountants General (Audit) and between the Accountants General (Audit) and other accounting authorities who compile the accounts of the State Government of Goa and Union Territory of Pondicherry, for scrutiny of the Finance Accounts and Appropriation Accounts of State and Union Territory Governments.

3.16.8 Audit checks exercised on the Finance Accounts and Appropriation Accounts should be meaningful and time bound. Detailed instructions in this regard including those relating to selection of comments to be included in the Appropriation Accounts and Finance Accounts have been prescribed in the Manual of Standing Orders (Accounts and Entitlements), Volume I. These may be taken note of while exercising audit checks.

3.16.9 An independent and thorough check of these Accounts as compiled by the Accountants General (A&E) is essential before the accounts are certified by the Comptroller and Auditor General. Such a check should be exercised by Accountants General (Audit) whose primary duty is to ensure that the systems followed in the compilation of Accounts leading to the Finance Accounts and Appropriation Accounts are satisfactory and fault free. This would necessarily mean that the Accountants General (Audit) have to check these accounts with the connected primary records (including those prescribed under the VLC system) wherever such a necessity is felt to ensure their correctness.

3.16.10 In order to highlight in the Appropriation Accounts instances of unnecessary re-appropriation of funds, inadequate surrender of funds, etc., key areas requiring detailed probe should be selected in advance by the Accountant General (Audit). On completion of this exercise, suitable comments should be proposed for incorporation in the Accounts. Audit should not *suo moto* add or modify what has been stated in the Accounts, but may include comments in the Audit Report if called for on instances of persistent savings, unnecessary or irregular re-appropriation or surrender of funds, etc. under various grants from the cases included in Appropriation Accounts.

Certification of State and Union Territory Accounts

3.16.11 The Accountant General (A&E) has the ultimate responsibility for finalising the Finance Accounts and Appropriation Accounts of the States and Union Territory Governments, other than those relating to State of Goa and Union Territory of Pondicherry). He is also responsible for getting these accounts checked (both at intervening and final stages) by the Internal Test Audit Wing and the Accountants General (Audit) and submitting the finalised Accounts as well as the printed copies with the prescribed audit certificates, to the Comptroller and Auditor General. The Accountant General (Audit) will furnish him the prescribed audit certificates in respect of the Finance Accounts and Appropriation Accounts in the forms contained in Annexures 2 and 3 for being submitted to the Comptroller and Auditor General while forwarding the printed copies for signature.

3.16.12 The respective Governments prepare the Appropriation Accounts and Finance Accounts of the State of Goa and Union Territory of Pondicherry. The Principal Director of Audit (Central), Mumbai, and the Accountant General (Audit), Tamil Nadu, respectively will check the Accounts so prepared at the draft stage so that the observations of Audit may be taken note of by the compiling officers before finalising the compilation. If, in any case, the suggestions of Audit are not accepted, such audit comments, as may be necessary, will be incorporated by the Principal Director of Audit/Accountant General in the Audit Report. The Accounts as finalised will be signed by the Finance Secretary and countersigned by the Chief Secretary to the State/Union Territory Government. The Principal Director of Audit (Central), Mumbai/ Accountant General (Audit), Tamil Nadu, will forward the printed copies of the Accounts along with the prescribed audit certificates for signature of the Comptroller and Auditor General.

Issues for scrutiny in audit of accounts

3.16.13 Some of the main points, which should be specially looked into while conducting audit of the annual accounts are explained in the following paragraphs. They are in no way to be taken as exhaustive, and may be supplemented by more detailed scrutiny, wherever necessary.

Finance Accounts

3.16.14 While certifying the Finance Accounts, it should be examined whether:

- (i) the heads of account shown in the Accounts are authorised ones and the nomenclature thereof conform to the classification contained in the List of Major and Minor Heads of Accounts;
- (ii) there are any anomalies or obvious mistakes of classification;
- (iii) wide variations between the revised estimates and the actual expenditure have been properly examined to ensure that there has been no serious misclassification of expenditure;
- (iv) *per contra* adjustments have been carried out correctly in all cases;

- (v) abnormal transactions of receipts, disbursements or balances have been investigated and rectified or properly explained by foot notes.

Note: *The balances under Debt, Deposit, Suspense and Remittances, etc. should be particularly reviewed in detail. While forwarding Chapter I of the Audit Report alongwith the audited copy of Finance Accounts, a report similar to that given by the Commercial Auditors on company accounts containing, inter alia, a critical appreciation and review of balances highlighting obvious omissions and commissions should be furnished to the Headquarters Office.*

- (vi) the opening balances agree with the closing balances shown in previous year's accounts;
- (vii) the adverse balances have been adequately explained and the action taken for liquidating these is sufficient;
- (viii) the amounts shown against the minor head "Writes off from heads of account closing to balance" under the major head "8680 - Miscellaneous Government Account" are covered by sanctions issued by the Comptroller and Auditor General or the Controller General of Accounts or other accounting authorities in cases where the accounts have been departmentalised or separated from Audit or other authorities to whom the power has been delegated;
- (ix) the codal provisions governing the transfer of the entire balance under "Cash Remittances between treasuries and currency chests" under the major head "8782" to 'Remittances in transit' under the major head "8999" and that under "8675 Reserve Bank Deposits" to "8999 - Cash Balance - Deposits with Reserve Bank" have been observed leaving no balance under the former heads;
- (x) the balance under "Deposits with Reserve Bank" agrees with the balance communicated by the Bank and, if not, the difference has been properly explained;
- (xi) the figures tally with those contained in the Appropriation Accounts;
- (xii) the figures exhibited in the summarised statements agree with those in the detailed statements; and
- (xiii) totals shown in the statements are correct;

Further, advances drawn from the Contingency Fund and their subsequent recoupment should be carefully watched so as to ensure that they are properly accounted for and there is no omission. Any discrepancies between Statements 13 and 14 should also be checked and corrected.

Appropriation Accounts

3.16.15 In scrutinising the Appropriation Accounts, it should be examined whether:

- (i) the number and/or nomenclature of the Grant/Appropriation have been mentioned correctly;
- (ii) the heads of account mentioned in the Accounts are authorised ones;
- (iii) the sub-heads have been grouped separately in the 'Revenue' and 'Capital' Sections and 'charged' and 'voted' figures have been shown distinctly;
- (iv) the original provisions, supplementary provisions and amounts re-appropriated or surrendered have been exhibited correctly;

- (v) gross figures of expenditure have been adopted in cases where recoveries by debit to heads of account under a different Grant/Appropriation are adjusted in reduction of expenditure;
- (vi) excesses and savings have been explained in all cases according to the monetary limits prescribed and wanting information, if any, has been called for;
- (vii) the facts and figures mentioned in various “Notes” are correct;
- (viii) the grant-wise details of estimates and actual recoveries adjusted in reduction of expenditure have been prepared correctly;
- (ix) the amounts exhibited in the accounts tally with those shown in the Finance Accounts; and
- (x) the amounts shown in the Grant Summary of Appropriation Accounts agree with those in the individual Appropriation Accounts and grant-wise details of recoveries, and reconciliation of the expenditure in the Appropriation Accounts with that reflected in the Finance Accounts has been worked out correctly in the Grant Summary.

Note: *The above mentioned audit checks applicable under the manual system of accounting will also apply mutatis mutandis to accounts compiled under VLC system, as and when introduced.*

It has also to be ensured that variations under “Revenue Expenditure”, “Capital Expenditure”, “Loans”, “Charged” and “Voted” categories have been separately worked out/commented upon. Instances of defective budgeting should be highlighted if provision has not been made under the correct head of accounts. When large funds are provided by re-appropriation, it should be examined to ascertain whether the provision relates to a New Service and, if so, the Public Accounts Committee should be briefed and suitable guidelines issued in the matter.

Provisional Adjustments

3.16.16 In cases where provisional adjustments have been made due to non-availability of correct figures before the closure of the accounts for the year, it should be verified whether the competent authority's sanction has been obtained for such adjustment. It should also be seen whether adequate action has been taken to collect the particulars necessary for carrying out the final adjustment at the earliest and if possible in the same year's accounts by a belated journal entry. The practice of restricting adjustments in accounts to the extent of the available provision is against the principles of Parliamentary control of public finance. The proper course to be followed, where details are available for adjustment, is to make the adjustment and explain suitably the excess/saving in the Appropriation Accounts.

Note: *The basis of adjustment of interest on Provident Fund in Government account by the Accountant General (A&E) should be verified while checking the Appropriation Accounts and any case of defective budgeting in the ‘Interest Appropriation’ should be reported to the Headquarters Office.*

Check of Classification

3.16.17 Under Article 150 of the Constitution, the form in which the accounts of the Union and of the States shall be kept is to be prescribed by the President on the advice of the Comptroller and Auditor General. This function is exercised, on behalf of the President of India, by the Controller General of Accounts, Ministry of Finance (Department of Expenditure). The forms of accounts of the Union, State and Union Territory Governments are devised keeping in view the provisions of various Articles

of the Constitution and Sections of the Government of Union Territories Act, 1963. The List of Major and Minor Heads of Account of Central and States-Receipts and Disbursements maintained by the Controller General of Accounts, on the advice of the Comptroller and Auditor General, prescribes the pattern of classification of the transactions of Government pertaining to the Consolidated Fund, the Contingency Fund and the Public Account. On the advice of the Comptroller and Auditor General, the Central Government has also issued the 'Form of Accounts of the Union and States (Basic) Rules'. These Rules provide *inter alia* for the issue of subsidiary instructions relating to the content and manner of maintenance of accounts by the Ministry of Finance on the advice of Comptroller and Auditor General. The rules and directions issued under Article 150 of the Constitution regulate the classification of all financial transactions. The incidence of charge is also regulated by the directions issued under this Article. The Comptroller and Auditor General in his capacity as auditor of the accounts of Government is responsible for securing that entry of financial transactions in the accounts conforms to such forms, rules and directions.

Notes:

- (i) *The functions of the Central Government under Article 150 of the Constitution in so far as these relate to the opening of sub-heads and detailed heads of account under various major and minor heads of account in the accounts of the State and Union Territory Governments have been delegated by the President under Article 258/239(i) to the State Government/Administrator of the Union Territory Government concerned. The power to tender advice to the State/Union Territory Government in this matter has similarly been delegated to the Accountant General (A&E) concerned by the Comptroller and Auditor General in terms of Section 21 of the Act.*
- (ii) *Forms of accounts relating to Railways, Posts and Telecommunications and Defense Departments are determined by the departmental authorities within such range and such aspects as may be prescribed by the Controller General of Accounts on the advice of the Comptroller and Auditor General. Similar delegations as in Note (i) above have been made to the Ministry of Railways, Director General of Posts and Telecommunications, Controller General of Defense Accounts and the accredited Audit Officers of those departments.*

3.16.18 The principle of classification of transactions in Government Accounts is that there is a closer reference to the function, programme, scheme or activity to which the transaction (receipt or payment) relates, rather than the department in which the expenditure or receipt occurs. Thus, the cost of construction of a hospital is classified under the major head “4210-Capital outlay on Medical and Public Health” and not under the head of account of the Public Works Department in which the expenditure on construction of the hospital is actually incurred. Similarly, interest on loans given by different departments is credited to the major head “0049-Interest Receipts” irrespective of the departments in which the interest is realised. Refunds of Revenue are taken in reduction of receipts under the concerned Receipt Head.

A. Audit of Classification

3.16.19 Classification of transactions should be scrutinised in audit to verify that:

- (i) the major, minor and detailed heads of account mentioned in the paid vouchers are authorised heads;
- (ii) the expenditure has been classified according to the provisions made in the the annual financial statement approved by the Parliament/Legislature and is in accordance with the provisions of Rules 22 *et seq* of the Form of Accounts of the Union and States (Basic) Rules;

- (iii) no expenditure has been classified as 'charged' on the Consolidated Fund of India, of the State or of the Union Territory, as the case may be, except in accordance with the terms of the Constitution, and conversely that no expenditure that should be 'charged' has been classified as 'voted'; and
- (iv) expenditure which should have been classified in the 'Capital' section of the account has not been classified incorrectly in the 'Revenue' section and *vice versa*.

B. Responsibility for laying down Principles of Classification

3.16.20 As indicated earlier, the Controller General of Accounts prescribes the form of accounts on the advice of the Comptroller and Auditor General. The term "form of accounts" covers also the principles of classification and thus the ultimate responsibility for prescribing the correct classification of the transaction rests on the Controller General of Accounts. In determining the classification of doubtful items, if an Accountant General does not agree with the opinion of the Government, he should refer the matter to the Comptroller and Auditor General for consideration and taking up the case with the Controller General of Accounts, where ever necessary.

C. Allocation of Expenditure between Capital and Revenue

3.16.21 It should be borne in mind that the Comptroller and Auditor General would not demur to a decision of the Executive to meet expenditure either from current revenues or from borrowed moneys, so long as this decision is generally in conformity with the budget proposals passed by the Legislature or has otherwise received its specific approval. It is however, the duty of Audit to bring to notice occasions on which the classification of expenditure between revenue and capital or its distribution between current revenues and loan funds appears to be contrary to the dictates of sound and prudent financial administration. The principles upon which such criticism should be based are described in the following paragraphs.

D. Principles for Classification of Expenditure as Capital Expenditure

3.16.22 Capital expenditure is incurred either for increasing concrete assets of material and permanent character or reducing recurring liabilities. On the other hand, revenue expenditure is the current expenditure of Government on its day to day functions and services. To be more specific, it can be said that the benefit arising from capital expenditure is received over a period of many years, but the benefit derived from revenue expenditure is short term and not of a permanent character. Classification of expenditure as "Revenue" or "Capital" is not determined by the source from which expenditure is met but by the nature of the expenditure itself. The following considerations are relevant in deciding whether or not expenditure is of a capital nature:

- (i) It is not essential that the concrete assets should be productive in character or that they should even be revenue producing. A productive asset may be considered as one which produces sufficient revenue to afford a surplus over all charges relevant to its functioning. It may, on rare occasions, be necessary and justifiable to treat as capital a scheme not commercially remunerative but involving substantial expenditure, say for instance, a scheme for the construction of a new city.
- (ii) The purpose of the commutation of recurring liabilities is their extinction or reduction. Although expenditure on this purpose may be genuinely capital expenditure, it is always necessary to examine from

the point of view of economical financial administration whether such capital expenditure does not in fact merely replace one set or recurring payments by another, e.g., whether the commutation of the monthly payments by debit to capital does not result in substitution of equivalent payments of interest.

- (iii) It is inherent in the definition of capital expenditure that the assets produced should belong to the authority incurring the expenditure. Expenditure by Government on grants-in-aid to local bodies or institutions to the purpose of creating assets that will belong to these local bodies or institutions cannot legitimately be considered as capital expenditure.
- (iv) Expenditure on a temporary asset cannot ordinarily be considered as expenditure of a capital nature.

Note: *In some cases, according to the policy adopted by the Central, State or Union Territory Governments, certain types of expenditure which do not conform to the definition of capital expenditure are capitalised, as such expenditure due to its magnitude cannot be met from current revenues. Grants or subventions, expenditure on temporary construction works, etc. are some examples. This is done subject to the condition that the expenditure initially capitalised will be written back to revenue over a number of years. The Audit Offices should keep a systematic watch over the fulfilment of this important stipulation. It has also to be ensured that the temporary capitalisation of the expenditure has been specially authorised by the Controller General of Accounts on the advice of the Comptroller and Auditor General, as provided for in the Note below Rule 26 (1) of the Form of Accounts of the Union and States (Basic) Rules.*

3.16.23 When it has been decided that expenditure on a scheme for the creation of a new or additional asset shall be classed as capital, the following are the main principles applicable to the treatment of the expenditure in the accounts:

- (i) Capital bears all charges for the first construction of a project as well as charges for intermediate maintenance of the work while not yet opened for service and bears also charges for such further additions and improvements as may be sanctioned under rules made by competent authority.
- (ii) Subject to (iii) below, revenue bears all subsequent charges for maintenance and all working expenses. These embrace all expenditure on the working and upkeep of the project and also on such renewals and replacements and such additions, improvements or extensions as under rules made by competent authority are to be debited to the Revenue Account.
- (iii) In the case of works relating to renewal and improvements, which partake both of capital and revenue nature, it is impracticable to draw a hard and fast line between what is to be properly debited to capital or to revenue. Allocation in such cases is made by detailed rules and formulae devised by the Executive authorities, which are applied in estimates and accounts to determine the allocation of expenditure between capital and revenue. These rules and formulae must necessarily be based upon some general principle of sound finance, which should aim at an equitable distribution of burdens between present and future generations.

Note: *Where a Depreciation or Renewals Reserve Fund is established under special orders of Government for renewing assets of any commercial department or*

undertaking, the distribution of expenditure on such renewals and replacement between the Capital account and the Fund should be so regulated as to guard against over-capitalisation on the one hand and excessive withdrawals from the Fund on the other.

3.16.24 In theory, it is legitimate to make capital bear the charges for interest on money borrowed to finance the construction of a new project before the project becomes revenue earning. In fact, however, a Government project is only part of the operations of Government and it may be sound financial administration to meet interest charges from other revenues during the process of construction. The charge of interest to capital in Government accounts is justified only when there would be undue disturbance in the Government's budgetary position by taking interest to revenue. The writing back of capitalised interest should be the first charge on any capital receipts or surplus revenues derived from a project when commissioned.

3.16.25 Expenditure on account of reparation of damage caused by extraordinary calamities such as flood, fire, earthquake, enemy action, etc. should be charged to Capital account or to Revenue account or divided between them in such a way as may be determined by Government according to the circumstance of each case.

3.16.26 Capital receipts in so far as they relate to expenditure previously debited to capital in the course of construction of a project should be utilised in reduction of expenditure. Thereafter their treatment in the accounts may depend on circumstances. However, except in the case of recovered stores of Railways and the Posts and Telecommunications department, or as otherwise provided in the rules of allocation applicable to a particular department, they should never be credited to the ordinary revenue account of the undertaking.

3.16.27 The financial and accounting conception of capital expenditure is imported from commercial theory and practices, and an essential feature is that expenditure of a capital nature is not met from the revenue or profits of a concern. In the sphere of Government accounts, the classification of expenditure as capital expenditure affords, *prima facie*, justification for recording it outside the Revenue Account of Government. The essential purpose of the opening of capital heads of account is to facilitate the exhibition of the financial results of any special undertaking on the basis of generally accepted commercial principles, or in some more simple conventional manner, either that the cost of a service may be ascertained or that the full financial implications of any policy may be made clear.

E. Sources for financing Capital Expenditure

3.16.28 Expenditure of a capital nature may be financed from the following sources:

- (i) Surplus Revenue.
- (ii) Borrowings either specific for a particular purpose or non-specific for all Government purposes or unfounded.
- (iii) Sources other than revenue and borrowings; e.g. accumulated balances.

For the purpose of accounts, (ii) and (iii) are grouped together, the capital expenditure met from these sources being described as outlay financed outside the Revenue Account and being quite apart in treatment from expenditure met from revenue. On the other hand, expenditure of a capital nature met from revenue is accounted for under the appropriate major head within the Revenue Account, as any other expenditure of a revenue nature.

3.16.29 It is the function of Government, and not of Audit, to determine the source from which expenditure of a capital nature shall be financed. According to the decision of Government, the expenditure will be classified under the appropriate major head outside or within the Revenue Section of the Accounts.

Note: *The Government of India and State Governments have decided that ordinarily expenditure of a capital nature will not be debited to a capital head outside the Revenue Account except in the case of new works, where the cost individually exceeds Rupees one lakh or where the individual cost is below this limit but the works form part of the scheme having a continuity of purpose, time and space and the cost of the scheme as a whole exceeds Rs 5 lakhs.*

3.16.30 It is the function of Government to determine the source from which expenditure of a capital nature shall be financed. However, it is one of the duties of Audit to bring to the notice of the proper financial authority cases in which its decision appears contrary to principles of sound financial administration. The principle of prudent finance was once enunciated by the Government of India in the following terms:

"Two conditions must be fulfilled before it would be justifiable for the Government of India to spend loan funds on unproductive purposes. These are, firstly that the objects for which the money is wanted are so urgent and vital that the expenditure can be neither avoided, postponed nor distributed over a series of years, and secondly that the amount is too great to be met from current revenues".

It may be said generally that the cost of all comparatively small schemes, whether productive or unproductive, ought to be met from revenue. Audit will legitimately use its influence in this matter by discouraging a tendency to secure relief from present taxation by the expedient of transferring items of expenditure doubtfully classifiable as capital from the Revenue section of the budget to the section outside the Revenue Account.

3.16.31 It must be remembered that while it may seem to be sound and prudent practice to meet any expenditure, whether of a capital nature or otherwise, from revenue, it follows that the revenue derived from taxation and other revenue sources must be sufficient to cover the expenditure debitable to it. Otherwise, the debit to borrowed funds is merely disguised, since in normal circumstances revenue deficits must be financed from borrowings.

F. Duties of Audit in relation to allocation of expenditure

3.16.32 The duties of Audit in relation to the allocation of expenditure between Capital and Revenue and in connection with the record of expenditure inside the Revenue Account are briefly as follows:

- (i) It should see that commonly accepted accounting or commercial principles are not infringed.
- (ii) It should verify that the accounts exhibit the true financial facts.
- (iii) It should bring to notice transgression of generally accepted principles of public finance.

It should be remembered that the Controller General of Accounts is ultimately responsible for prescribing the correct classification of expenditure on the advice of the Comptroller and Auditor General.

3.16.33 Discussions of the allocation of expenditure between capital and revenue, and of the legitimacy of financing expenditure from funds outside the Revenue Account often involve difficult questions of policy. An Accountant General would, therefore, be well advised to consult the Comptroller and Auditor General in cases of doubt before objecting to any Government action in this regard.

3.16.34 In cases where it is decided to write down capital, it is the duty of Audit to satisfy itself that such writing down is approved by the competent authority for valid reasons and is in accordance with commonly accepted principles both of commercial accounting and Government financial control. Where necessary, the writing down of capital should also be mentioned in the Audit Report.

G. Transactions pertaining to Reserves and Reserve Funds

3.16.35 Any device of rendering grants non-lapsing by withdrawing amounts to a fund is contrary to the strict theory of parliamentary financial control. But if such a course is adopted with the cognisance and approval of the Legislature, Audit cannot demur. Subject to this fundamental condition, the Union and State Governments may constitute Reserves or Reserve Funds under any statutory provision or otherwise. This can be done either by allotment of sums from the Consolidated Fund of India or of a State or of a Union Territory, or from grants or contributions made by other Governments or outside agencies, with the objective of expending the moneys accumulated in the funds on the specific and particular purposes for which they have been constituted. The procedure of accounting for transactions pertaining to such funds will ordinarily be determined by the procedure followed in budgeting for these transactions. It shall, however, be the duty of Audit to see that the procedure adopted in budgeting and accounting for such transactions generally conforms to the principles mentioned in this paragraph and where departures are made from these principles, to suggest to the Government the desirability of following them. The Reserves or Funds referred to may be classified under the following three categories according to the sources from which they are fed:

- (i) Funds accumulated from grants made by another Government and at times aided by public subscriptions: e.g. Fund formed from subventions from the Central Road Fund; Fund for Economic Development and Improvement of Rural Areas.
- (ii) Funds accumulated from sums set aside by the Union/State/Union Territory Government from the Consolidated Fund of India or of the State or of the Union Territory, as the case may be, to provide reserves for expenditure to be incurred by themselves on particular purposes. Various Depreciation or Renewals Reserve Funds created in respect of commercial departments and undertakings are examples.
- (iii) Funds accumulated from contributions made by outside agencies to the Union, State or Union Territory Governments: e.g., grants made by the Indian Council of Agriculture Research, Indian Central Cotton Committee, etc.

3.16.36 The main principles that would govern expenditure from these funds and its exhibition in estimates and accounts are set out below:

- (i) A grant to the Union, State or Union Territory Government by another Government should be treated as ordinary revenue of the recipient

Government irrespective of whether the grantor Government retains control over the expenditure from the grant or not.

- (ii) A grant from an outside agency to the Union or a State or a Union Territory Government made without reserving control over the expenditure therefrom should also be treated as ordinary revenue of Government.
- (iii) Where reserves are created out of the grants mentioned in sub-paras (i) and (ii) above and also out of moneys set aside by the Union/State/Union Territory Government from the Consolidated Fund of India or of the State or of the Union Territory as the case may be, the transfers to and the expenditure from the reserves are required to be voted by the Parliament/Legislature (or shown as "charged").

3.16.37 The method of accounting which, having regard to the aforesaid principles, should be applied to the reserves mentioned in paragraph 3.16.35 above will be as follows:

- (i) The grants from outside agencies who do not retain control over the expenditure met therefrom and the grants from other Governments will be taken to the relevant receipt head of account of the Government and the expenditure on the scheme or projects recorded under the expenditure major head concerned.
- (ii) In the case of funds of the first and second categories referred to in paragraph 3.16.35 above, the amounts set aside by the Union/State/Union Territory Government from the Consolidated Fund of India/State/Union Territory to provide reserves for expenditure to be incurred by themselves on particular purposes should be taken to the deposit head opened for the purpose.
- (iii) In both cases, in order to bring the expenditure from the fund into the Appropriation Accounts, the expenditure should be accounted for under the relevant service head of expenditure under which provision of funds has been made and an equivalent amount will be credited to the service head concerned by transfer from the deposit head concerned and shown as a deduct entry thereunder.

Note: *In cases where the outside agencies retain control over the execution of schemes/projects, the grants-in-aid received from such agencies and the expenditure on the scheme/project will be accounted for under a deposit head opened for the purpose.*

3.16.38 The principles and procedures prescribed in paragraphs 3.16.35 to 3.16.37 do not apply to transactions pertaining to the Famine Relief Fund and Sinking Funds for loans which are governed by special arrangements.

Annexure-1
(Referred to in paragraph 3.16.7)

**Procedure for Audit and Certification of the Finance Accounts and
Appropriation Accounts (Civil) of the Union Government**

The material for the Union Government Finance Accounts prepared by the Central Accounting Authorities is forwarded simultaneously to the Controller General of Accounts and to the Director General of Audit, Central Revenues, Principal Director of Audit, Economic and Service Ministries, Principal Director of Audit, Scientific Departments, and other accredited Audit Officers. The Audit Officers arrange checking of the material through local audit with reference to the initial records maintained by the accounting authorities. The material so checked by the accredited Audit Officers is sent to the Director General of Audit, Central Revenues, along with the audit certificate (Annexure-4). In the case of Central transactions appearing in the statement of Central transactions and other material furnished by the Accountants General (A&E) of the States and Union Territories and the Director of Accounts, Goa, only the audit certificate is furnished to the Director General of Audit, Central Revenues, by the concerned accredited Audit Officers. The Controller General of Accounts consolidates the materials received by him and makes available copies of consolidated statements to the Director General of Audit, Central Revenues, for checking the consolidation by the local audit party. The audit observations raised at both stages are got settled before finalisation of the various statements. The finalised statements are then received in Central Audit, where they are again examined generally.

2. Audit of the Appropriation Accounts (Civil) of the Union Government is conducted by the Director General of Audit, Central Revenues, Principal Director of Audit, Economic and Service Ministries, Principal Director of Audit, Scientific Departments, and other accredited Audit Officers in two stages; the first stage relates to check of grant portion of each Appropriation Account while the second stage involves scrutiny of each of these Accounts as a whole.

3. The respective accounting authorities furnish to the Director General of Audit, Central Revenues, Principal Director of Audit, Economic and Service Ministries, Principal Director of Audit, Scientific Departments, and other accredited Audit Officers grant statements (columns 1 and 2 of the Appropriation Accounts) supported by certified lists of all re-appropriation and surrender orders issued in respect of each Grant or Appropriation during the financial year and copies of those orders. These are scrutinised and audit comments communicated to the accounting authorities for corrective action before preparation of the Appropriation Accounts of the relevant individual Grant or Appropriation. Every effort is made to get the points raised at this stage settled by the time head-wise Appropriation Accounts are prepared.

4. After the accounts for the year are closed, head-wise Appropriation Account of each Departmentalised Grant/Appropriation is prepared by the accounting authority and sent in batches to the Director General of Audit, Central Revenues, Principal Director of Audit Economic and Service Ministries, Principal Director of Audit, Scientific Departments, and other accredited Audit Officers for scrutiny, with a copy to the Controller General of Accounts. The second stage of scrutiny starts from this point. These Accounts are initially examined generally in Central Audit and thereafter checked in Local Audit with reference to the initial records viz., the Classified Abstracts, Appropriation Audit Registers and re-appropriation and surrender orders.

The defects/discrepancies noticed in Central Audit as well as Local Audit are then communicated to the accounting authorities for rectification. After the audit observations are satisfactorily met a "No Comments" letter is issued to the accounting authority. On receipt of this letter, the accounting authority furnishes four copies of head-wise Appropriation Account to the Director General of Audit, Central Revenues, Principal Director of Audit, Economic and Service Ministries, Principal Director of Audit, Scientific Departments, and other accredited Audit Officers and one copy to the Controller General of Accounts. Of these four copies, two copies are signed by the Financial Adviser and the remaining two copies are authenticated by the Chief Controller of Accounts/Controller of Accounts. These accounts are again checked in the Central Audit and Local Audit Wings with a view to ensuring that all audit observations have been compiled with. One copy of the head-wise Appropriation Accounts along with the following audit certificate is forwarded by accredited Audit Officer to Director General of Audit, Central Revenues.

"I have examined the above accounts and according to the best of my information, as a result of test audit of the books and consideration of explanations given to me, I certify that the account is correct".

5. On the basis of head-wise Appropriation Accounts, the Controller General of Accounts prepares the condensed Appropriation Account in respect of each Departmentalised Grant/Appropriation and sends it to the Director General of Audit, Central Revenues. These condensed accounts are scrutinised in Central Audit with reference to the head-wise Appropriation Accounts and returned to the Controller General of Accounts with comment, if any.

6. As the Comptroller and Auditor General has not been relieved of the responsibility for compiling the accounts pertaining to the Indian Audit and Accounts Department, Union Territory Administrations of Dadra and Nagar Haveli, Lakshdweep and Chandigarh and of pensions including pensions to freedom fighters, their dependents etc. and pensions and awards in consideration of distinguished services, the head-wise Appropriation Accounts of these grants are prepared and signed by the authorities indicated below:

- (i) **Pensions:** The head-wise Appropriation Accounts of this grant is prepared and signed by Director General of Audit, Central Revenues on the basis of material furnished by the Accountants General/Principal Directors of Audit and Chief Controller of Accounts, Ministry of Finance (Department of Expenditure).
- (ii) **Audit:** The head-wise Appropriation Accounts of this Grant is prepared by the Director General of Audit, Central Revenues, in his capacity as the Principal Pay and Accounts Officer of the Indian Audit and Accounts Department. These accounts are signed by the Deputy Comptroller and Auditor General of India in his capacity as the Chief Accounting Authority of this grant.
- (iii) The head-wise Appropriation Accounts relating to the Union Territories of Chandigarh, Dadra and Nagar Haveli and Lakshdweep are prepared and signed by the Accountants General (A&E), Punjab, Gujarat and Kerala, respectively and furnished to Director General of Audit, Central Revenues. The audit scrutiny of the head-wise Appropriation Accounts of these accounts is, however, conducted by the Accountants General (Audit), Haryana, Gujarat and Kerala respectively.

7. Seven signatory copies and one ordinary copy of the printed Accounts duly signed by the Controller General of Accounts and countersigned by the Secretary, Ministry of Finance (Department of Expenditure) are sent by the former to the Director General of Audit, Central Revenues, who forwards them for signature of the Comptroller and Auditor General, with the requisite certificate.

Annexure-2
(Referred to in paragraph 3.16.11)

Form of Audit Certificate to be furnished by Accountant General (Audit)
in respect of Finance Accounts of State Governments

I certify that the accounts compiled by Accountant General (A&E) for incorporation in the Finance Accounts of the Government of for the year have been examined and audited by me in accordance with Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

I certify that subject to the observations in the Report of the Comptroller and Auditor General of India and in the Finance Accounts, I am satisfied that the balances whether in cash or investments, under each head under "Debt, Deposits and Remittances" have been duly verified and found to agree with those shown in the separate registers or other records maintained in the Accounts Offices and that the debits and credits to the various Reserve Funds and Deposit Accounts were for amounts authorised by relevant Acts or Rules of the Fund and that there were no diversions for purposes other than those for which the Funds were constituted or the grants were made.

I have obtained all the information and explanations necessary and according to the best of my information and on the basis of certificates I have obtained from other Audit Officers, to the extent they are responsible for the audit of these accounts and as a result of test audit carried out under my direction and on consideration of the explanations given to me, I certify that, to the best of my knowledge and belief, the accounts are correct subject to the observations made therein and in the Report of the Comptroller and Auditor General of India for the year (Civil), Government of

ACCOUNTANT GENERAL (AUDIT)

Annexure-3
(Referred to in paragraph 3.16.11)

Form of Audit Certificate to be given by Accountant General (Audit)
in respect of Appropriation Accounts of State Governments

The Appropriation Accounts of for the year have been examined by me. On the basis of the information and explanations that my officers required and have obtained, and according to the best of my information as a result of test audit of the Accounts, I certify, in pursuance of the provisions of Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 that these accounts are correct, subject to observations in the Report of the Comptroller and Auditor General of India on the Accounts of the Government of (Civil) for

ACCOUNTANT GENERAL (AUDIT)

Annexure-4
(Referred to in Annexure-1)

Form of Audit Certificate to be furnished by Accredited Audit Officer

“I certify that the Accounts compiled by
..... for incorporation in the Finance Accounts of the Union Government
for the year have been examined and audited under my direction in
accordance with the requirements of Articles 149 and 151 of the Constitution of India
and the Comptroller and Auditor General’s (Duties, Powers and Conditions of
Service) Act, 1971.

As a result of test audit carried out under my direction and on consideration of
explanations given to me, I certify that, to the best of my knowledge and belief, the
accounts and review of balances have been correctly prepared.”

Chapter–17

Audit of World Bank and other Externally Assisted Projects

Audit objectives and scope

3.17.1 Audit is responsible for reporting to the funding agency whether the implementing agencies have carried out expenditure on the scheme in accordance with the pattern specified in the staff appraisal report relating to the schemes and terms of such assistance and Government of India instructions and to identify matters relating to inadequacies in systems and control, cases of fraud or presumptive fraud, wasteful expenditure, failure of administration to take corrective action on recommendations contained in earlier report.

Source documents

3.17.2 Staff appraisal reports, loan agreement, monthly account or financial statements and supporting vouchers, contracts relating to work, methods adopted for procurement, transfer entries, estimates of a work to identify any inadmissible items from the rate analysis of a particular work, quality control reports, comments of World Bank.

Document essential for Audit certification

3.17.3 Following documents are essential for scrutiny and issue of audit certificate:

- (i) Loan/Development Credit Agreement.
- (ii) Staff appraisal report.
- (iii) Statement of expenditure (SOE).
- (iv) Supporting vouchers.
- (v) Reconciliation statement
- (vi) Inspection report of local/central audit for inclusion of any serious financial irregularities pointed out in audit.

Audit Approach

3.17.4 Local audit is to look into eligibility of contractors, investment decisions and implementations, methods adopted in selecting contractors, review of viability of the project, review of the project management system to ensure that the work is properly and effectively supervised and executed and that there is accountability throughout the various stages of the project.

3.17.5 For some payments of miscellaneous nature, e.g. remittance vouchers, cheques, discount vouchers etc. nothing more than a minimum audit can be prescribed generally; this minimum consists in verifying that there is a sufficient voucher for the payment and that there is sufficient authority for making it.

Issue of Audit Certificate

3.17.6 While issuing audit certificate, it should be ensured that the expenditure is incurred for the purpose it is meant and conforms to the procedure and terms and conditions of agreement and Government of India's instructions. All objections raised during local audit should also be mentioned in the Audit Certificate (Proforma as per Annexure) duly signed by Group Officer.

3.17.7 As per existing instructions issued by Ministry of Finance (Department of Economic Affairs), SOE should reach the Accountant General (Audit) by 31st July following the close of financial year. Implementing agency is to obtain, reconciled and verified SOE from Accountant General (A&E) so that Audit certificate could be

issued in time. There should be proper interaction between the Audit and Accounts and Entitlement office to avoid unnecessary delay.

3.17.8 The irregularities noticed during audit should be indicated in brief with Audit Certificate. Audit Certificate should be issued in printed revised proforma and on printed letterhead appended as Annexure to this section.

3.17.9 After the closure of every financial year; the audit certificate shall be issued within 9 months or earlier as required under the Project/Loan Agreement i.e. certificate should be issued any time after receipt of SOE. The issue of the Audit Certificates is delayed mainly due to non-receipt of the SOE's from the project implementing authorities and there is a general tendency to shift the responsibility for delay on Audit. To overcome this problem, timely and prompt action by taking up the matter with the Finance Secretary of the State should be initiated. Audit certificate should be issued to project implementing authority under intimation to Ministry of Finance (Department of Economic Affairs).

Main Points to be checked in Different Audit Areas

3.17.10 The agreements for loan/development credit entered into by the International Bank for Reconstruction and Development and International Development Association with the Government of India for financing development projects to be implemented by departments of the Central Government, States Governments, Public Sector Undertakings and Autonomous Bodies, etc. include specific covenants for Accounts and Audit. These covenants *inter alia* provide that the Government of the Project entity shall; (a) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of the Project, (b) have the records and accounts of the project for each fiscal year audited in accordance with appropriate auditing principles consistently applied by independent auditors acceptable to the Bank, (c) furnish to the Bank within 9 months or earlier of the close of the financial year a certified copy of the report of audit referred to in the paragraph at (b) by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, and (d) for all expenditures in respect of withdrawals made on the basis of Statement of Expenditure (without documentation), furnish the report of audit referred to in this paragraph as containing a separate opinion by the independent auditors as to whether the Statements of Expenditure together with the procedures and internal controls involved in their preparation, can be relied upon in support of such withdrawals.

3.17.11 The World Bank has accepted, after going through the accounting and auditing arrangements in India, that the system ensured a satisfactory degree of financial discipline and, accordingly, accepted the Comptroller and Auditor General of India to be an independent auditor for the purposes of certification of accounts issue of audit certificates in respect of projects being executed in India with World Bank financial assistance. The standard audit covenant in the loan agreements, in respect of projects executed by Government Departments and Corporations, the audit of which vests with the Comptroller and Auditor General, is met by the Accountants General (Audit) by furnishing to the project authorities for onward transmission to the Bank, and integrated audit certificate within 9 months or earlier of the close of the financial year in the prescribed form (Annexure) based on irregularities noticed in Central Audit as well as Local audit in relation to the accounts of these projects.

3.17.12 The annual accounts to be certified are the annual expenditure statements in respect of projects executed by Government Departments and the Accounts that are certified by Comptroller and Auditor General as sole auditors in respect of projects executed by other bodies and authorities. If any further details are required by the World Bank, these are to be furnished by the project authorities. The integrated Audit Certificate is considered adequate for the purposes of the World Bank and it would not be necessary for the Bank to await the all-inclusive Audit Report of the Comptroller and Auditor General submitted to the respective legislatures. As the Audit Certificate is not to be published and is in the nature of a document exchanged between the clients and the Bank, the Certificate should indicate, in brief, the amounts held under objection in relation to wanting vouchers, D.C. bills, sanctions etc. and misclassification, defalcation, over payments etc. that come to notice.

3.17.13 The Audit Certificates in respect of projects executed by Government Companies are issued by Chartered Accountants who are statutory auditors of the companies and not by the Comptroller and Auditor General who conducts only a supplementary audit in such cases under the Companies Act. 1956.

3.17.14 The World Bank gives aid in two ways :

- (i) Sanctioning and releasing an amount of expenditure in advance.
- (ii) Reimbursement of claim.

3.17.15 In India, reimbursement of claim system is adopted. The interest rate on the Bank loans ranges between 3 to 5 % and compensation for risk services is between 1 to 1.5% Loans are repayable over 15 to 20 years with grace period of 3 to 5 years.

Project decision and implementation

3.17.16 The responsibility of identification, determination of feasibility of project, its execution and administration rests with the borrower. However, an appraisal is carried out by the Bank with the assistance of the borrower to examine the economic, financial and technical requirement of the project which provides a basis for decision to support with a loan. The Staff Appraisal Report (SAR) includes a detailed explanation and assessment of the financial management system and any additional requirements for the particular project. It addresses the design of the project accounts, procedures required for consolidating reporting from various sub-projects, the use of SOEs, and any other activities required to assure accountability. This will be especially important when the project involves several agencies and the methodology for consolidating total project expenses is not clear. The SAR also outlines the format for project reporting, including the audited and unaudited financial statements required, and their frequency. An agreement is drawn between borrower and Bank defining project, specifying programme to be followed to achieve its objective and schedule of items to be financed by Bank; the arrangement for disbursement of the proceeds of the loans are made after its approval by the Board of Directors.

3.17.17 The lending agency requires that the proceeds of any loan are used only for the purpose for which loan was granted with due attention to consideration of economy, efficiency and effectiveness without any political or non-economic influences.

Audit of implementing Agencies

3.17.18 Funds from Bank loan may be disbursed only on account of expenditure for goods and services provided by nationals of, and produced in or supplied from, Bank member countries. Under this policy, nationals of other countries or bidder offering goods and services from other countries should be disqualified from bidding from contracts intended to be financed wholly or in part from Bank loans.

3.17.19 The expenditure should be incurred as per terms and conditions of the World Bank which *inter-alia* requires:

- (i) Utilisation of loan for the purpose projected and sanctioned for
- (ii) Consideration of economy and efficiency, extra avoidable expenditure may therefore be objectionable for reimbursement from World Bank Loan. Cost over run due to non-completion of work in stipulated time may also be disputable claim for reimbursement from the Bank.
- (iii) Non denial of pre-qualification to a firm for reason unrelated to its capacity to supply the goods/services in question except if the borrower country commercial relation with that country to which that firm relates provided the bank is satisfied that such exclusion does not preclude effective competition.
- (iv) Award of any contract is required to be strictly in accordance with loan agreement or guidelines.
- (v) Implementing agency not agreeing to any material modification or waiver of the terms and conditions of contract or extension of the stipulated time of performance which would effect the contract inconsistent with the provision of loan agreement.
- (vi) Procurement of goods and services inconsistent with agreed procedure.

3.17.20 Observance of all the above conditions can be scrutinised and suitably commented upon by the local audit party, and the amount objected on any of the above conditions can be objected by Accountant General (Audit) for certification of Statement of Expenditure (SOE) for the sake of reimbursement.

3.17.21 The items, which qualify or do not qualify for reimbursement are as follows:

- (i) Amount recovered towards security deposit (SD) is not eligible. However, release of SD to the agencies is claimable.
- (ii) Secured advance paid on material is not reimbursable.
- (iii) Mobilisation advance paid to the agency is reimbursable.
- (iv) Income tax/sales tax recovered from contractor is claimable for civil work but not for supplies.
- (v) Foreign exchange freight charges are eligible for reimbursement.
- (vi) Local transportation charges are not reimbursable.
- (vii) Insurance premiums paid in foreign exchange are eligible for Bank financing; self insurance and premium paid in local currency are ineligible unless explicitly provided in the loan agreement.
- (viii) The Bank does not finance custom duties and other taxes imposed by borrowing country.
- (ix) All payment to consultants are made in accordance with contract provisions which normally specify currencies and mode of payment.
- (x) Income tax and other duties paid to the consultant are not reimbursable unless specifically provided in the contract.

3.17.22 The above points are to be kept in mind for audit certification for reimbursement and are to be pointed out during Central and Local audit.

3.17.23 In civil offices the expenditure is met by drawing funds on AC bills. The admissible expenditure will be the expenditure supported by DC bills. The SOE, therefore, needs to be scrutinised with reference to the report of AC/DC bills received in Accounts and Entitlement office.

Audit Certificate

3.17.24 Where SOE procedure is used for loan disbursement, the SOE should be integrated to become a part of project financial statement.

3.17.25 Under the SOE, procedure, the borrower periodically requests withdrawal of loan proceeds through submission of a statement indicating expenditures for certain items referred to in the loan agreements. The SOE procedure simplifies and accelerates the Bank's loan disbursement process by eliminating the requirement for bank staff to review supporting documentation for many a small expenditures prior to authorising disbursements. The SOEs are not accompanied by supporting documentation. Implicit in the SOE submission by the borrower is the adequacy and veracity of documentation, maintained by the borrower, which supports the disbursements.

3.17.26 During local audit, it is necessary to obtain a listing of all SOEs submitted during the period under review and for each expenditure perform the following :

- (i) Evaluate the adequacy of the supporting documentation which should normally include one or more of the following :
 - (a) procurement documents (Bid documents, invitation, evaluation, award)
 - (b) purchase contract
 - (c) purchase order
 - (d) letter of credit
 - (e) supplier's invoice and certification of origin
 - (f) shipping or import documents and inspection certificates
 - (g) contractor's invoices or certificates
 - (h) other evidence of receipt of goods or services
 - (i) force account records
 - (j) recurrent cost records
 - (k) authorization for payment
 - (l) evidence of payment/bank statements
 - (m) accounting records of approvals, disbursements, and balances available
 - (n) evidence that refunds have been made by suppliers and corresponding adjustments made in subsequent applications in instances where goods have been returned.
- (ii) Ascertain the expenditure was properly authorised and approved.
- (iii) Verify that the expenditure is eligible for bank disbursement under the loan agreements. Ineligible expenditures would include;
 - (a) duplicate invoices;
 - (b) payments made in advance of receipt of good or delivery of services, unless these payments are consistent with contract provisions and are established commercial practice;
 - (c) payments that should have been made under normal disbursement procedures with full documentation (e.g. payments against contracts subject to the Bank's prior review, or payments against contracts with values exceeding defined SOE limits); and
 - (d) payments for items that are not procured in accordance with the legal agreements, such as :

- Payments for items from countries that are not eligible under the Bank's Procurement Guidelines:
 - payments for items not specified in the procurement;
 - payments made prior to loan signing or before the eligible date specified for retroactive financing;
 - payments for items on the negative list or not on the positive list (for adjustment operation lending).
- (iv) Verify the mathematical accuracy of the SOE.
- (v) Agree the percentage used to determine the Bank's share of the total disbursement to the loan agreements. Verify that the proper amount was requested for reimbursement.
- (vi) Summarise the results of the work performed on a summary form.
- (vii) Notify borrower of all instances of negative findings.

3.17.27 It is advisable to draft Audit Inspection Report paras identifying specifically that the project/work/ scheme is aided by World Bank/External Agency where the implementing agency is executing other work besides World Bank aided works.

**Annexure
(Referred to in paragraph 3.17.11)**

Office of The
(in the proper letter head)

No.

AUDIT CERTIFICATE

The Expenditure Statements/Financial Statements relating to the Project (loan/credit No.) for the year attached hereto have been audited in accordance with the regulations and standards of audit of the Comptroller 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 purposes of the Project; and
- (b) that the expenditure statements/financial statements are correct.

During the course of audit referred to above, Statements of Expenditure (Each Application Number..... 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 adjustments. *

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 test audit, it is certified that the Expenditure Statements/Financial Statements 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 observation if and when made in the Report of CAG of India for being laid before Parliament/State Legislature.

Signed _____
(Name and Designation)

* Delete if not necessary.

Chapter–18

Audit of Scientific Departments

Guiding Principles

3.18.1 Given the complexities of scientific endeavour, it is essential that the audit of scientific departments is governed by the following guiding principles:

- (i) Audit should not be perceived as an agency oriented towards finding fault, but as a mission directed towards pointing out system deficiencies with a view to assisting the scientific community.
- (ii) The role of Audit should be complementary to the efforts of the Executive aimed at improving managerial practices in scientific administration.
- (iii) Audit should recognize the uncertainties involved in scientific research. Therefore, while evaluating systems of planning, programming, funding, monitoring or execution of a scientific or research project, Audit should endeavour to segregate what is foreseeable from what cannot be anticipated. This, of course, does not reduce the significance of data availability on time and cost overruns in overall planning, establishment of priorities and resources allocation for audit comments.
- (iv) In auditing the functioning of scientific departments, the effort should be to evaluate the projects and programmes with reference to known parameters and *a priori* assumptions made by the departments, such as the Departments of Space and Atomic Energy.
- (v) In judging performance, Audit should further be guided by the performance parameters prescribed by the organization itself; in case these have not been prescribed, Audit will be well within its rights to point out the omission. It is also the function of Audit to examine whether proper monitoring machinery is available for securing the timely and cost-effective fulfillment of the objectives envisaged.
- (vi) While evaluating scientific departments, the approach adopted by various Committees such as the Abid Hussain Committee on the Council of Scientific and Industrial Research and the Rao Committee on the Indian Council of Agricultural Research and their recommendations should be gone into and kept in view. Audit can also play a role in ascertaining the extent to which implementation of these recommendations had progressed.
- (vii) Scientific research is of two kinds, basic research aimed at expanding the frontiers of human knowledge and applied research for bringing the fruits of such knowledge to the service of mankind. It will be necessary for Audit to be very careful and discreet in commenting on areas of basic research, particularly when its comprehension and knowledge of basic scientific research is inadequate. Nevertheless, it has an important role to play in examining the programmes and projects of applied research in the context of economy, efficiency and effectiveness of the utilization of resources.

- (viii) Similarly, different criteria will need to be applied and higher levels of personnel deployed for the audit of highly sensitive organizations such as the Departments of Atomic Energy and Space compared to other scientific and research organizations. This distinction is of paramount importance.
- (ix) Audit should examine whether there is an effective linkage between applied research and the user industries. The fruits of knowledge generated by the scientists should be available to the industry and society in full measure.
- (x) Having due regard to the complexities involved in the audit of scientific endeavour and the maturity required, specialized training programmes have to be organized periodically for personnel engaged in the audit of scientific departments.

Audit Approach

3.18.2 Audit of scientific departments extends to four Central ministries, three Central departments, an attached office, three autonomous bodies and a Registered Society, details of which are as follows:

Central Ministries:

Ministry of Science and Technology (MST), Ministry of Information Technology (MIT), Ministry of Environment and Forests (MEF), and the Ministry of Non-conventional Energy Sources (MNES).

Central Departments:

Department of Atomic Energy (DAE), Department of Space (DOS) and the Department of Ocean Development (DOD).

Attached Office:

Geological Survey of India (GSI), an attached office of the Ministry of Mines.

Autonomous Bodies:

Council of Scientific and Industrial Research (CSIR), Indian Council of Agricultural Research (ICAR) and Indian Council of Medical Research (ICMR).

Registered Society:

Centre for Development of Telematics (C-DOT), under the Ministry of Communications.

3.18.3 Audit of scientific departments is undertaken broadly on the general principles enunciated in Chapters 3 and 8 of this Section. The focus of Audit in the scientific ministries and departments responsible for science policy and its implementation will be on the research and development programmes and schemes for the administration of which they are responsible; on the other hand, in auditing the laboratories and institutes of autonomous scientific bodies and societies, such as CSIR, ICAR, ICMR, etc. the emphasis will be on a review of in-house and sponsored research projects. The guidelines to be followed in undertaking the audit are discussed in the following paragraphs.

Issues for audit scrutiny

Project management

3.18.4 Project selection: In the course of audit, a risk analysis of the research projects under each programme in the ministry/department is to be undertaken. Projects involving substantial financial inputs and those that were inordinately delayed, terminated or abandoned should be selected for detailed individual scrutiny. Special emphasis should be placed on projects with a significant applied research component.

3.18.5 Project approval: Audit will examine the mechanisms available in the ministry/department for project approval. These include the Task Force in the Department of Biotechnology, the Project Review Committee in MST, Working Groups in MIT, Staff Research Council in the ICAR, the Research Council in the CSIR, etc. The minutes of meetings of these bodies and committees should be gone through. In the case of technology-oriented projects, it should be ascertained whether there has been an adequate interface between science and industry and whether an appropriate plan for the transfer of technology had been devised before initiating the project.

3.18.6 The project proposals should be scrutinized to understand the intended objectives of the projects. Instances of duplication of efforts or overlapping of projects on account of funding by the same department of two projects having similar objectives should be particularly examined.

3.18.7 Project implementation (Monitoring and Evaluation): Audit should verify whether milestones for each activity or component of the project, along with the timeframes and cost outlays, have been laid down in respect of the approved projects. The adequacy or otherwise of the monitoring mechanism in the department for a periodical appraisal of the projects should be established, apart from verifying whether the recommendations of the monitoring committees are communicated and complied with by the implementing agencies.

3.18.8 The role of the director of the laboratory or institute and the project investigator in effective implementation of the projects needs to be particularly examined. The project investigator is to submit periodically financial and physical progress reports to the funding agency, viz. the ministry or the department. Compliance with this requirement should be verified in audit. Audit should also ensure that periodical releases of funds for various projects are linked to their physical progress in order to avoid retention of unutilised financial resources.

3.18.9 Audit should also see whether the guidelines for project approval contain provisions for a mid-term and final appraisal and whether there is a system of evaluation of completed projects by an independent agency. Individual projects involving substantial financial outlays should be scrutinised to ascertain whether their objectives have been fully achieved. The comments of committees and independent experts evaluating the projects have to be studied in order to ascertain whether the projects have been successful.

Utilisation of research results

Technology development and transfer

3.18.10 Projects taken up by the ministry/department or in-house by individual laboratories and institutes have to be segregated in terms of their expectations depending upon whether the aim was only basic research or technology development. Cases where technology could not be developed because of significant deviations from the initial process or procedure would need to be highlighted. The technology developed in fast-evolving, frontier areas of science often proves to be of little or no utility on account of obsolescence. This aspect and whether such obsolescence could have been avoided would also need to be examined by Audit.

3.18.11 In case a project results in the development of new process or technology, it should be examined whether there is an appropriate system in place for the transfer of the process or technology to the user industries. The agreements governing transfer of technology would need to be scrutinised in detail. Availability of a system of feedback from the industry to establish that the outcome of introduction of the new process or technology has been satisfactory and to obtain the rightful share of royalty/premium would also need to be ascertained in audit. The lump sum premia or recurring royalties earned during the last few years should be analysed and reasons for large variations, if any, ascertained.

Intellectual property rights

3.18.12 Audit should also verify that proper and adequate systems and procedures are available to safeguard and protect the the intellectual property rights of the department or the institution, as the case may be. Filing of patents, that can be done nationally or internationally, and their final sealing need to be closely watched. It should be verified in audit whether the patents were filed within a specified time-frame and a proper follow-up procedure is available to ensure the sealing of the patent.

Publication of research papers

3.18.13 Publication of research papers is a key parameter for evaluating performance of a laboratory/institute in the field of basic research. It will be necessary to ascertain and comment upon the number of research papers published from the laboratory/institute and their actual impact based on their Citation Index and the Impact Factor. The Impact Factor of a journal for a specific year is defined as the total number of citations made in that year for articles published in the preceding two years divided by the number of citable articles published in these years. Based on this formula, the average impact factor for the institute/laboratory should be ascertained and the trends in this regard analysed with a view to framing appropriate comments on the overall performance of the institution.

Manpower management

3.18.14 For effective implementation of a project, it is essential to ensure that it is provided with adequate scientific manpower. The proportion of the scientific/technical manpower to the administrative manpower should be according to the guidelines issued by the scientific departments. Audit should also verify that the scientific/technical manpower of the laboratory/institute is commensurate with its activities. In case the principal investigator of the project had left the institution while the project was still in progress, Audit should ascertain whether an alternate project

leader was appointed promptly so as to ensure the smooth completion of the project. Instances of diversion of manpower resources to sponsored projects at the expense of in-house projects should also be commented upon.

Procurement of equipment

3.18.15 In case specific, expensive and sophisticated equipment is considered essential for a project, Audit should verify whether the equipment has been procured, installed and commissioned in time and whether it has been adequately utilised in the intended manner.

Special guidelines for mission-oriented departments

3.18.16 The guidelines and instructions contained in the preceding paragraphs will be applicable to all scientific departments, laboratories and institutes and to their research and development projects. It will, however, be necessary to follow certain additional guidelines in the audit of the two mission-oriented Departments of Atomic Energy and Space. These have been discussed in the succeeding paragraphs.

A. Department of Atomic Energy

3.18.17 In addition to scientific and technical research in the field of atomic energy for peaceful purposes, the Department of Atomic Energy and its constituent units, such as the Nuclear Fuel Complex, Atomic Minerals Division, the Nuclear Power Corporation, etc., are also engaged in the following activities:

- (i) Mining of Uranium and Thorium and fuel fabrication.
- (ii) Production of Heavy Water.
- (iii) Construction of Power Reactors.
- (iv) Reprocessing of spent fuel and radioactive waste management.

Aspects to be examined in audit in relation to these activities and the guidelines and procedures to be followed have been dealt with in the following paragraphs.

Nuclear Fuel Complex and Atomic Minerals Division

3.18.18 The Nuclear Fuel Complex consists of various plants for the conversion of yellow cake into ceramic grade natural uranium oxide, zircon sand to zircon alloy components and uranium dioxide to sintered pellets and finally to fuel assemblies. Production of components such as blanket fuel containing thorium pellets, nickel and steel reflectors, assemblies, etc. required for the Fast Breeder Test Reactor forms part of the fuel fabrication programme. These activities are commercial in nature.

3.18.19 The following aspects should be examined in audit and appropriately commented upon:

- (i) Installed capacity of plants and its utilisation.
- (ii) Analysis of plant shut downs, idle time, etc. and reasons therefor.
- (iii) Targets of production and sales and their reasonableness.
- (iv) Achievements *vis-a-vis* production and sales targets.
- (v) Reasonableness of agreements entered into for sale of products and adequacy of safeguards to protect government interests.
- (vi) Adherence to guidelines, if any, issued by the Board of Nuclear Fuel Corporation for determination of pricing structure and policies.
- (vii) Analysis of costs.
- (viii) Arrangements for inventory control with particular reference to the closing stocks of finished goods in relation to production and sales, percentage value of stores consumed, etc. and their adequacy.

- (ix) Working results of plants and viability of operations.
- (x) Import substitution activities, if any, undertaken and extent of realisation of intended objectives.

In so far as the Atomic Mineral Division is concerned, it should be examined whether targets have been fixed in respect of the Division's exploration activities such as exploratory air-borne surveys, evaluation drilling, underground mining, etc. and actual achievements analysed.

Heavy Water production

3.18.20 Heavy Water is used as a moderator in the natural Uranium Fuel Reactors. The Nuclear Power Board pools together the entire production of Heavy Water in all the units for issue, on lease, to power stations and determines the pool price for the purpose. Audit scrutiny should cover the following aspects for possible comment:

- (i) Comparative analysis of cost of production in individual units and of reasons for variations--in case costs have not been worked out, the reasons therefor should be ascertained.
- (ii) Reasonableness of pool prices in relation to costs.
- (iii) Analysis of stream factor (i.e. ratio of actual hours that the plant worked in a year to the guaranteed hours).
- (iv) Arrangements made for upgradation of Heavy Water produced by individual units that is not of nuclear grade and their cost implications.
- (v) Establishment of pilot plants for production of Heavy Water, outcome of research activities undertaken in such pilot plants and the progress made for transfer of relevant know-how in order to effectively utilise the results of such research.
- (vi) Justification for turn-key projects, if any, entrusted for the construction of Heavy Water Plants, cost and time overruns and their adverse implications, irregularities in execution, viability of completed turn-key projects, etc.

The plants are also required to maintain proforma accounts to assess the results of their operations. Non-maintenance of these accounts should be suitably commented upon.

Nuclear Power Programme

3.18.21 Since 1987, the responsibility for the operation and maintenance of nuclear power reactors and construction of new reactors has been entrusted to the Nuclear Power Corporation Limited, a public sector undertaking under the administrative control of the Department of Atomic Energy. The accounts of the Company are audited by statutory auditors appointed by the Government under the Companies Act, 1956, in consultation with the Comptroller and Auditor General. Therefore, in auditing the activities of the Company, greater emphasis should be placed on the performance and propriety aspects than merely on individual transactions.

Reprocessing of spent fuel and radioactive waste management

3.18.21 Reprocessing of the spent fuel and radioactive waste management are the last but vital stages of the nuclear fuel cycle. The former activity provides the important link to the Fast Breeder Power Reactor Programme by making available plutonium. It needs no emphasis that management of radioactive waste is an important and crucial activity for protection of the environment.

3.18.22 In the course of audit of reprocessing plants under construction, it should be examined whether the arrangements and procedures relating to award of contracts, execution of works, purchases and stores are adequate and have been adhered to. Appropriate comments should be framed highlighting irregularities in execution, deficiencies in works and adequacy of action taken for their rectification, instances of avoidable additional expenditure, time and cost overruns, non-adherence to prescribed purchase procedures, etc. In so far as completed projects for reprocessing of spent fuel are concerned, the following will be of relevance:

- (i) It should be examined whether estimates in regard to the quantity of spent fuel to be reprocessed and the plant working days necessary for the purpose are worked out and to what extent the actual performance corresponds to these estimates so as to ascertain their reliability.
- (ii) Bundles of spent fuel are brought out from the power stations under strict security. The adequacy of the arrangements in this regard should be examined for possible comment.
- (iii) Expenditure incurred by the power stations on demurrage charges is usually high. It should be examined whether these could have been avoided and whether the charges were approved by the Department of Atomic Energy.

The adequacy of the arrangements for nuclear waste management and deficiencies in the systems and procedures should be examined with specific reference to the impact on the environment.

B. Department of Space

3.18.23 The Department of Space is entrusted with the responsibility for the development and operationalisation of indigenous satellites, launch vehicles and the associated equipment for the ground segment. For this purpose, the Department undertakes space technology and application projects and satellite technology projects. While the audit of these projects would be governed by the general principles and guidelines set out earlier in this chapter, the following additional points would also need to be examined:

- (i) Often, the Department enters into agreements with external agencies for an independent technical audit of various designs, processes and products developed by it either in-house or through outside agencies. These agreements should be examined with a view to ascertaining whether (a) the interests of Government have been adequately safeguarded; and (b) the engagement of the external agencies could have been avoided, the technical evaluation being undertaken by the Department themselves.
- (ii) The Department also contracts out jobs involving project planning, theoretical studies, practical experiments and analysis. It should be examined in audit whether the intellectual property rights of the Department have been adequately secured in such cases.
- (iii) The Department also enters into demonstration and/or proof of principle contracts, involving demonstration of the feasibility of a certain concept or proving a principle by actual realisation of hardware. This might also involve the fabrication of technology. Audit should examine whether the processes involved have been properly documented. Transfer of all information relevant to the process right from the concept stage to the fabrication of the related hardware should also be verified.

- (iv) In the event of failure of launches, it will be necessary to study the post-flight analysis and the report of the Failure Analysis Committee with the objective of assessing the efficacy and efficiency of the failed project.

3.18.24 Issues to be examined in the course of audit of a production or fabrication plant are as follows:

- (i) Working results for a few years to ascertain the economic viability of the plant.
- (ii) Analysis of monthly/annual production in relation to the targets fixed for the purpose.
- (iii) Capacity utilisation with reference to the plant's rated/installed capacity.

In case import substitution is the objective of establishing the plant, the extent to which the objective has been achieved should be examined. The cost of indigenous production should also be compared with the financial implications of imports with a view to ascertaining whether the import substitution effort and the related investments were in fact justified.

Communication of results of audit

3.18.25 Having due regard to the complexities and uncertainties involved in scientific research, it is imperative that the results of audit of scientific departments are communicated with great deal of tact and finesse. In doing so, the individualistic approach of the scientists, the sensitivities involved and the secrecy or confidentiality of the documents audited, particularly in the Departments of Atomic Energy and Space, will also have to be duly kept in view. The auditor of scientific departments will consequently have to exercise considerable restraint. Draft paragraphs and reviews pertaining to the Departments of Atomic Energy and Space should also be issued only with the prior approval of the Headquarters Office.

Chapter-19

Environment Audit

Audit objectives and scope

3.19.1 The objectives of Environment Audit are to ensure that appropriate and adequate policies and procedures are in place and are duly complied with in order to achieve the goal of sustainable development, i.e. development without destruction of the environment and without foreclosing the options for future needs. The interests of the industry and environment have, thus, to be mutually supportive.

3.19.2 The scope of Environment Audit would extend to examination of:

- (i) the environmental appraisal and impact assessment procedures in the Central Government for developmental activities;
- (ii) the extent of compliance with the related Government legislation and regulations;
- (iii) the effectiveness of waste minimisation and pollution control programmes and programmes for the conservation and utilisation of energy, water and other natural resources like flora, fauna, wild life, etc.

The scope of audit would also extend to an examination of the environmental policies and initiatives of Government and of the measures taken to respect its international commitments in this sphere.

Audit Approach

3.19.3 Environment Audit would be conducted within the broad framework of Regularity and Performance Audit.

Issues for audit scrutiny

Environmental Impact Assessment (EIA)

3.19.4 The objectives of EIA are to identify and evaluate the potential beneficial as well as adverse impact of development projects on the environmental and ecological systems. It is a useful aid for decision-making, based on an understanding of the environmental implications, including social, cultural and aesthetic concerns, which could be integrated with the cost-benefit analysis of the projects concerned.

3.19.5 The Ministry of Environment and Forests has made EIA mandatory in a Notification issued in January 1994 and amended in May 1994 in respect of twenty-nine specified categories of developmental activities, including industrial projects, thermal power plants, mining activities, river valley and hydroelectric schemes, and infrastructure projects. In evaluating the EIA procedures, Audit will examine the following:

- (i) Documents submitted by the project proponents which include:
 - (a) Feasibility Reports;
 - (b) site clearance in respect of site-specific projects mentioned in the EIA Notification;
 - (c) 'No Objection' certificates from the State Pollution Control Boards (SPCBs) and other local authorities;
 - (d) Environment Impact Assessment Reports;
 - (e) Environment Management Plans;

- (f) Risk Analysis and Emergency Preparedness Plans in the case of projects involving hazardous substances;
- (g) Rehabilitation Plans in respect of projects likely to lead to large scale displacement of the population; etc.
- (ii) Minutes of meetings of Expert Appraisal Committees in the Ministry, along with Reports of their site visits with a view to ascertaining the adequacy and efficacy of the appraisal procedures in the Ministry.
- (iii) Reports on public hearings, if any, held in respect of particularly controversial projects.
- (iv) Adherence to prescribed time schedule for completing the impact assessment.
- (v) Recommendations of Appraisal Committees forming the basis of environmental clearances and conditions attached thereto and deviations, if any, therefrom.

3.19.6 In terms of the EIA Notification, on commissioning of the projects, the project entities are required to submit half-yearly reports of compliance with the conditions stipulated in the environmental clearances. These are to be examined in the Ministry. Six Regional Offices of the Ministry located at Bangalore, Bhopal, Bhubhaneshwar, Chandigarh, Lucknow and Shillong also undertake post-project monitoring of the cleared projects. The adequacy of the action taken in the Ministry on the compliance reports with particular reference to deficiencies, if any, and of the post-project monitoring by the Regional Offices should be examined in audit.

3.19.7 Cases of non-compliance with the conditions subject to which environmental clearances are accorded are brought to the notice of the SPCB concerned, which may then initiate action against the defaulting entities. The action taken in this regard would also need to be reviewed in audit for possible comment.

Prevention and Control of Pollution

3.19.8 The Policy Statement for Abatement of Pollution issued by the Ministry of Environment and Forests in 1992, provides instruments in the form of legislation and regulation, fiscal incentives, voluntary agreements, educational programmes and information campaigns in order to prevent, control and reduce environmental pollution. Various acts promulgated by the Ministry, besides the local zoning and land use laws of the State and Union Territory Governments govern and regulate the establishment and functioning of any industry. Evaluation by Audit of the impact of various initiatives taken to prevent and control pollution will involve the following:

- (i) Scrutiny of the Acts promulgated by the Central, State and Union Territory Governments to prevent and control pollution, with a view to critically examining their adequacy and efficacy in controlling or preventing pollution.
- (ii) Examination of the adequacy of the monitoring systems and mechanisms in the Ministry to ensure compliance with these Acts through the Central and State Pollution Control Boards.
- (iii) Review of monitoring by different monitoring stations of the Central and State Pollution Control Boards of air (including noise) and water quality status intended for ensuring adherence by industries to the prescribed emission and effluent standards.

- (iv) Polluting units seeking consent under the Water (Prevention and Control of Pollution) Act 1974, or the Air (Prevention and Control of Pollution) Act 1981, or both and authorisation under the Hazardous Wastes (Management and Handling Rules), 1989, are required to submit an Environment Statement to the SPCB concerned. This enables the units to take a comprehensive look at their industrial operations, facilitates understanding of material flows and ensures that they focus on areas where waste reduction and consequently savings in input costs are possible. Submission of these statements, wherever required, should be watched in audit. Consents given by the SPCBs to establish and operate the polluting units and the adequacy of the arrangements for a regular review of these units by the Boards and of the action taken against defaulting units should also be examined.
- (v) The Central Pollution Control Board has identified 1,551 large and medium industries in 17 categories as highly polluting ones. These are required to install the necessary pollution control equipment within the specified time frame. The Central and State Pollution Control Boards are also required to monitor compliance with the standards prescribed in this regard. The reports of these Boards should be scrutinised with a view to ascertaining the adequacy of the monitoring. The follow-up action taken on these reports and the action taken against defaulting units should be reviewed in audit.

3.19.9 Audit should also review in depth, from the ECPA, VFM or 3Es perspective, specific programmes and projects, such as the Ganga Action Plan, Taj Protection Mission, Development and Promotion of Clean Technologies, Hazardous Substances Management, etc. implemented or under implementation by the Ministry for prevention and control of pollution.

Conservation of Natural Resources, including Forestry and Wild Life

3.19.10 The scope of Audit would extend to an in-depth review and evaluation of several policy initiatives and action programmes undertaken by the Ministry for the conservation and sustainable use of natural resources, including forestry and wild life.

A. Forestry

3.19.11 The Forest (Conservation) Act, 1980, as amended from time to time, checks the indiscriminate diversion of forest land for purposes unrelated to forestry. The State and Union Territory Governments are required to submit formal proposals received by them from various investors and project entities to the Ministry, if these involve the diversion of more than 20 hectares of forest land. The proposals will contain a map of the area, details of the flora and fauna, the measures proposed for compensatory afforestation, etc. An Advisory Committee in the Ministry scrutinises these proposals. Proposals involving diversion of forest land of area between 5 and 20 hectares are to be processed by the Regional Chief Conservator of Forests concerned in consultation with a State Advisory Group, consisting of representatives of the State Governments concerned. Proposals involving diversion of forest land of up to 5 hectares can be decided by the Regional Chief Conservator of Forests concerned under his delegated powers. Audit may examine the processing of these proposals at different levels with a view to establishing that such decisions as are arrived at are in conformity with the provisions of the Act and the recommendations of the Advisory Groups. Audit shall also examine adherence to the conditions stipulated in the

clearances accorded by the authorities concerned and the action, if any, taken against defaulters. Adequacy of the monitoring machinery to ensure adherence to the stipulated conditions could also be ascertained in the course of audit.

3.19.12 The Ministry of Environment and Forests funds various conservation programmes such as the National Forestry Action Programme, Wetland Conservation Programme, Biodiversity Conservation, Conservation of Medicinal Plants, etc. Similarly, autonomous bodies like the National Afforestation and Eco-Development Board fund schemes in the States with the mandate of promoting afforestation and ecological restoration with special attention to degraded forest areas. These specific programmes and initiatives should be reviewed in depth from the ECPA perspective. The Joint Forest Management enunciated in National Forest Policy, 1988, envisaging the involvement of the local populace in the development and protection of degraded forests, along with catering to their subsistence needs, is yet another initiative the success of which would need to be examined.

B. Wildlife

3.19.13 Audit scrutiny in relation to activities for the preservation of wild life would extend to the enforcement of the Wildlife (Protection) Act, 1972 through the offices of the Regional Deputy Directors of Wildlife Preservation located at Kolkata, Chennai, Delhi and Mumbai with the assistance of the State Wildlife Departments. Further, the Ministry has initiated specific programmes and schemes, such as Development of National Parks and Sanctuaries, Project Tiger, Project Elephant, etc. for the conservation of wild life. Autonomous bodies such as the Wildlife Institute of India, Central Zoological Authority, National Zoological Park, etc., are also engaged in this sphere. Achievements under these programmes and schemes and the functioning and performance of various autonomous bodies in achieving the intended objectives could be reviewed and evaluated by Audit.

Environmental Survey, Research, Education, Training and Information

Environmental Survey

3.19.14 The Ministry of Environment and Forests carries out surveys of natural resources of flora and fauna through its subordinate offices and institutes. The surveys of flora are conducted by the Botanical Survey of India, with its headquarters at Kolkata and its nine circle/field offices. Similarly, the Zoological Survey of India, with its headquarters at Kolkata and sixteen regional stations located throughout the country, undertakes surveys and exploration of fauna in different ecosystems and conservation areas like national parks, wildlife sanctuaries, etc. The Forest Survey of India, with its headquarters at Dehra Dun and four zonal offices at Bangalore, Kolkata, Nagpur and Shimla, is entrusted with the responsibility for the survey of forest resources in the country.

3.19.15 Based on a performance appraisal of these agencies, Audit will critically examine the efforts of the Ministry in mapping and exploring the country's natural diversity, collection and conservation of endangered species of plants and animals and preparation of the related data base.

Environmental Research

3.19.16 In order to advance scientific understanding and to generate information for developing strategies, technologies and methodologies for better environmental management, the Ministry of Environment and Forests supports various research and development schemes. Chief among them are the Environment Research Programme,

Ecosystems Research Scheme and Action-Oriented Research Programme for Eastern and Western Ghats. Audit scrutiny will extend to an appraisal of the formulation, implementation and monitoring of these programmes with particular reference to the thrust areas defined by the Ministry. The guidelines relating to project management discussed in paragraphs 3.18.4 to 3.18.9 will also be of relevance in this context. Audit could also review and evaluate with advantage the performance of autonomous bodies under the Ministry's administrative control, such as the G.B. Pant Institute on Himalayan Environment, Indian Council of Forestry Research and Education (ICFRE) and the Wildlife Institute of India, which are engaged in research activities respectively in the spheres of environment, forestry and wildlife.

Environmental Education, Training and Information

3.19.17 The Ministry of Environment and Forests is also involved in the organisation and management of education plans and extension activities in the fields of forestry, wildlife and environment through its institutes and autonomous bodies. The Ministry has launched environment awareness campaigns and has established Eco Clubs and seven centres of excellence with a view to strengthening awareness, research and training in priority areas of environmental science and management. The functioning and performance of these agencies and the extent to which they have achieved the intended objectives could be examined in audit. An Environment Information System (ENVIS) has been established in the Ministry with centres located all over the country with the objectives of information collection, storage and dissemination to the user groups concerned in the fields of environment and wildlife and associated spheres. The achievement of the objectives envisaged under the programme could also be ascertained.

International Co-operation

3.19.18 The Ministry is the nodal agency in the country for implementation of the initiatives taken by the United Nations Environment Programme (UNEP) and the South Asia Co-operative Environment Programme. It also functions as the nodal agency for participation in international agreements relating to the environment such as the Convention on International Trade in Endangered Species, Vienna Convention for Protection of the Ozone Layer, the Montreal Protocol, Basel Conventions on Biological Diversity and Climate Change, etc. The Ministry also handles bilateral cooperation, matters relating to regional bodies such as SAARC, ESCAP, etc.

3.19.19 Audit would examine various international agreements with a view to ascertaining whether the country's interests have been adequately safeguarded by these accords. The measures taken by the Ministry to respect and honour its various international commitments would also be key areas for audit scrutiny.

Chapter–20 **Systems Audit**

Introduction

3.20.1 A system is an orderly arrangement of separate but interdependent and interacting activities and related procedures which implements and facilitates the performance of the functions of an organisation.

3.20.2 The concept of Systems Audit is that if an in-depth analysis of the mechanics of a system reveals that it is designed with appropriate controls, checks and balances to safeguard against errors, frauds, etc., Audit can reasonably assume, without the necessity of undertaking a detailed examination of the individual events or transactions, that the results produced by the system would be fairly accurate. Evaluation of the efficiency and effectiveness of any system will, however, require sample testing of its actual working. Systems Audit thus serves also as an effective aid to management.

General principles

3.20.3 The general principles governing Systems Audit are as follows:

- (i) In order to locate the deficiencies in any system, it is necessary to check the chain of movements in each procedure forming part of the operational or financial activity. Since a long chain of movements causes delay, the necessity for each link in a chain should be analysed and unnecessary links identified.
- (ii) Similarly, procedures that have in-built delays should be examined with a view to ascertaining how best they can be streamlined. Causes of departures from or special relaxations of the prescribed procedures should be analysed. The analysis will indicate where the system and its linkages are getting extended or overloaded and how the resultant strains may be eliminated.
- (iii) It has also to be examined whether action on important points has been initiated at sufficiently high levels of the hierarchy so as to produce meaningful results.
- (iv) In addition, procedures and/or records which appear to be redundant or superfluous should be identified for elimination.

Source documents

3.20.4 The important source documents that will form the basis of audit scrutiny to evaluate the adequacy of systems are the following:

- (i) Organisational Chart.
- (ii) Procedural Manuals.
- (iii) Delegation of Powers Rules.
- (iv) Departmental Accounts Manual.
- (v) Accounting Policies and Procedures.
- (vi) Budgeting Policies and Procedures.
- (vii) Performance Budget.
- (viii) Work Plans.
- (ix) Technical manual relating to quality specifications.
- (x) Internal Audit Reports.

Main stages of systems audit

3.20.5 The main stages of System Audit are (i) organisational analysis; (ii) analysis of system of authorisation and recording; (iii) analysis of system of accounting; (iv) examination of the system of internal control; (v) evaluation of the standards of quality and performance; (vi) examination of the adequacy of internal audit; and (vii) review and evaluation of the system as a whole. The manner in which these processes are applied in the context of a government entity is indicated in the following paragraphs.

Organisational analysis

3.20.6 The first step will be to find out the basic objective or activity of the entity. Thereafter, the organisational pattern of the entity as indicated in its organisational chart and procedural manuals should be studied to make sure that a clear and logical plan of organisational functions that establishes clear lines of authority and responsibility for financial and operational activities keeping in view the entity's basic objective or activity is available. A flow chart could be prepared in order to examine whether:

- (i) the units are functionally segregated to ensure professional, functional and/or technical specialisation and to achieve functional independence for purposes of internal management control;
- (ii) proper distribution and clear demarcation of functional responsibilities exist among the personnel working in the entity;
- (iii) the entity's staffing pattern conforms to norms or standards prescribed for the purpose and has the approval of the competent authority;
- (iv) the financial functions are separated from other administrative functions;
- (v) the employees within the financial unit responsible for the custody of financial or material resources are separate from those who record transactions, maintain accounting records and prepare financial reports;
- (vi) the financial powers of each authority of the unit and its responsibilities have been clearly defined and are updated to depict the correct position at any given point in time;
- (vii) checks and balances have been integrated into transactions in such a manner as to ensure added reliability without increasing costs or creating new positions or new operating units;
- (viii) there is an effective system of follow-up to determine whether assignments are properly carried out;
- (ix) the organisational units are designed to obtain maximum effectiveness at the minimum cost;
- (x) staff requirements are reviewed from time to time keeping in view changes in the entity's functions and relevant factors;
- (xi) posts remain vacant for long periods affecting adversely the entity's functioning; and
- (xii) there is any overstaffing with reference to the entity's functional responsibilities.

Analysis of system of authorisation and recording

3.20.7 This involves examination of the system of authorisation of transactions and operations and the related procedures and records prescribed for the purpose. It has to be verified whether the powers for initiation of operations and transactions and their

approval and execution are clearly delegated in writing by the competent authority and whether an adequate system with necessary checks and balances exists to ensure that the delegated powers are exercised satisfactorily. It should be ensured that the forms and procedures provide for the authorisation and review of transactions prior to their being entered in the accounts and that the forms and procedures are so designed as to include provision for proper authorisation of all operations and transactions with the record of the authorisation serving to establish accountability for the action taken. It has also to be seen that the system provides for procedures to ensure that:

- (i) all approved transaction documents serve as source documents for accounting entries; and
- (ii) all cash and materials received in the entity are immediately accounted for.

Analysis of system of accounting

3.20.8 This requires a study of the departmental accounts manual, relevant orders, circulars, etc. including the prevailing policies and procedures. A flow chart may be prepared to depict various stages in the process. It may be examined to see whether:

- (i) the accounts records provide for compilation of transactions according to the budgetary classification;
- (ii) an effective method of budgetary control, including a machinery for the prompt reporting and analysis of variations between the budgetary allotments and expenditure, is available;
- (iii) the accounting system provides for well designed documents and forms for control purposes as well as for conducting operations;
- (iv) the accounting records maintained for resources and operations are informative, clear and generally adequate;
- (v) controls exist to safeguard against errors and irregularities in operational and financial data; and
- (vi) the accounting system is adequate, conforms to the generally accepted accounting principles and includes such forms and records as are absolutely necessary to ensure sound accounting and financial reporting.

Examination of system of internal control

3.20.9 It should be examined whether each organisational unit in the entity is adopting sound practices so as to ensure proper internal control. These include the provision of locked store rooms with access restricted only to authorised persons, arrangements for surprise physical verification of cash, bank reconciliation by independent personnel, pre-check of payments, institution of checks to see that transactions are properly authorised, dual custody of valuable negotiable assets, independent periodical verification of the existence of recorded material resources, etc. It should also be seen whether the system provides for departmental enquiry into all cases of shortage, loss, theft and embezzlement.

Evaluation of standards of quality and performance

3.20.10 It should be examined whether a proper system exists for evaluating the quality and performance with reference to the standards prescribed for the purpose. Performance budgets, work plans, technical manuals, etc. should also be studied to ascertain the standards prescribed. The standards of quality and performance achieved by the management should then be listed out and compared with those prescribed and the results evaluated.

Examination of the system of internal audit

3.20.11 It should be ascertained whether an internal audit system has been introduced in the entity and, if so, whether the unit responsible is completely independent of the operating unit. The prevalent system of internal audit should also be examined to verify whether it provides for an objective, timely, systematic and professional examination of financial, administrative and other operations subsequent to their execution for the purpose of their evaluation and verification and whether the system is geared to ensure prompt and adequate follow-up corrective action on the internal audit reports.

Review and evaluation

3.20.12 The review and evaluation should not be based entirely on the replies to audit observations, procedural manuals or flow charts prepared by the entity. The Auditor should independently determine how the operations and transactions are actually processed by testing, through actual observation, a few selected representative transactions or operations. He should evaluate tentatively the effectiveness of the procedures and controls in operation and identify the strengths and weaknesses in key control points. The tentative evaluation in areas of weakness should be confirmed by testing additional operations and transactions. Procedural manuals relating to areas confirmed as being weak should be reviewed to determine whether the procedures are inadequate or whether, though adequate, were not being properly applied.

Chapter–21

Manpower Audit

Introduction

3.21.1 The concept and main stages of systems audit have been discussed in the preceding chapter. As indicated therein, the probe during organizational analysis should extend to examining whether proper distribution and clear demarcation of functional responsibilities exist among the personnel working in the entity and whether its staffing pattern conforms to the norms and standards prescribed for the purpose and has the competent authority's approval. During this probe, it may also be necessary to examine how far the norms adopted for assessing manpower requirements are realistic and how far the available manpower is utilized efficiently and effectively without any overlap of duties and responsibilities.

3.21.2 The scope of a system-based manpower audit and the nature of examination that can be undertaken are discussed in the subsequent paragraphs. The guidelines contained therein are aimed at streamlining the systems and procedures regulating control of manpower resources and to bring about suitable reforms where necessary. These are, however, not to be taken as comprehensive and must be adapted to suit local conditions. The spirit behind the systems audit of manpower is to suggest positive measures for the optimum utilisation of the available human resources and to bring about organisational efficiency.

Audit Approach

3.21.3 Human resource management processes and practices vary considerably across departments, depending upon their size and mandate, the nature of their programmes, their strategic and operational planning processes, the management philosophy, the work environment, their stability, the degree of centralization, and so on. Accordingly, auditors should tailor their audit approach after gaining an understanding of the entity, its operations and its human resource management systems and practices. The approach varies considerably from entity to entity and may involve examination of all aspects of human resource management within a department or within a branch or programme of the department.

3.21.4 The system-based manpower audit in the office of each cadre controlling authority will have to be supplemented by test check in its subordinate offices to evaluate the efficiency and effectiveness of the actual functioning of the system. Apart from assessing the availability of proper safeguards to ensure avoidance of overlap of functions and close coordination and their adequacy, this test check will also include nominal audit and other prescribed checks of establishment expenditure. All the audit findings should be studied and integrated to make an overall assessment of the operational efficiency and effectiveness of the systems.

3.21.5 The responsibility for devising and following sound systems for determination of manpower requirements, their regulation and their efficient and effective utilisation rests primarily with the cadre controlling authorities. Audit should ascertain whether the existing systems are adequate and whether they function effectively, and not only indicate the deficiencies in the system but also, as far as possible, the directions of improvement based on well-considered suggestions.

3.21.6 Systems audit of manpower controls will involve examination of a number of aspects but mainly the following:

- (i) the job analysis, job description and job specification for various categories of posts;
- (ii) methods and principles adopted for assessment of manpower requirements;
- (iii) norms/standards adopted for computation of requirements;
- (iv) allocation and actual deployment of manpower resources;
- (v) control systems available for monitoring the efficient and effective utilisation of human resources; and
- (vi) training and development of human resources.

2.21.7 System-based manpower audit will ordinarily be undertaken once in three years in each cadre controlling office.

Source Documents

3.21.8 The documents to be examined in the course of audit will include, *inter alia*:

- (i) Government instructions on procedures for computing manpower requirements, recruitment of personnel to different posts and the pay scales and other terms and conditions relating to the posts;
- (ii) files relating to assessment of manpower requirements;
- (iii) registers of sanctioned strength;
- (iv) statements of actual men-in-position;
- (v) duty allocation registers;
- (vi) office manuals describing duties and responsibilities of various posts;
- (vii) delegation of powers;
- (viii) registers and bills relating to establishment expenditure, etc.

3.21.9 The computerised data base prepared by the A&E office from the payrolls of State Government employees can also be used effectively for manpower audit. This will provide comprehensive and integrated information about the manpower profile of the department as a whole and its cost.

Issues for audit scrutiny

Job analysis, description and specification

3.21.10 Job analysis is an analytical examination of a work assignment. It is the process of collecting information about, and analysing, duties, responsibilities and the conditions of work involved in the job, its inter-relationship with other work assignments and the qualifications necessary for its performance. Based on the job analysis, a written statement is prepared outlining the specific duties, responsibilities and organisational relationship that constitute a given job and the conditions of work involved in, and the qualification necessary for, performing the job. This statement is called job description. The job specification is prepared thereafter and is primarily intended for emphasising and detailing the personal characteristics required for satisfactory performance of the job.

3.21.11 Efficient personnel management requires that an organisation's current and future manpower needs should be determined in terms of both quantity and quality. While the qualitative requirements are assessed through various methods of work measurement in the context of perspective organisational planning, the performance requirements and personal qualifications are assessed through job analysis and recorded in job descriptions and job specifications. Job analysis and job description

are the essential prerequisites for job evaluation and for comparing the relative worth of the factors of a job with those of other jobs in the same organisation and similar jobs in other organisations.

3.21.12 A job description can provide a good and reliable check list for performance appraisal. In its absence, the tendency will be to substitute subjective judgment for verifiable observation of facts. Job description can also be used to stimulate and direct self-appraisal and self-development.

3.21.13 The techniques of job analysis, job description and job specification are extensively used in manpower planning and development for specifying the nature and requirements of a job or a group of jobs, selection and placement of personnel and for job evaluation. These techniques are also very useful in identifying and assessing the training needs of different categories of personnel and in formulating the objectives and design of a training programme. They are helpful in setting standards of performance and orienting and motivating employees towards achievement of such standards.

3.21.14 It is thus imperative that proper systems should exist for maintenance of job descriptions and job specifications for various categories of posts in each department based on an analytical examination of each category. It should be examined during audit that:

- (i) arrangements for applying these techniques are sound and effectively managed;
- (ii) job descriptions and job specifications are maintained up to date and correspond accurately to current job requirements, and all jobs are periodically reviewed with a view to revising their descriptions and specifications in conformity with the changes in organisational objectives, job content and job context;
- (iii) job descriptions and job specifications are precise and clear so as not to give room for any ambiguity or misconstruction; and
- (iv) there is no overlapping of duties and responsibilities assigned to different jobs.

Assessment of manpower requirements

3.21.15 Manpower requirements are forecast on the basis of :

- (i) opinions of different supervisory or controlling officers within the department; or
- (ii) projection of past trends using statistical techniques like extrapolation, regression, correlation, etc.; or
- (iii) standard formulae devised with reference to the results of work study, job descriptions, specifications, etc.; or
- (iv) measures of productivity.

3.21.16 The last method is, in many circumstances, the most difficult to apply. In conditions peculiar to Government, the third alternative is generally followed. Where there is no standard formula, the past experience and trends as well as other ad hoc principles form the basis for estimating manpower requirements. The manpower estimates take into account not only the current needs of the department but also its expansion programmes, the demands for which are fully supported by substantive evidence of need. One other important factor in assessing manpower requirements is the translation of the numerical estimates into financial (cash) estimates bringing out

the cost implications. Procedures for this purpose are generally prescribed for the guidance of estimating authorities. Individual controlling officers within the department who prepare the estimates in this manner forward them to the cadre controlling authorities concerned. The latter closely scrutinise them so as to be satisfied about their correctness before according approval. These estimates form the basis for issue of formal sanctions and for regulation and control of manpower.

3.21.17 The following should be examined in auditing the systems for forecasting manpower requirements:

- (i) The extent to which the projections of manpower requirements correspond to the numbers, levels and skills of personnel required for the objectives set forth and the work load based on those objectives.
- (ii) The continued relevance and appropriateness for the department of the objectives in question. In case these have ceased to be so, and, if there be any changes in the organisational structure of the department or in its policies, it should be examined whether the manpower forecasts and estimates reflect suitable reductions after taking into account the changes.
- (iii) The evidence, such as workload at current levels, additional posts for future expansion programmes, etc., available to support the forecasts and their reliability.
- (iv) Extent to which the standard formulae prescribed for different processes of work have been applied in the computation of manpower requirements; and, in case standard formulae have not been evolved, the reasonableness and fairness of the principles adopted for computation.
- (v) Adequacy of the departmental procedures and formulae for manpower forecasts.
- (vi) Arrangements, if any, for periodical review by an independent agency like the Staff Inspection Unit of the accuracy and adequacy of the standard formulae devised for computation of manpower needs like Staff Inspection Unit and timeliness and adequacy of the follow-up action taken for revision of the formulae where necessary.
- (vii) Extent to which introduction of computers, electronic data processing, photocopying machines, and similar technological improvements have made a difference to the standards and forecasting of manpower requirements.
- (viii) Soundness of the procedures prescribed for translating manpower estimates into cash estimates.
- (ix) Role of specified officers assigned the responsibility of approving estimates of manpower requirements and the extent to which this responsibility was actually discharged.

Allocation and regulation of manpower resources

3.21.18 Two aspects are important in the allocation and regulation of manpower resources. These are supply forecasting and financial constraints. In calculating the actual availability against the demand, the manpower available in the beginning of the year, losses on account of various types of wastages attributable to normal retirement, natural attrition, discharge from service, resignation, transfers and promotions, etc. and recruitment during the year are taken into account. The broad principles followed for calculating different wastage elements are as follows:

- (i) Normal retirement: This depends on the government policies in force from time to time and can be estimated for the forecast period from the personnel records and by an analysis of the age profile of the employees.
- (ii) Natural attrition: Wastage due to natural causes represents loss of personnel resulting from death, disability or illness. This can be computed based on past experience and the age profile and general health of the employees.
- (iii) Discharge from service: This refers to loss of personnel as a result of discharge or dismissal from service. Only previous experience can provide a guideline for estimating this type of wastage.
- (iv) Voluntary wastage: Another type of wastage is the loss of personnel as a result of their resigning or retiring voluntarily. The reasons, such as conditions of work, morale, job satisfaction, opportunities in the department and elsewhere, will vary widely from department to department. Here again, past experience and future trends, as far as these can be foreseen, will form the basis of determination.
- (v) Transfers and promotions: These are taken into account in arriving at the overall estimate of wastage and reflect the extent to which particular occupational and hierarchy groups are lost to other occupations as a result of lateral or vertical movement in the hierarchy. By careful use of techniques like succession system analysis, transfer analysis, etc., it will be possible to predict the proportion of employees in different categories who are likely to be promoted or transferred in the future.

3.21.19 A comparison of the final figure of availability computed in the manner described above with the demand as found justified will indicate the shortfall, if any, in manpower supply. Sometimes, due to financial constraints, it may not be possible to provide manpower to the extent of the demand found justified. In such cases, the cadre controlling authority may have to apply appropriate cuts before formally issuing sanctions allocating manpower to different units. In certain other cases, retention of a reserve to meet possible unforeseen requirements may be considered necessary and cuts may have to be imposed for that purpose.

3.21.20 In analysing the system of allocation and regulation of manpower resources, it should be examined whether:

- (i) changes in work load that have taken place since the preparation of the initial estimates have been taken into account while allocating the manpower resources;
- (ii) the demand and supply aspects are properly integrated in distributing the available resources;
- (iii) the system of supply forecasting is non-existent or deficient, or proper policies relating to means of supply like recruitment and promotion are lacking with all the attendant adverse consequences in cases where the allocation of manpower resources is insufficient in relation to the demand;
- (iv) the cuts imposed in allocations have a proper basis and take care of the priorities laid down for regulation of manpower resources;
- (v) the reductions made in the manpower estimates have been correspondingly reflected in the cash estimates and *vice versa*; and

- (vi) sound procedures have been prescribed for engaging substitutes on a casual basis or for payment of additional remuneration like overtime allowance or honorarium to tide over shortfalls in availability of manpower resources.

Besides, the manner in which (a) the actual deployment of the manpower resources compares with the allocations made; and (b) the reserves, if any, retained while distributing the resources are ultimately utilised should also be examined.

Norms/standards adopted for computation of requirements

3.21.21 Work measurement is a vital necessity for the efficient functioning of any department or organisation. It forms the basis for comparison or control of the organisation's capacity, efficiency, economy or relative accomplishment, and involves the following broad steps:

- (i) selection of a specific work for study;
- (ii) compilation of relevant information in regard to nature of personnel and of their duties and responsibilities, working conditions, the sequence of actual performance of various items in the total range of work and individual elements in each component, etc.;
- (iii) critical examination of the recorded work breakdown, after separating unnecessary, avoidable and non-productive elements, to ascertain the best method of doing the work;
- (iv) assessment of the time involved in each necessary element with reference to the most appropriate technique for the situation;
- (v) determination of time allowances to cater to the requirement of relaxation, personal needs, contingencies, etc.; and
- (vi) computation of the standard time required for each operation which will include the measured time and permissible time allowances.

3.21.22 Time estimates or work norms are devised for various elements, operations or jobs in a department or organisation by applying the techniques of time study, synthetic data, analytical estimating, activity or work sampling, etc.

3.21.23 Time study involves the cataloguing of various steps involved in a job together with the different elements in each of them and measuring the time required for performing each such element of the job. The effective speed of operation of the worker is assessed in relation to the concept of the rate corresponding to the standard pace of working or in other words the normal speed of working that one develops through long practice. Generally, each element is rated during its performance before the time is recorded without regard to the preceding or succeeding elements. The observed times are then converted into 'basic times'. Allowances for relaxation, personal needs and contingencies are then added as a percentage of the basic times, since precise measurement thereof would be uneconomical owing to their infrequent or irregular occurrence, to arrive at the standard times for different elements.

3.21.24 The technique of synthesis of elemental standard times is applied to jobs or parts thereof, comprising elements which frequently recur in other jobs and have been correctly measured under identical conditions from direct time studies.

3.21.25 The technique of analytical estimating is used for measurement of work comprising wholly or partly of non-repetitive elements. The job is broken down in detail into its different elements and each element is assigned a time value based on standard performance; this time value in the case of repetitive elements may be

derived from fresh time study data or available synthetic data. In the absence of such data, estimated time values may be developed on the basis of accepted practices.

3.21.26 Activity or work sampling is the process of drawing inferences and establishing frames of reference from a random sample of the total activity of machines or men observed during a period of time. It is a process of drawing inferences or general conclusions about a mass or aggregate of similar items based upon the careful study of a smaller number of items drawn from the mass called the sample. The inferences or conclusions are based on the assumption that what is true of the sample is true of the whole.

3.21.27 Individual departments or organisations have to select appropriate work measurement techniques and prescribe time estimates or work norms for different types of jobs. An independent agency called the Staff Inspection Unit is generally constituted not only to prescribe norms but also to periodically review the actual functioning of offices to ensure that:

- (i) manpower sanctioned for a particular purpose is utilised for that very purpose;
- (ii) redundant and profitless activities are eliminated; and
- (iii) work methods are simplified so as to effect economies in manpower without sacrificing efficiency.

3.21.28 In auditing the system relating to work norms and the working of the Staff Inspection Unit, the following questions would be of relevance:

- (i) Are the techniques followed for formulating the time estimates appropriate having regard to the work environment and conditions obtaining in the particular department?
- (ii) Have there been any material variations in the job content or job context since the formulation of the estimates as a consequence of which the estimates have become outdated necessitating their revision and, if so, was timely action taken in this regard?
- (iii) Are there, in actual fact, functions or jobs that cannot be subjected to work measurement necessitating the adoption of ad hoc methods?
- (iv) Is the Staff Inspection Unit independent of the control of the line management?
- (v) Are the staff inspectors selected from a wide enough field so that there is a mix of both executive and technical officers?
- (vi) Have the staff inspection programmes taken into account views expressed by the manpower branch, O&M branch and other review bodies?
- (vii) Is a cyclical pattern of inspections followed so as to cover all important units within a specified period?
- (viii) Has the planned cycle of inspection been achieved?
- (ix) Are the omissions, if any, to inspect certain sections, branches or grades of staff in order?
- (x) Are all individual offices of departments having a large number of local offices in the field inspected? On the other hand, if the inspection is confined to a sample of offices, can this sample be justified statistically?
- (xi) Are adequate arrangements available for monitoring the implementation of the recommendations of the staff Inspection Unit?

- (xii) Has a reasonable schedule of implementation been agreed to in consultation with the management?
- (xiii) Are instances of failure to implement the schedule reported to the senior management?
- (xiv) Are conflicts, if any, between the Staff Inspection Unit and the management referred to a senior level for objective decisions?

Control of manpower

3.21.29 The systems enumerated above require to be properly coordinated and controlled to achieve maximum efficiency and effectiveness in the working of the department or organisation. With this end in view, there should be a separate branch or section under each cadre controlling authority for coordinating and controlling departmental manpower. The role and duties of this branch should be clearly defined and it should, as far as possible, be independent from the line management with a direct reporting responsibility to the cadre controlling authority itself.

3.21.30 Functions of control and coordination can be exercised in different ways. One method is through the introduction of a management information system for which appropriate returns have to be prescribed. Another method is by means of administrative inspection of different offices under the jurisdiction of the cadre controlling authority. In certain situations a combination of both these systems may have to be adopted.

3.21.31 In auditing manpower control systems, it should be examined whether:

- (i) there exists a separate branch or section for coordinating and controlling departmental manpower with a clear demarcation of its role and responsibilities;
- (ii) the returns prescribed for obtaining information on various aspects concerning manpower are adequate to the needs and they are properly made use of;
- (iii) the manpower branch critically examines all demands for manpower taking into account the work norms, the recommendations of the O&M Unit, the Staff Inspection Unit, etc.;
- (iv) there is a sound system of evaluating requests for additional manpower after the original demands have been approved;
- (v) the utilisation of manpower resources is monitored;
- (vi) work procedures are examined by the O&M unit with a view to streamlining and bringing them in tune with the changing circumstances;
- (vii) there are adequate arrangements for monitoring performance;
- (viii) steps have been taken to provide training so as to impart to the staff the latest information and techniques relevant for their job requirements; and
- (ix) arrangements exist to correlate the utilisation of manpower resources with achievements of targets and goals.

Training of manpower

3.21.32 In evaluating an organisation's performance, it may be determined whether:

- (i) short-term and long-term training plans were formulated and training courses designed only after assessing the needs;

- (ii) programmes developed for training of personnel are job and development oriented;
- (iii) the training function is balanced and cost effective;
- (iv) an inventory of personnel trained in various disciplines is maintained so as to ensure the optimum use of the training imparted to them; and
- (v) the organisation has a system for a periodical review and revision of training courses through classroom evaluation, evaluation by participants and post- training evaluation.

Use of computerised data base

3.21.33 As mentioned earlier, the computerised data base prepared by the A&E office from the payrolls of State Government employees can be used effectively for manpower audit. For instance, comparison of the data relating to the sanctioned strength in various cadres in a department with that relating to the men-in-position will facilitate the scale audit of the department in its entirety. It will also be possible to examine whether the approved staffing pattern for different cadres has been adhered to and whether the staffing pattern itself is commensurate with the department's mandate, objectives and programmes. This would lead to an examination of the adequacy, appropriateness and relevance of the control mechanisms in place to ensure that the prescribed staffing pattern and other human resources management policies are followed.

3.21.34 Based on an examination of the data base, at least twenty five *per cent* of the major and medium drawing and disbursing officers should be selected for voucher audit and the scrutiny of service records during local audit according to the instructions in this regard contained in this Manual. The results of central audit of vouchers may also be suitably used for scrutiny of the service records in the field.

Chapter-22

Audit of Computerised Systems

Introduction

3.22.1 Following the significant advances in the field of information technology (IT), Government organisations have become increasingly dependent on computerised information systems to conduct their operations and to process, maintain, and report essential information. As a consequence, the reliability of the computerised data and of the systems that process, maintain and report these data is a major concern to audit. IT Auditors evaluate the reliability of computer-generated data supporting financial statements and analyse specific programmes and their outcome. In addition, they examine the adequacy of controls in information systems and related operations to ensure system effectiveness.

3.22.2 IT Audit is the process of collection and evaluation of evidence to determine whether a computer system has been designed to maintain data integrity, safeguard assets, allow the effective realization of organisational goals, and ensure efficient utilisation of resources. Data integrity relates to the accuracy and completeness of information as well as to its validity in accordance with the norms. An effective information system leads the organisation to achieve its objectives and an efficient information system uses minimum resources for this purpose. While evaluating the effectiveness of any system, the IT Auditor must be aware of the characteristics of the users of the information system and the decision-making environment in the auditee organisation.

3.22.3 Use of computer facilities has brought about radically different methods of processing, recording and controlling information and has resulted in many previously separated functions being combined. Consequently, the potential for material systems errors has greatly increased at a considerable cost to the organisation; for instance, the highly repetitive nature of many computer applications implies that even small errors remaining undetected may lead to large losses. An error in the calculation of income tax to be deducted from employees' remuneration will not recur in each case in a manual system, but once this error is introduced in a computerised system, it will affect each case. A bank may suffer huge losses on account of an error in rounding off to the next rupee instead of to the nearest rupee. The financial implications of such recurring or repetitive errors could, in the final analysis, be very substantial. This makes it imperative for the auditor to test the invisible processes, and to identify the vulnerabilities in a computer information system.

Controls in a Computer System

3.22.4 Controls in a computer information system reflect the policies, procedures, practices and organisational structures designed to provide reasonable assurance that the intended objectives will be achieved. They ensure effectiveness and efficiency of operations, reliability of financial reporting and compliance with the rules and regulations. However, computer systems are efficient and achieve results accurately and at great speed only if they function in the manner they are designed to and such controls as are provided are effective. It is, therefore, important for the Auditor to verify that not only adequate controls exist, but that they also function effectively. Such controls should also be commensurate with the risk assessed so as to reduce the impact of identified risks to acceptable levels.

3.22.5 Information system controls are broadly classified into two categories, namely General Controls and Application controls. General controls include controls over data centre operations, system software acquisition and maintenance, access security, and application system development and maintenance. They create the environment in which the application systems and application controls operate. Examples include IT policies, standards, and guidelines pertaining to IT security and information protection, application software development and change controls, segregation of duties, service continuity planning, IT project management, etc.

3.22.6 Application controls pertain to specific computer applications. They include controls that help to ensure the proper authorisation, completeness, accuracy, and validity of transactions, maintenance, and other types of data input. Examples include system edit checks of the format of entered data to help prevent possible invalid inputs, system-enforced transaction controls that prevent users from performing transactions that are not part of their normal duties, and the creation of detailed reports and transaction control totals that can be balanced by various units to the source data to ensure that all transactions have been posted completely and accurately.

Significance of Controls

3.22.7 Presence of controls in a computerised system is significant from the audit point of view because the system may allow, in their absence, duplication of inputs or processing, or conceal or make invisible some of the processes. Controls also provide safeguards against data loss attributable to damage to or corruption of files, manipulation of data, power failures or fluctuations, viruses, computer abuses, etc. Absence of audit trails would also make it difficult to ensure the efficient and effective functioning of a computerised system. for an auditor Besides, in organisations where computer systems are operated, on contract, by outside agencies that employ their own standards and controls, absence of controls will also make the system vulnerable to remote and unauthorised access.

Objectives of Computer Controls

3.22.8 The objectives of controls do not change with the introduction of computers. Instead, it is the control techniques that change with many of the manual controls being computerised and new technical computer controls being added to achieve the same objectives. Typical control objectives within a government data processing function aim to ensure:

- (i) the provision of effective organisational control over functions related to data processing by clearly defining organisational objectives;
- (ii) effective management control over development of data processing resources in conformity with organisational objectives;
- (iii) adoption of practices related to data processing activities in accordance with statutory requirements and prescribed administrative procedures;
- (iv) adherence to policies, standards and procedures in respect of all data processing functions; and
- (v) efficiency and effectiveness of the data processing systems geared towards achievement of the desired objectives.

Audit objectives and scope

3.22.9 The basic objectives of the audit of computerised systems include an evaluation of:

- (i) the acquisition and installation of the computer and computer systems;
- (ii) system effectiveness;
- (iii) system economy and efficiency and data integrity;
- (iv) system security; and
- (v) compliance of system related activities with applicable laws, regulations and guidelines.

3.22.10 The above objectives can be achieved by reviewing:

- (i) the acquisition of the computer facilities;
- (ii) whether the computer-based systems incorporate adequate procedural controls that are not invalidated by subsequent amendments;
- (iii) the adequacy of controls governing development and maintenance of computerised systems;
- (iv) the adequacy of administrative and organisational controls to ensure safe and expedient day-to-day operations; and
- (v) the use of resources to appraise and report on waste, extravagance and inconvenient administration or poor value of money.

An auditor has to always bear in mind that he has to exercise an independent judgement on the capability of the system to cater to the intended objectives-efficient and adequate disposal.

Preliminary evaluation

3.22.11 The first step in audit should be a preliminary evaluation of the computer systems covering:

- (i) the manner in which the computer function is organised;
- (ii) the use of computer hardware and software;
- (iii) the applications processed by the computer and their relative significance to the organisation; and
- (iv) the methods and procedures prescribed for implementation of new applications or revision of existing applications.

In the course of the preliminary evaluation, the auditor should ascertain the level of control awareness in the auditee organisation and existence (or non-existence) of control standards. The preliminary evaluation should identify *inter alia* potential key controls and any serious weaknesses in these controls. The auditor should examine whether each control objective has been achieved and; if not, he should assess the significance of and risks involved in the deficiencies observed.

Audit methodology

3.22.12 After completing the preliminary evaluation of the computer systems, the auditor has to decide whether it would be more appropriate to adopt the system-based audit approach or the direct substantive testing approach. The aspects to be borne in mind in arriving at the decision are the following:

- (i) results of the preliminary evaluation;
- (ii) extent to which reliance can be placed on any work carried out by the internal audit wing of the auditee organisation;

- (iii) nature of any constraints, such as the absence of any audit trail, and the practicability of testing;

It has also to be borne in mind that effective compliance testing of key computer controls may be difficult necessitating the use of large samples to test each control.

A. Direct Substantive Testing

3.22.13 If the direct substantive testing approach is chosen, a sample of transactions should be selected and tested. The results of the preliminary evaluation will be particularly of assistance in this context because it would have:

- (i) enabled an overall assessment of the control environment and identified any serious weaknesses that should be raised with the auditee;
- (ii) afforded sufficient familiarity with the system to facilitate selection of appropriate transactions for testing and their efficient substantiation; and
- (iii) provided sufficient information to determine the initial requirement for any Computer Assisted Audit Techniques (CAATs).

B. Systems-based Audit

3.22.14 In adopting the system-based audit approach, it will be necessary to examine aspects relating to the regularity, economy, efficiency and effectiveness of the system besides evaluating data integrity, and data security. These are explained below:

- (i) System effectiveness is measured by determining whether the system performs the intended functions and whether the users are able to obtain the requisite information in the right form and at the right time.
- (ii) A system is economical and efficient if it uses the minimum number of information resources to achieve the output required by the users. This will involve optimisation of the use of system resources-hardware, software, personnel and money.
- (iii) System activities can be considered to be regular if they comply with all applicable laws, rules, policies, guidelines, etc.
- (iv) Achievement of data integrity implies that the internal controls must be adequate to ensure that errors are not introduced when entering, communicating, processing, storing or reporting data.
- (v) In order to ensure data security, the data system resources, like other assets, must be sufficiently protected against theft, waste, frauds, unauthorised use and natural disasters.

The key controls for ensuring the above will have to be identified, recorded, evaluated and compliance tested. The results of the preliminary evaluation would be of assistance in this context as well because the evaluation would have brought to light system deficiencies, major weaknesses and areas requiring greater, in-depth study. Identification of key controls would also depend on the experience gained by the auditor in the course of audit of similar installations.

3.22.15 Compliance testing of controls in computer systems and programmes is difficult and complicated as their operation is automatic, invisible and not fully evidenced since the exceptions alone are normally evidenced. Detailed manual testing of these controls is rarely cost effective; however, a possible alternative approach would be to resort to CAATs. For example, either test data or audit software may be used to test a control designed to ensure that payments exceeding a certain value are

not made. Audit software can be used in this context to interrogate the entire payments file to identify payments in excess of the specified value. If no such cases are revealed, the auditor has some assurance that no such payment was made. This is a negative assurance since it is possible that no invalid data was in fact presented to the system and, therefore, the control in question was never invoked. However, if the interrogation is applied to the entire year's transactions, it achieves the main audit objective in that no excess payments will have been made in the period. Even when test packs or interrogation techniques are used, the auditor should examine the procedures for dealing with exception or error reports in order to ensure that invalid transactions are corrected and re-input for processing.

Audit techniques

3.22.16 IT audit techniques refer to the use of computers, including software, as a tool to independently test computer data of interest to Audit. The following are some of the well-established techniques:

- (i) Collection and processing of a set of test data that reflect all variants of the data and errors which can arise in an application system at different times.
- (ii) Use of integrated test facilities, built into the system by the auditee, to assist the auditor in his requirements, as one of the users of the system.
- (iii) Simulation of the auditee's application programs using audit software to verify the results of processing.
- (iv) Periodical review of programme listings in order to verify that the programmes have not been altered unauthorisedly.
- (v) Use of either commercial software or programmes developed in-house to interrogate and retrieve data applying selection criteria and to perform calculations.
- (vi) Extraction of data samples from the database/files of the auditee, using sampling techniques, for post analysis and review. The sampling technique to be employed is determined by the nature of data and type of analysis required.

3.22.17 Computer audit techniques are employed for:

- (i) independent verification of ledger balances and control totals;
- (ii) re-calculation of critical computerised calculations to verify their correctness;
- (iii) range checks to verify the efficient functioning of computer-based controls and test for exception conditions;
- (iv) testing the validity of data stored in the master file;
- (v) detection of data abuse/frauds; and
- (vi) substantive testing with large volumes of data which is difficult, if not impossible, in a manual audit process.

3.22.18 The employment of a particular computer audit technique employed depends on:

- (i) the type of application system under review;
- (ii) the extent of testing required;
- (iii) the availability of resources in terms of computer facilities and the level of EDP skills among the audit staff; and
- (iv) volume of data and availability of printed information.

Where the volume of data is small and adequate printed information is available to carry out a meaningful clerical audit, it will not be necessary to employ computer techniques, which are costly and time consuming. To elaborate further, the auditor should break up his project of application system audit into three stages. In the first stage, he will carry out the examination of audit trails, intermediate printouts as required, system logs and operational controls. If the auditor feels, as a result of audit in the first stage, that the adequacy of controls requires further verification, he can resort to compliance testing in the second stage using the test deck method and integrated test facilities with resident audit programs. If the compliance testing exposes some control weaknesses, substantive testing may be resorted to in the third and final stage using retrieval software packages that are available commercially or simulation techniques with audit software.

3.22.19 At present, many data-based management systems also have built-in query and report writer facilities. Unstructured queries on the data files are also possible in some advanced systems. These utilities could be profitably employed for audit purposes. The auditor will be able to obtain the relevant information from the auditee's computer centre.

3.22.20 The distinct advantages of retrieval packages over other methods are that these enable cent *per cent* review of data, and ensure accuracy of processing and effective use of the auditor's time in analysing the results of interrogation. Use of retrieval software will, however, always remain a problem area primarily because of the multitude of hardware and software systems in use in various departments, requiring expertise in several programming languages.

Issues for audit scrutiny

Audit of Acquisition

3.22.21 Generally the acquisition of computer facilities involves the following stages:

- (i) Definition of a computer policy and strategy based on an evaluation of organisational requirements and the ways and means of satisfying them.
- (ii) Establishment of the need.
- (iii) A thorough examination and evaluation of the alternative courses of action available.
- (iv) Precise specification of the requirements and delineation of existing and future applications, hardware, software, modes of operations, conditions of supply, etc.
- (v) Evaluation of alternative sources of supply and selection of the most appropriate source(s).
- (vi) Physical acquisition of the facilities and the systems.

Often these stages tend to overlap or merge imperceptibly into one another.

3.22.22 Acquisition of computer facilities may include:

- (i) acquisition of hardware involving
 - (a) the setting-up of a completely new installation;
 - (b) enhancement of the central processor;
 - (c) enhancement of peripherals;
 - (d) addition/replacement of a specific equipment; and
 - (e) introduction of several small computers.

- (ii) acquisition of software involving
 - (a) general software associated with changes in hardware, including the introduction of a new operating system;
 - (b) specific purpose software; and
 - (c) 'off the shelf' application software.

3.22.23 The auditor has to review the adequacy of the administrative procedures and controls used by the auditee organisation when considering and deciding upon the acquisition of computer facilities. For this purpose, he has to ascertain whether:

- (i) a sound administrative structure is available to enable a proper analysis of the requirements of computer facilities;
- (ii) the acquisition procedures are effective in facilitating the formulation of a viable computing policy and strategy; and
- (iii) the processes of evaluation and selection ensure that the requirements of the organisation are met in the most effective and efficient manner.

3.22.24 The auditor should direct his attention to an examination of the following:

- (i) EDP policy and strategic plan;
- (ii) administrative structure;
- (iii) feasibility study/project report containing proposals, costs and benefits; equipment selection;
- (iv) justification for hardware and software;
- (v) installation of equipment and adequacy of testing; and
- (vi) post-implementation review and costs.

3.22.25 The Feasibility Report should include a clear statement of the objectives, details of the existing arrangements, alternative solutions considered and the proposed solutions, financial implications and schedule of implementation. The following points should be borne in mind in respect of equipment selection:

- (i) The requirements for acquisition, enhancement or replacement of computing facilities and the specifications should be stated concisely and precisely as they form the basis for potential suppliers.
- (ii) The technical as well as commercial aspects of the proposal should be evaluated according to standard contracting procedures.
- (iii) Procurement action should be initiated only after ensuring that the suppliers' offer conforms to the required specifications. This should be done by taking into account *inter alia* the following:
 - (a) technology options available at the time of procurement;
 - (b) useful life of the asset;
 - (c) incidental costs which could eventually be of sufficient magnitude, besides the hardware and software costs; and
 - (d) future development plans of the potential suppliers in terms of expendability, upgrading, etc.

Audit of Systems Development

3.22.26 Since the underlying purpose of acquisition and development (designing, building or modifying) is the same, the audit concerns relating to acquisition, viz., planning, requirements definition, analysis of alternatives and justification for the selected approach, are equally important in the review of systems development.

Broadly stated, the audit objective of system development controls is to ascertain that procedures are adequate to ensure that the development results in well-documented computer systems incorporating adequate controls and meeting the defined user requirements in an efficient manner.

3.22.27 It will also be necessary to examine the system testing and data transfer procedures in view of the following:

- (i) Inadequate testing of the system prior to commencement of line operations may result in the operation of a system not capable of correctly processing and recording transactions.
- (ii) Adoption of inappropriate or inadequate data transfer procedures may result in the relevant records being transferred inaccurately and incompletely from an existing system to a new one.

3.22.28 Where systems development is entrusted to contractors, the contract and its management become important audit concerns. It should be ensured that the vendor provides complete documentation along with the source code. Further, the terms and conditions, such as rights over the source code, provisions for modifications/updates in future, etc. should be examined. The penal provisions may also be examined in cases of non-delivery of the agreed upon services or non-adherence to the stipulated time schedules. It may also be ascertained whether any of the objectives envisaged could not be realised because of belated delivery of the software.

Categories of Systems Development Audit

3.22.29 Systems development audit can be categorised into the following three general classes:

- (i) **Monitoring Audit:** The auditor evaluates the project throughout the process to determine whether the development is proceeding effectively and ascertains whether milestones are being met, expenditure rates are as predicted, high quality documentation is being written, the software conforms to established technical standards and tests are being conducted as scheduled or evaluated as planned.
- (ii) **Design review audit:** Its objective is to determine whether the preliminary and detailed designs accurately reflect the functional data and systems specifications, and incorporate adequate internal controls.
- (iii) **Post-implementation audit:** This is performed three to six months after the system becomes operational and serves to evaluate whether the system meets requirements, is cost-effective and generally provides benefits predicted in the project planning documents.

Association of audit in systems development

3.22.30 The ultimate responsibility for incorporating internal controls and an adequate trail into computer-based systems must rest with the auditee organisation. It is, therefore, not necessary for the auditor to provide, as a matter of policy, any consultancy advice on developing systems. Nonetheless, Audit should be aware of all developments that are likely to have a significant impact on the audit processes. At an early stage in the design process of a new system, the auditor should consider providing the auditee organisation specific comments on:

- (i) internal controls in the light of weaknesses identified in the existing system;
- (ii) audit needs such as data retention or retrieval facilities and audit trail requirements; and

- (iii) any other requirement to facilitate his audit, or improve its efficiency and effectiveness.

Main points to be checked by Audit

3.22.31 While the auditor should be cautious enough not to be drawn into unproductive involvement in systems development, he should nevertheless examine whether:

- (i) a published standard methodology is being used for designing and developing systems;
- (ii) there is a common understanding by all parties-users, systems analysts, management and auditors-of the basic structure of both manual and computer processing activities, as well as of the concepts and needs for control and of the applicable control techniques;
- (iii) the IT applications development is authorised by the user, the steering committee or the management;
- (iv) the systems development work was preceded by a feasibility study to determine the most appropriate solutions to standard problems;
- (v) there is adequate cross referencing between (a) content and format of preliminary studies; (b) feasibility studies; (c) system specifications; and (d) programme coding;
- (vi) project management techniques, such as the stipulation of project decision milestones, time and cost estimates, etc., are applied in systems development work to facilitate monitoring of the against estimates;
- (vii) programming standards using modular structured methodology are being adhered to in coding; and
- (viii) existing in-house or externally available application packages were considered before deciding upon new in-house application development.

Audit of Operation and Maintenance

General Controls

2.22.32 The auditor has to review the internal controls which are essential for proper operation and maintenance. Some of the operation and maintenance controls fall in the category of general controls (also referred to as environmental controls) relating to the entire gamut of computer facilities. The overall audit objective in reviewing the general controls is to ensure that the controls and procedures are adequate to provide secure, effective and efficient day-to-day operation of the computer facilities. The controls and procedures that together constitute the general controls are discussed in the succeeding paragraphs.

Organisational controls

2.22.33 These controls ensure that (i) there is judicious separation of duties to reduce the risk of employee fraud or sabotage by limiting the scope of authority of any individual; (ii) there are comprehensive written standards; and (iii) access to and use of computer terminals is properly authorised. These high level controls are important as they influence the effectiveness of any lower level controls which operate within accounting applications. Unless the management follows appropriate IT policies and standards, it is unlikely that other controls will be sufficiently strong to support a controls-reliant audit approach. An assessment of the high level IT policies, strategies

and procedures will provide the auditor with a reasonably reliable indication as to the existence and effectiveness of any lower level detailed controls.

Segregation of duties

2.22.34 The auditor should verify whether duties amongst the staff operating the computer system are adequately and effectively segregated so as to substantially reduce the risk of error and fraud. Poor segregation could lead to any one person, with control over a computer function, making an error or committing a fraud without it being detected and to the adoption of inappropriate working practices. Evidence of separation of duties can be gained by obtaining copies of job descriptions, organisation charts and observing the activities of IT staff. Where computer systems use security profiles to enforce separation of duties, the auditor should review on-screen displays or printouts of employees' security profiles in relation to their functional responsibilities.

2.22.35 In any major IT System, the following duties should be adequately segregated:

- System design and programming.
- System support.
- Routine IT operations and administration.
- System security.
- Database administration.

Physical Access control

2.22.36 Physical access controls include the environmental controls which operate across the entire IT environment and affect all underlying computer applications. These controls are designed to protect the computer hardware and software from damage, theft and unauthorised access. Access controls can operate at various levels, for example, from restricting access to the client's site to installing key locks on individual personal computers. Restricting physical access to the IT systems reduces the risk of unauthorised persons altering the financial information. The auditor should make a quick assessment of the physical access controls and their adequacy.

Authorisation Control

3.22.37 This helps verify the identity and authority of the person desiring to attempt a procedure or an operation. This control is exercised through the use of passwords, signatures, smart cards, cryptographic systems, etc. Such controls ensure that only authorised persons have access to the system for the purpose of entering and/or altering transactions, obtaining information, etc.

Logical Access control

3.22.38 Logical Access controls are provided to protect the financial applications and underlying data files from unauthorised access, amendment or deletion. Logical access controls can exist at the installation as well as application levels. Controls within the general IT environment restrict access to the operating system, system resources and applications, whilst the application level controls restrict user activities within individual applications.

3.22.39 These controls can also be used to restrict the use of powerful systems utilities, such as file editors. Logical access controls are often used with physical access controls to reduce the risk of the program and data files being amended unauthorisedly. The importance of logical access controls is increased where physical access controls are less effective as, for instance, when computer systems make use of

communication networks such as Local Area and Wide Area Networks (LANs and WANs). The existence of adequate logical access security is particularly important where a client makes use of wide area networks and global facilities such as the Internet.

3.22.40 The most common form of logical access control is login identifiers (ids) followed by password authentication. For passwords to be effective there must be appropriate password policies and procedures, which are known to all staff and are adhered to. Menu restrictions can be effective in controlling access to applications and system utilities. Systems may be able to control access by identifying each individual user through their unique login ids and then having a pre-defined profile of authorised menus for each. The IT Auditor should consider how easy it would be for users to 'break out' of the menu system and gain unauthorised access to the operating system or other applications. Some computer systems may be able to control user access to applications and data files by using file permissions. These ensure that only those users with the appropriate access rights can read, write, delete or execute files.

Operation and File Controls

3.22.41 These controls are meant to ensure that the computer and computer files are safeguarded from unauthorised access, loss or theft. Controls relating to reception, conversion and processing of data and distribution of the final output promote the completeness and reliability of these operations and safeguard against the unauthorised processing of data or programmes. File controls and procedures adequately safeguard files and software against loss, misuse, theft, damage, unauthorised disclosure and accidental or deliberate corruption. As the computer provides a means of holding, assessing and amending information, it is imperative that its use is controlled. There should be a definite schedule of work that is authorised to run on it and restrictions should be placed on the number and type of staff allowed access to it. Computer files are also records of an organisation that require to be properly safeguarded.

Change Management Controls

3.22.42 Change management controls are used to ensure that amendments to a computer system are properly authorised, tested, accepted and documented. Poor change controls could result in accidental or malicious changes to the software and data. Poorly designed changes could alter financial information and remove audit trails. Audit should ensure that a new or amended computer system is thoroughly tested by its end users before live use. Financial systems rarely remain static and are frequently changed, amended or updated. These regular changes may be necessary to improve efficiency, functionality or remove programming faults ('bugs').

3.22.43 Audit should emphasise that auditee organisations which update their computer systems should have appropriate change management and configuration management controls. Configuration management procedures relate to the control of IT assets (i.e. hardware, software, documentation and communications) and the subsequent update of records, while change management relates to the authorisation, impact assessment, asset update, testing and implementation of changes. Risks can be reduced by appropriate change management controls. These controls should ensure that all system and program amendments are satisfactorily justified, authorised, documented and tested and that an adequate audit trail of the changes is maintained. All change procedures should be documented.

3.22.44 These controls should ensure that program and file amendments are authorised, logged and monitored. The ability to introduce new programs should be limited to authorised change control staff who are independent of computer programmers and staff who input transactions or maintain standing data.

Network Communication Security Controls

3.22.45 Network communication security controls are important where LANs/WANs or web-enabled systems are in use. Some important aspects to be covered by these controls are as follows:

- (i) Appropriate techniques should be used to protect all sensitive information in the network.
- (ii) Critical network devices such as routers, switches and modems should be protected from physical damage.
- (iii) The network configuration and inventories should be documented and maintained.
- (iv) Prior authorisation of the Network Administrator should be obtained for making any changes to the network configuration.
- (v) The changes made in the network configuration should be documented. The threat and risk assessment of the network after changes in the network configuration should be reviewed.
- (vi) The network operation should be monitored for any security irregularity. A formal procedure should be in place for identifying and resolving security problems.
- (vii) Physical access to communications and network sites should be controlled and restricted.
- (viii) Communication and network systems should be controlled and restricted to authorised individuals.
- (ix) Network diagnostic tools, e.g., spectrum analyser, protocol analyser, etc. should be used on a need basis.
- (x) Intelligent devices known generally as 'Firewalls' should be used to isolate an organisation's data network from any external network. Firewall devices should also be used to limit network connectivity from unauthorised use. Networks that operate at varying security levels should be isolated from each other by appropriate firewalls. The internal network of the organisation should be physically and logically isolated from the Internet and any other external connection by a firewall. All firewalls should be subjected to thorough test for vulnerability prior to being put to use and at least half-yearly thereafter. All web servers for access by Internet users should be isolated from other data and host servers.
- (xi) Organisations should establish procedures for allowing connectivity of their computer network or computer system to any outside computer system or networks. The permission to connect to other networks and computer systems should be approved by the Network Administrator and documented. All unused connections and network segments should be disconnected from active networks. The computer system/personal computer or outside terminal accessing an organisation's host system must adhere to the general system security and access control guidelines. The suitability of new hardware/software, particularly the protocol compatibility, should be assessed before connecting them to

the organisation's network. As far as possible, no Internet access should be allowed to the database and file servers or to servers hosting sensitive data. The level of protection for communication and network resources should be commensurate with the criticality and sensitivity of the data transmitted.

- (xii) Each organisation should designate a properly trained 'Network Administrator' who will be responsible for the operation, monitoring security and functioning of the network. Appropriate follow-up of any unusual activity or pattern of access on the computer network should be investigated promptly by the Network Administrator. The system must include a mechanism for alerting him of possible breaches in security, such as unauthorised access, virus infection and hacking. Secure Network Management Systems should be implemented to monitor functioning of the computer network. Broadcast of network traffic should be minimized. Only authorised and legal software should be used on the network.

Service Continuity Planning

3.22.46 The auditor should ensure that there are adequate plans and arrangements to resume processing in the event of failure of computer operations. The degree of continuity planning will depend on the size of the IT department and the dependence on computer processing. A significant and prolonged loss of IT capability in a mission critical system may increase the risk of the financial statements being unavailable or materially misstated. Disaster recovery planning for IT facilities should be treated as one element of an organisation's overall service or business continuity plan.

3.22.47 The extent of disaster recovery planning and the detailed measures required will vary considerably. Organisations with large IT departments, with mainframe computers and complex communication networks may require comprehensive, up-to-date recovery plans which incorporate standby facilities at alternative sites.

3.22.48 Disaster recovery plans should be documented, periodically tested and updated as necessary. Untested plans may be satisfactory on paper but may fail when put into practice. Testing will reveal deficiencies and allow amendments to be made. The importance of adequate documentation is increased where significant reliance is placed only on a few key members of the IT department. The loss of key personnel, perhaps due to the same reason the computers were disrupted, may adversely affect an organisation's ability to resume operations within a reasonable timeframe.

3.22.49 Back-up copies of systems software, financial applications and underlying data files should be taken regularly. Back-ups should be cycled through a number of generations by, for example, using daily, weekly, monthly and quarterly tapes. They should be stored, together with a copy of the disaster recovery plan and systems documentation, in an off-site fire-safe. Where micro-computers are used, in addition to mini or mainframe computers, the auditor should ensure that there are also procedures for the backing-up of financial data stored on local hard disks.

Important points to be checked in audit

3.22.50 In reviewing general controls, the following aspects points should be covered:

- (i) Availability of all hardware equipment, including computer, ancillary and terminal equipment in use should be verified with reference to a

- list of hardware obtained from the auditee organisation indicating the model, performance details, etc.
- (ii) An up-to-date organisational chart should be obtained and examined to determine the manner in which the computer fits into the overall organisation.
 - (iii) An up-to-date chart indicating the deployment of personnel of the computer department and their relative responsibilities and authorities should be reviewed to note any changes.
 - (iv) Similarly changes, if any, in the job specifications (role definition) for senior computer personnel and supervisors of the ancillary section should be noted.
 - (v) Details of standards and norms fixed for each of the functions, such as data control, data preparation, system operation, etc. should be obtained and adherence thereto verified with reference to the following:
 - (a) computer utilisation per shift in terms of the Central Processing Unit (CPU) and peripheral use;
 - (b) key depressions per shift per data entry operator and error allowance;
 - (c) document standards and controls-batching, balancing and sequencing; and
 - (d) run-to-run controls maintained by system operators.
 - (vi) It should be verified, through a test check, whether manuals are maintained and kept up-to-date specifying the control procedures and whether they are enforced in practice.
 - (vii) Availability of the following terminal controls to protect data and system integrity should be verified:
 - (a) physical access controls to terminal rooms;
 - (b) software controls through password protection and user directories;
 - (c) logging of terminal activities by all users.
 - (viii) Details of security measures, both physical and system, should be obtained for examining the following :
 - (a) adequacy of protection of hardware and software against risk of fire (fire prevention measures and fire fighting arrangements);
 - (b) arrangements for maintenance of hardware and system software;
 - (c) provision of air conditioning and protective measures against possible radiation, vibrations, etc.;
 - (d) availability of measures to ensure system security in the event of possible industrial action or malicious action by programmers, operators and input-output staff attributable to discontent among the operating staff;
 - (e) adequacy of security awareness and training provided to all employees;
 - (f) adequacy of emergency shut-down procedures in case of power failures;
 - (g) deficiencies, if any, in the arrangements for safe custody of software and data files and type library;

- (h) adequacy of back-up files, including offsite storage;
- (i) adequacy of control over operator access to program files and data;
- (j) availability of procedures and contingency plans for reconstructing files in the event of loss or disk /tape errors;
- (k) availability of computer equipment back-up through the use of compatible equipment at other dispersed sites;
- (l) restriction of access to the computer room by personnel other than systems operators and hardware engineers; and
- (m) insurance of the installation to cover possible risks.

Application Controls

3.22.51 Application controls are particular to an application and may have a direct impact on the processing of individual transactions. These controls are used to provide assurance, primarily to the management, that all transactions are valid, authorised and recorded. Since application controls are closely related to individual transactions, it is easier to appreciate why testing the controls will provide the auditor with audit assurance in regard to the accuracy of a particular account balance. For example, testing the controls in a payroll application would provide assurance about the correctness of the payroll figure in a client's accounts.

3.22.52 Before attempting an evaluation of application controls, it will be necessary for an auditor to secure a reasonable understanding of the system. For this purpose, a brief description of the application should be prepared indicating (i) the major transactions; (ii) the transaction flow and main output; (iii) the major files maintained; and (iv) approximate figures for transaction volumes.

3.22.53 Application Control requirements may be divided into the following:

- (i) Documentation standards
- (ii) Input controls
- (iii) Processing controls
- (iv) Output controls
- (v) Master/Standing Data File controls
- (vi) Audit requirements

Documentation Standards

3.22.54 Documentation standards ensure that adequate and up-to-date system documentation is maintained. Careful updating of documentation is also important. The auditor will find documentation helpful as an aid to understanding the system but he must be careful to ensure that it is up-to-date before using it. There should be appropriate standards in the auditee organisation to ensure that:

- (i) system documentation is sufficiently comprehensive;
- (ii) documentation is updated to reflect system amendments; and
- (iii) a back-up copy of the documentation is available.

Without good documentation, it will be difficult to assure that controls will operate on a continuous basis and there will also be a greater likelihood of errors. Good application documentation reduces the risk of users making mistakes or exceeding their authorities. Review of a comprehensive, up-to-date documentation should aid the

auditor in gaining an understanding of how each application operates, and may also help in identifying particular audit risks.

3.22.55 Documentation should include the following:

- (i) a system overview;
- (ii) user requirements specification;
- (iii) program descriptions and listings;
- (iv) input/output descriptions;
- (v) file contents descriptions;
- (vi) user manuals; and
- (vii) desk instructions.

Input Controls

3.22.56 The objective of input controls is to ensure that the procedures and controls reasonably guarantee that (i) the data received for processing are genuine, complete, not previously processed, accurate and properly authorized; and (ii) the data have been entered accurately and without duplication. Input control is extremely important because the most important source of error or fraud in computerised systems is incorrect or fraudulent input. Controls over input are vital to the integrity of the system.

3.22.57 In evaluating input controls, the auditor should ensure that:

- (i) all prime inputs, including changes to standing data, have been appropriately authorised;
- (ii) the ability to enter data from a terminal is adequately restricted and controlled in respect of on-line systems;
- (iii) there are methods to prevent and detect duplicate processing of a source document;
- (iv) all authorised inputs have been submitted or, in an on-line system, transmitted; and
- (v) there are procedures for ensuring correction and resubmission of rejected data.

The controls outlined above may be invalidated if it is possible to by-pass them by entering or altering data from outside the application. There should be automatic application integrity checks that would detect and report on any external changes to data, such as unauthorised changes made by personnel in computer operations on the underlying transaction database. The results of the installation review should be re-examined to ensure that the use of system amendment facilities, such as editors, is properly controlled.

Data Transmission Controls

3.22.58 These controls are built into IT Applications to ensure that data transmitted over local or wide area networks are valid, accurate and complete. Organisations using networks should ensure that there are adequate controls to reduce, to an acceptable level, the risk of data loss, addition of unauthorised transactions and data corruption. Some computer systems are connected to either local or wide area networks (LANs or WANs), which permit them to receive and send data from remote locations. The more common data transmission media include telephone wires, coaxial cables, infrared beams, optical fibres and radio waves.

3.22.59 Applications which transmit information across networks may be subject to the following risks:

- (i) Data may be intercepted and altered either during transmission or during storage at intermediate sites.
- (ii) Unauthorised data may be introduced into the transaction stream using the communication connections.
- (iii) Data may be corrupted during transmission.

The integrity of transmitted data may be compromised through communication faults. The auditor should ensure that there are adequate controls in place, either within the network system, or the financial applications, to detect corrupted data. The network's communication protocol, i.e. the predetermined rules that determine the format and meaning of transmitted data, may incorporate automatic error detection and correction facilities. It is fairly easy to intercept transmitted data on most local and wide area networks. Inadequate network protection increases the risk of unauthorised data amendment, deletion and duplication. There are a number of controls that may be used to address these problems. For instance, digital signatures may be used to verify that the transaction originated from an authorised user and that its contents are intact. Similarly, data encryption techniques may be used to prevent the interception and alteration of transactions.

Processing Controls

3.22.60 Processing controls ensure complete and accurate processing of input and generated data. This objective is achieved by providing controls for:

- (i) adequately validating input and generated data;
- (ii) processing correct files;
- (iii) detecting and rejecting errors during processing and referring them back to the originators for re-processing;
- (iv) proper transfer of data from one processing stage to another; and
- (v) verifying, during or after processing, the control totals established prior to processing.

3.22.61 The objectives of processing controls are to ensure that (i) the processing of transactions is accurate and complete; (ii) the transactions are unique without any duplication; (iii) all transactions are valid; and (iv) the computer processes are susceptible to audit.

3.22.62 Processing controls within a computer application should ensure that only valid data and program files are used, that processing is complete and accurate and that processed data has been written to the correct files. Assurance that processing has been accurate and complete may be gained from performing a reconciliation of totals derived from input transactions to changes in data files maintained by the process. The auditor should ensure that there are controls to detect the incomplete or inaccurate processing of input data.

3.22.63 Application processes may perform further validation of transactions by checking data for duplication and consistency with other information held by other parts of the system. The process should check the integrity of data which it maintains by using, for instance, check sums derived from the data. The aim of such controls is

to detect external amendments to data due to system failure or use of system amendment facilities such as editors.

3.22.64 Computerised financial systems should maintain a log of the transactions processed. The transaction log, which may be referred to as the audit trail file, should contain sufficient information to identify the source of each transaction. In batch processing environments, errors detected during processing should be brought to the attention of users. Rejected batches should be logged and referred back to the originator. On-line systems should incorporate controls to monitor and report on unprocessed or uncleared transactions, such as part paid invoices. There should be procedures that permit identification and review of all uncleared transactions of a certain specified vintage.

Output Controls

3.22.65 These controls are incorporated to ensure that the computer output is complete, accurate and correctly distributed. It may be noted that weakness in processing may sometimes be compensated by strong controls over output. A well-controlled system for input and processing is likely to be completely undermined if the output is uncontrolled. Reconciliation carried out at the end of the output stage can provide considerable assurance over the completeness and accuracy of earlier stages in the complete cycle.

3.22.66 Output controls ensure that all output is:

- (i) produced and distributed on time;
- (ii) fully reconciled with pre-input control parameters;
- (iii) physically controlled at all times, depending on the confidentiality of the document; and
- (iv) errors and exceptions are properly investigated and acted upon.

The completeness and integrity of output reports depends on restricting the ability to amend outputs and incorporating completeness checks such as page numbers and check sums.

3.22.67 Computer output should be regular and scheduled. Users are more likely to detect missing output if they expect to receive it on a regular basis. This can still be achieved where the subject of computer reports is erratic, such as exception reporting, by the production of nil reports.

3.22.68 Output files should be protected to reduce the risk of unauthorised amendment. Possible motivations for amending computer output include covering up unauthorised processing or manipulating undesirable financial results. Unprotected output files within a bill paying system could be exploited by altering the cheque or pay order amounts and payee details. A combination of physical and logical controls may be used to protect the integrity of the computer output.

3.22.69 Output from one IT system may form the input to another system, before finally being reflected in the financial statements. For example, the output from a feeder system such as payroll could be transferred, as input, to the general ledger. Where this is the case, the auditor should look for controls to ensure that the outputs are accurately transferred from one processing stage to the next. A further example would be where the output from a trial balance is used as the input for a word-processing or spreadsheet package, which then reformats the data to produce the financial statements.

Master/Standing Data File Controls

3.22.70 Master/Standing Data File controls are meant for ensuring the integrity and accuracy of the master files and standing data. Accuracy of data contained in master and standing files is of vital importance to the auditor. Information stored in master and standing data files is usually critical to the processing and reporting of financial data. Information on master files can affect many related financial transactions and so must be adequately protected. These controls have to ensure that:

- (i) amendments to standing data are properly authorised and controlled;
- (ii) integrity of master and standing files is verified by checking control totals and periodic reconciliation with independently held records;
- (iii) special amendment facilities are properly recorded and their use controlled by management authorisation and subsequent review; and
- (iv) physical and logical access to application data files are restricted and controlled.

Audit Requirements

3.22.71 Audit requirements have to be provided to ensure that the system can be audited in an effective and efficient manner. Audit trail has to be maintained to enable tracing of an item from the input stage through to its final destination and the break up of a result into its constituent parts. Auditors may have to use audit software or test data for the efficient execution of their audit. They have, therefore, to make reasonable requests for the access to copies of system data files, report generators and processing time.

3.22.72 Before considering the audit requirements for a system being developed, the auditor should have a knowledge of the currently existing system and should keep in mind the following:

- (i) weaknesses in the current system affecting the audit approach;
- (ii) features in the existing system, which are relied on to provide an effective audit, that should be retained in the new system; and
- (iii) additional facilities, not currently provided, which would assist the audit of the new system.

Important points to be checked

3.22.73 Audit of an operational application system involves verification of the input/output controls, processing controls and the audit trail. Testimonial evidence may be obtained in the course of audit by means of the following questionnaire to arrive at a reasonable conclusion in regard to the availability of controls and their adequacy:

- (i) Are the data processed genuine, complete and accurate and not provisional?
- (ii) Is the expected output is produced and distributed on time?
- (iii) Do the application programs process data as intended and accurately?
- (iv) Is a complete audit trail available for tracing back a transaction from the final result to the initial input?
- (v) Are the data and changes thereto authorised by appropriate authorities both in the user and computer departments?
- (vi) Are schedules for receipt of input data maintained and what is the extent of compliance?
- (vii) Is there a preliminary check on input data to ensure completeness?

- (viii) Are output reports test-checked prior to their distribution to the user department and is the output produced in accordance with a prescribed schedule?

Further, it should also be examined whether the application system provides for the following programmed controls:

- (a) Controls to check for missing/duplicate transactions. Examples are: (i) checks for ensuring continuity of goods invoice numbers issued by a station and locating missing numbers; and (ii) checks to ensure that more than one subscription is not accounted for in the same month in respect of a Provident Fund subscriber.
- (b) Controls on rejected items to be retained under computer suspense. For instance, the monthly treasury transactions should be rejected if they do not have valid heads of account as given in the budget master and such rejected items kept under suspense. Similarly, in the absence of balances, issue notes in a stores accounting system should be rejected.
- (c) Input validation for data purification. These are alpha-numeric checks to ensure conformity with data types. For instance, the personal identity number should always be numeric or, depending upon system requirements, the station name field could be represented only by alphabets.
- (d) Limit/range checks. Some examples are checks to ensure that the transaction type in a financial accounting system (expressed in terms of rupees) does not have values less than 1 or greater than 6; or the maximum basic pay does not exceed Rs. 9,000 per month; or the code for treasury alone for any State does not have values in excess of two digits.
- (e) Overflow checks. To illustrate, if the field length for withdrawal/advances in a computerised Provident Fund system is only five digits and there is a valid debit transaction with six digits, the high order digit would get truncated and only five digits of the debit will be recorded. This mistake will remain undetected in the absence of overflow checks. Similarly, if the field length is inadequate, transactions involving arithmetical calculations could be incorrectly recorded.
- (f) Controls should be available to ensure that certain mandatory fields, such as the leave type code in a leave accounting system, or the field representing the nature of expenditure in a treasury transaction, are not left blank.
- (g) Check digits. In a pay roll system, the account number, which is a control field to identify an employee, has a built-in check digit. The program works out the check digit on the basis of the account number input and verifies the correctness of the check digit given. If the check digits do not tally, it can be concluded that the account number has been wrongly entered. Similarly, the station code in the freight accounting system in the Railways has a check digit to detect entry of an incorrect code.
- (h) Compatibility checks. For example, if the transaction in a financial accounting system relates to official receipts, the amount cannot normally have a negative value.

- (i) Exception condition checks. If the amount column in a treasury transaction for a month has a value greater than the budget for a quarter, this would apparently represent an exceptional situation that could be detected by these checks.
- (j) Total for a batch/lot. For example, the batch total for a major head under a treasury is worked out on the computer and tallied with the total given in the schedule of payments/receipts for that batch in order to ensure complete accounting of transactions in a batch.
- (k) Record totals and summaries for reconciliation. When a goods basic tape is created in a freight accounting system, it gives the total number of records, which should tally with the total number of invoices input.

Audit Trail

3.22.74 The objective of the audit trail is to obtain sufficient evidence in regard to the reliability and integrity of the application system. To achieve this, the audit trail should contain enough information to allow the management, the auditor and the user to (i) recreate processing action; (ii) verify summary totals; and (iii) trace the sources of intentional and unintentional errors.

3.22.75 The audit trail should include the following information:

- (i) System information including start up time, stop time, restarts, recovery etc.
- (ii) Transaction information in respect of database applications, including input items which change the database, control totals and rejected items.
- (iii) Communication information, including terminal log-on/off, password use, security violations, network changes and transmission statistics, which would be of relevance to transaction processing or TP applications.

3.22.76 In a computer system, the audit trail may not always be apparent as in a manual system since data are often retained in magnetic media and output is limited to a small number of total items processed, with reports produced only on exception basis. The general procedure is to first investigate control totals and run-to-run totals within the whole system and then to check and substantiate the audit trail by limited checking through records and files or by taking intermediate printouts of audit interest. If the design of the computer system does not provide for adequate audit trail, this should be brought out in the audit review, highlighting control weaknesses or lack of controls in the system. Apart from errors that might creep into the system, there is a possibility of frauds, which might occur due to undetected control weaknesses.

Chapter–23 Miscellaneous

Introduction

3.23.1 This chapter deals with the audit of areas not dealt with in any of the other chapters of this Manual.

Workshop Accounts

3.23.2 The audit of workshop accounts includes not only the usual scrutiny of the admissibility of the payments and the correctness of the accounts, but also an examination of any cost accounts, where maintained, in order to test whether they are compiled according to sound and accepted principles and tally with the expenditure accounts. Any appreciable discrepancy between the aggregate of the expenditure charged to various jobs and the figures in the expenditure account should be investigated.

3.23.3 Responsibilities of Audit in regard to workshop accounts are as follows:

- (i) It is the duty of audit to verify that stores received in the workshop are properly brought to account and that the issue of stores against work orders is properly controlled.
- (ii) In the case of manufacturing operations, the financial results of the year should be scrutinised and, if possible, the cost of manufacture in the workshop compared with the prices of similar articles outside.
- (iii) The *proforma* accounts of the workshops should be scrutinised to verify that they represent an accurate and complete record of all the financial transactions directly or indirectly affecting their activities.

Refunds of Revenue

3.23.4 The principal points to be examined in the audit of charges for refunds are that (i) the refunds have been made under sufficient authority and are supported by duly receipted vouchers in proper form; and (ii) these vouchers contain a certificate that the refund has been noted against the original credit in the departmental account as well as the signature of the Treasury or Sub-Treasury Officer in token of their having verified the original credit into the Treasury/Sub-Treasury made either individually or in lump sum.

Calculation of net proceeds of certain taxes and duties

3.23.5 As mentioned earlier in paragraph 1.1.14, it is the duty of the Comptroller and Auditor General under Article 279(1) of the Constitution to ascertain and certify for the purposes mentioned in certain provisions of Chapter 1 of Part XII of the Constitution the net proceeds in a financial year of any tax or duty or of any part of any tax or duty, in or attributable to any area.

3.23.6 The net proceeds of taxes on income other than agricultural income to be assigned to the States in any financial year under Article 270(2) of the Constitution will be determined in accordance with the terms of the Distribution of Revenue Orders issued from time to time.

3.23.7 With regard to the determination of the divisible net proceeds of taxes on income in any financial year under Article 270(2) of the Constitution, the Comptroller and Auditor General has accepted the following assumptions as a reasonable basis for calculation:

- (i) Although the Constitution treats Corporations Tax and Taxes on Income as distinct taxes, Corporation Tax is in practice levied under the same law and is administered by the same authority as Income Tax. Other forms of direct taxes, namely Estate Duty, Wealth Tax and Gift Tax are also levied and administered by the same authority. This arrangement presents difficulties in determining correctly and separately the cost of collection of either of these two taxes. These difficulties are resolved by assuming that a definite percentage of the total collection charges will be attributable to the collection of different individual taxes. All charges of collection are, in the first instance, booked under '2020-Collection of Taxes on Income and Expenditure'. At the end of the year, shares of these charges relating to other taxes are worked out as prescribed in Note (i) below that Major Head in the List of Major and Minor Heads of Account and transferred to the respective heads of accounts.
- (ii) To arrive at the divisible amount, of which States will receive their prescribed percentage share, it is necessary to deduct from 'Taxes on Income' the proceeds of taxes on Union emoluments. Collections under this head less refunds can be readily ascertained from the accounts. However, in determining the amount to be retained by the Union Government under this head, due regard must be paid to the cost of collection. This cost should be assumed to be proportionate to the yield, after deducting refunds. A further deduction has to be made on account of the proceeds attributable to Union Territories at such percentage, as may be prescribed by the President, of so much of the net proceeds of Taxes on Income as does not represent the net proceeds of taxes payable in respect of Union emoluments.

3.23.8 The net proceeds of other taxes and duties levied under Articles 269 and 272 of the Constitution will be calculated with reference to the actual gross receipts realised during a financial year reduced by refunds and cost of collection as is determined by the Comptroller and Auditor General either on an actual basis or on a proportionate basis. In the case of duties levied under Article 269 of the Constitution, the proceeds attributable to the Union Territories will also be taken in reduction of the amount worked out as above. If the actual figures cannot be ascertained easily, the extent of these proceeds will, in each case, be determined by the Comptroller and Auditor General on a percentage basis and, if equitable, the percentage to be deducted as being attributable to the Union Territories will be the same as in the case of Taxes on Income as laid down in the last sentence of the second assumption in the preceding paragraph.

3.23.9 Under Article 279(1) of the Constitution, the net proceeds of the Estate Duty on property other than agricultural land are to be ascertained and certified by the Comptroller and Auditor General. For this purpose, it is necessary to ensure, based on a test-check, the accuracy of the classification of the receipts and refunds of Estate Duty between the two sub-major heads '01. Estate Duty on Agricultural Land' and

'02. Estate Duty on Property other than Agricultural Land' under the major head '0031 Estate Duty'.

3.23.10 Under Article 272 of the Constitution, the whole or a part of the net proceeds of certain Union Excise Duties other than Duties of Excise on Medicinal and Toilet Preparations may be assigned to the States under the law made by Parliament in this behalf. Necessary legislation was enacted in terms of which, commencing from the year 1952-53, a part of the Union Excise Duties on certain commodities is paid to the States out of the Consolidated Fund of India. Under Article 279(1) of the Constitution, the net proceeds of such distributable Union Excise Duties are to be ascertained and certified by the Comptroller and Auditor General. The net proceeds to be assigned to the States in any financial year under Article 272 of the Constitution will be determined in accordance with the provisions of law enacted by Parliament in this behalf and further distribution of these net proceeds among the States will be regulated in accordance with the terms of the Distribution of Revenue Orders, issued from time to time.

3.23.11 For computing the net proceeds of Union Excise Duties, it is necessary to ascertain the net realisation, i.e. gross revenue less refunds, drawbacks, etc., and to deduct therefrom the cost of collection consisting of direct and indirect charges. The net realisations in respect of sharable duties and duties wholly assigned to the States will be ascertainable from the accounts which present separately the gross realisations as well as the refunds and drawbacks paid under the minor heads for each type of sharable duty and duty wholly assigned to States. The direct charges and indirect charges are determined and distributed among these duties in accordance with the principles that may be prescribed for the purpose.

3.23.12 For purposes of certification, the audited figures relating to the tax heads are to be furnished in the prescribed formats by the Director General of Audit, Central Revenues, to the Comptroller and Auditor General, after getting the figures accounted for by the Zonal Accounts Offices and Central Excise Collectorates checked by the respective Accountants General (Audit).

Discount on Stamps

3.23.13 The procedures for auditing discounts on stamps vary from State to State. In some States, the discount is entered in a schedule against each item of sale, and the vendor signs a receipt on the schedule itself or separately, the rate of discount applicable usually being certified by the treasury officer. In other States, a bill for the discount, in an abstract form, is sent to the Accountant General (A&E) duly countersigned by the competent authority. The certificate of the treasury officer or the countersignature of the competent authority is accepted as the authority for admitting the charge in Central Audit.

Payment of Fees

3.23.14 Bills for Government Servants' share of fees for work done for private bodies paid into the Government treasury under the rules made by Government should be audited according to the procedure prescribed for auditing bills for refunds of revenue.

Grants of land, assignment of revenue and other concessions involving relinquishment of revenue

3.23.15 All orders relating to grant of land, assignment of revenue or concession, grant, lease or licence of mineral or forest rights or a right of water power, or any easement or privilege in respect of any such concession or which in any way involve relinquishment of revenue come within the purview of Audit as they have important financial implications. Audit may assume that departments cannot sanction, without prior consultation with the Finance Ministry/Department, concessions of this nature other than those that may be in accord with any general delegations made by the latter. For the proper discharge of its duty by Audit in regard to these concessions, all sanctions accorded to such grants, assignments, etc. are required to be communicated to it by the Government concerned for scrutiny. The audit of these sanctions is conducted from the point of view of regularity as well as propriety.

Certification of expenditure on Plan schemes

3.23.16 The Government of India releases each year assistance in the form of grants and/or loans to various States and Union Territory Governments for different Central and centrally sponsored schemes in accordance with the pattern specified in the sanctions relating to these schemes. While the entire expenditure on certain schemes is borne by the Central Government, expenditure on others is shared between the Central Government and the State or Union Territory Government, as the case may be. The assistance in respect of State Plan schemes takes the form of Block Grants and loans that are related to the total outlay allotted for the State Plan as a whole by the Planning Commission without linkage with the individual schemes except to the extent of certain earmarked categories like power, major irrigation schemes, elementary education, rural water supply, minimum needs programme and some schemes in the agriculture and allied sectors. Besides the Plan assistance, the State and Union Territory Governments also receive assistance in the form of loans and/or grants from different Ministries of the Government of India for meeting certain items of non-Plan expenditure, such as those intended for mitigating the impact of natural calamities, rehabilitation of refugees, provision of fertilizer loans, loans under the National Loan Scholarship Scheme, etc.

3.23.17 Except in respect of certain some Non-Plan schemes, the assistance is released in advance by the Government of India based on the claims submitted forward by the State or Union Territory Government concerned, subject to its final adjustment in due course based on the actual expenditure. According to the procedure prescribed by the Ministry of Finance for finalising the assistance relating to Plan Schemes, the final claims are to be preferred, in the prescribed proforma, by the State and Union Territory Governments on the basis of audited figures of expenditure.

3.23.18 After the accounts of the year are closed, the Accountant General (A&E) will prepare Statements of Expenditure for the grants in question, indicating therein the items placed under objection by him, and furnish these to the Accountant General (Audit) for audit and certification. The Central Audit Support Section in the office of the Accountant General (Audit) should audit the statements received from the A&E office and forward certified copies of the statements to the Ministry of Finance, the administrative ministries concerned, and the State/Union Territory Government concerned, indicating therein the amounts placed under objection by both the A&E office and the Audit officer. The State/Union Territory Government concerned will prefer its final claims based on these audited statements.

3.23.19 The Accountant General (Audit) shall prepare, in consultation with the Accountant General (A&E), an action plan for segregating the actual expenditure under the Central Plan, Centrally Sponsored and State Plan schemes financed out of central assistance and arrange their audit immediately on closure of the accounts of the year. In order to facilitate the preparation of the action plan, the following information should be called for from the State Governments:

- (i) Number of schemes and their details.
- (ii) Details of the Heads of Account, including sub-heads and detailed heads, under which expenditure on each individual scheme is booked.
- (iii) Sanctions of the Union and State Governments pertaining to each scheme.
- (iv) Particulars of all implementing agencies executing the schemes throughout the State.
- (v) Budget provisions and details of systems in force for control over expenditure.

3.23.20 The local audit and central audit parties should be instructed to indicate in the Inspection Reports, details of the scheme, the drawing officers and classification in respect of the amounts held under objection in the course of their audit. The local audit parties should also be advised to collect, in the course of their audit of the sanctioning authorities, relevant information in regard to utilisation certificates not furnished.

3.23.21 While certifying the expenditure, objections of a routine nature such as non-availability of some vouchers, absence of budget allotment, non-availability of sanction, etc, which would not affect the Central assistance may be ignored. It should, however, be borne in mind that:

- (i) the amounts drawn in abstract bills for which detailed bills have not been submitted should be excluded;
- (ii) any item of expenditure found to be clearly ineligible for Central assistance with reference to the terms or the instructions of the Government of India governing such assistance should not be included and if the amount involved cannot be precisely determined, the certificate should be qualified accordingly;
- (iii) any point of doubt in regard to eligibility for Central assistance should be got clarified from the administrative ministry concerned; and
- (iv) the certificate should be qualified that it has been issued without prejudice to the right of the Comptroller and Auditor General to include in the Audit Report any comments arising out of the audit in regard to utilisation of Central assistance by State Governments.

3.23.22 Whenever expenditure is not identifiable for the purpose of certification, as much information as may be available in the accounts records of the Accountant General (A&E) should be furnished leaving it to the Ministry of Finance to call for such further information as may be necessary from the State/Union Territory Governments for finalisation of the Central assistance. The following procedure may be adopted in such cases:

- (i) If details of the break-up of expenditure under State Plan schemes, Central Plan schemes and Centrally Sponsored schemes are separately available in the Finance and detailed Appropriation Accounts, these may be furnished along with scheme-wise details to the extent

available; otherwise, the total plan expenditure under each minor head may be furnished supported by scheme-wise details to the extent available.

- (ii) Loans and grants given to local bodies and autonomous bodies may be treated as final expenditure.
- (iii) Amounts held under objection on account of non-availability of detailed bills or utilisation certificates may be excluded from the audited figures of expenditure if it is possible to relate them to a particular scheme or category of schemes; otherwise, the certificate may be qualified to indicate that the scheme-wise breakdown of amounts held under objection is not available and that these details are being obtained from the departmental officers.
- (iv) In cases where any scheme has been comprehensively reviewed in audit, attention may be drawn to the relevant paragraphs/review in the Audit Report so that the Central Government can take the irregularities mentioned therein into account at the time of final adjustment of the assistance.

3.23.23 Often, moneys intended as Plan assistance are withdrawn from the Consolidated Fund and paid to an autonomous institution or a local body which does not utilise the funds for the intended purpose. There can also be instances of such withdrawals being paid to a public sector undertaking with the specific direction that the funds should be retained in a personal ledger account to be opened in the treasury so as to ensure that the ways and means position is not affected. Funds withdrawn from the Consolidated Fund are also often retained either in a bank account or in the form of cash or cheques. Though comments on such instances are included in the Audit Reports, it will also be necessary to review such cases in order to ascertain the actual utilisation of the grants sanctioned and allotted not only by the Central Government but also by the State Government themselves in the Plan Sector for implementation of different Plan schemes. Such cases noticed in course of audit should also be reported as a part of the audit certificate as far as possible.

3.23.24 In States which follow the irregular practice of withdrawing money from the bank or treasury by debit to a specific plan scheme and retaining it in Civil Deposits or Personal Ledger accounts or in the form of cheques or cash, the Accountant General (A&E) should see that the amount is kept under objection and that a note is also kept in a register in the Deposit Section also to watch the release of the deposits and their utilisation in the subsequent year. Department/Directorate-wise details of all such cases should be sent to the Audit Office for examination of the transactions during local audit and linking them with the schemes in respect of that office. A general review of amounts intended for various Plan schemes retained instead in personal deposit accounts by debit to the Consolidated Fund could also be taken up so that irregularities in the utilisation of central assistance could be brought to the special notice of the ministry concerned for taking necessary action at the time of adjustment of the Central assistance.

3.23.25 In cases where the audit certificate is issued before the local audit is undertaken, it should be specifically brought out that the certificate is issued subject to local audit in due course and also without any prejudice to the right to include in the Audit Report any audit comments in regard to the utilisation of the Central assistance by the State Government.

3.23.26 A quarterly progress report indicating the number of schemes for which certificates are to be issued and the progress made in the certification of accounts from time to time should be forwarded by the Accountant General (Audit) to the Office of the Comptroller and Auditor General by the first week of the month following the quarter to which the report relates. The information should be furnished year-wise and separately for each category of Plan schemes. The report for the quarter ending March should be accompanied by a list of schemes for which the audit certificate could not be issued.

Miscellaneous

3.23.27 For some payments of miscellaneous nature, such as remittance vouchers, cheques, discount vouchers, etc., nothing more than a minimum audit can be prescribed generally. This minimum consists in verifying that there is a sufficient voucher for the payment and that there is sufficient authority for making it.

Chapter–24

Internal Audit

Introduction

3.24.1 It is a matter of great importance to verify whether the various processes of audit are being correctly followed by different sections of the Audit Office. This responsibility should ordinarily be entrusted to an independent Internal Test Audit (ITA) Section. The main objectives of internal audit is to test check the work done by various Branches and Sections of the office with a view to ascertaining the extent to which they are (i) following the prescribed procedural rules and regulations; (ii) maintaining various registers that have been prescribed; (iii) submitting various returns on the due date; and (iv) generally functioning as efficient units of the office. The Internal Audit Section should also check the quality of audit conducted and comment specifically on this aspect in its reports so that suitable measures may be initiated to improve the quality of work, where necessary.

3.24.2 The ITA Section is not intended to do original work and should not be saddled with such work. Its functions are analogous to those of the Principal Director of Inspection. It can usefully supplement the work of the Principal Director of Inspection and also serve as a liaison between him and the Audit Office in pursuing the objections raised by him till their final settlement and issuing instructions to ensure that the irregularities pointed out by him do not recur.

Arrangements for Internal Audit

3.24.3 The ITA Section should be a small one consisting of carefully hand-picked personnel who, by their knowledge and experience, will be competent to scrutinize intelligently the work done in various sections of the office and can detect not only defects and irregularities but also suggest improvements in procedure and measures that should be taken to improve the quality of audit. The Section should be under the direct charge of the Accountant General or one of his deputies. It should not, however, function as a substitute for the Branch Officers and Group Officers through whom the Accountant General normally exercises control over his office. While test check of the work of other sections will be the main duty of the Section, special problems, such as clearance of accumulated objections, may be referred to the Section by the Head of the office, if he considers this necessary.

3.24.4 The Section should get the deficiencies noticed during test check rectified on the spot by providing suitable guidance to the staff and ensure that its size and staff strength are not allowed to increase. As far as practicable, inspection reports prepared by the Section containing the results of test check should be submitted to the Accountant General for his information so that he may have an expert's appreciation of the technical efficiency of various units of his office, though disposal of the reports may be watched by a Deputy Accountant General. Important points on which orders of the Accountant General are necessary should be submitted to him. Common defects noticed in a group of sections should be circulated periodically through appropriate office orders so that they may be guarded against in future. It is the duty of the Internal Audit Section to see that the defects noticed are remedied by the sections concerned and that these do not recur.

Items of work to be entrusted

3.24.5 The following items of work may be entrusted to the ITA Sections of Audit Offices:

- (i) Scrutiny of audit and review conducted by the Central Audit Parties and Central Audit Support Sections.
- (ii) Checking of maintenance of portfolio files.
- (iii) Scrutiny of the adequacy or otherwise of the existing arrangements for audit and review.
- (iv) Verification of correctness of audit fees computed by different sections for audit of accounts of certain authorities or bodies under Section 20 of the Act.
- (v) Test check of records of receipt, approval, issue and pursuance of Inspection Reports with a view to ascertaining whether there was any laxity at any stage.
- (vi) Test check of Sections, Resident Audit Offices and Branch Offices.
- (vii) Monitoring of the implementation of important office orders issued from time to time.
- (viii) Investigation of important arrears.
- (ix) Half-yearly review of cash book.
- (x) Test check of service books of personnel.
- (xi) Scrutiny of the list of personnel staff who would be completing 30 years of service or attaining 55 years of age.
- (xii) Independent scrutiny of details in support of Budget Proposals of different Wings.
- (xiii) Check of statistics of regular, temporary and casual temporary staff.
- (xiv) Check of rosters maintained for reservation of vacancies for candidates belonging to Scheduled Castes and Tribes.
- (xv) Check of list of candidates appearing in SOG Examination in terms of paragraph 9.2.3 of the Manual of Standing Orders (Administrative), Volume I.
- (xvi) Check of Honorarium and Overtime claims.
- (xvii) Check of Gradation list.
- (xviii) Review of complaints addressed to the Comptroller and Auditor General.
- (xix) Review of Calendar of Returns.
- (xx) Liaison between the Principal Director of Inspection and the Sections during the former's inspection of the office.
- (xxi) Investigation of procedural omissions, irregularities and audit lapses brought to notice by the Principal Director of Inspection.
- (xxii) Submission of half-yearly appraisal report of the work done by the ITA Section to the Principal Director of Inspection.

The list is only illustrative and, subject to the principles enunciated in paragraphs 3.24.1 and 3.24.2 *supra*, does not in any way fetter the discretion of the Accountant General to allot to the Section any other special work that he may consider necessary.