

SECTION-VI
Inspections and Local Audit
Chapter-1
General Instructions

Introduction

6.1.1 As brought out in paragraphs 3.16.17 and 3.1.25, Central Audit conducted by the audit staff at the headquarters of the Accountant General (Audit) is based on the accounts rendered by the departmental officers to the Accountant General (A&E) in the form prescribed by the President on the advice of the Comptroller and Auditor General and copies of sanctions, orders, etc. received in the Audit Office. Most of the original records based on which the sanctions, orders, etc. are issued and the accounts are compiled for being rendered to the Accountants General (A&E) or to the Principal Accounts Officers are retained in the offices in which they originate. The records connected with the entitlement functions discharged by the Pay and Accounts Offices are also retained in those offices. To enable the Comptroller and Auditor General to assure himself of the accuracy of the original data forming the basis of Government accounts, he has the authority, under Sub-section (1) of Section 18 of the Act governing his duties, powers and conditions of service, to inspect any office of accounts including a treasury or other office, which is under the control of the Union, State or a Union Territory Government and is responsible for maintaining the initial or subsidiary accounts and submits accounts to him. The Comptroller and Auditor General also has the authority to call for any accounts, books, papers and other documents which deal with or are otherwise relevant to the transactions to which his duties in respect of audit extend, pose such questions and call for such information as he may require for the preparation of any account or report which it is his duty to prepare. (See paragraph 1.1.17).

Audit Objectives and Scope

Inspection

6.1.2 The primary objectives of inspection are:

- (i) to see that the initial accounts from which the accounts rendered by departmental officers are compiled, or on which they are based, are properly maintained in the prescribed format and that financial rules and orders are being adhered to; and
- (ii) to test the degree of care exercised over the accuracy of original records by the departmental authorities responsible for maintaining accounts.

This will involve, *inter alia*, scrutiny of instances of non-adherence to or failure to ensure adherence to the codal provisions and internal control procedures and principles, non-maintenance of basic and control registers, etc., resulting in fraudulent drawal of pay and allowances and contingent bills. Simultaneously, a test check may be applied to such accounts, vouchers, etc. as are not audited in Central Audit or as cannot be checked adequately except in local audit. The purpose of this test check is to provide the material upon which conclusions in regard to (i) and (ii) above may be reached.

6.1.3 An Inspecting Audit Officer is not expected merely to confine himself to routine audit and inspection. He should avail of this opportunity to assist and advise the departmental officers and accountants on matters affecting accounts, budget, etc, or the

financial regularity of transactions. He may even offer suggestions having a bearing on the economic utilisation of public moneys and is expected to do so in all cases of superfluous clerical work connected with accounts and audit. There are various directions in which an intelligent Inspecting Officer can find scope for his inquiries. For instance, he may find that there are chronic delays in a Public Works Division either in measuring work done or in making payments after measurements have been taken, and it may reasonably be presumed that such delays lead to enhancement of rates. He may notice that no attempt is made to encourage competition amongst contractors, or that the arrangements for entering into contracts for works or supplies are otherwise defective and Government possibly do not receive full value for the payments made. An examination of the authorised Schedules of Rates, or their comparative analysis, may reveal that the data forming the basis of cost estimates of works for sanction of the competent authority are not so satisfactory as to secure the most economical results. He may observe peculiar features of the revenue receipts or expenditure of the division that may be suggestive of possible leakage of revenue, of untapped sources of revenues, or of inadequate attention to economic considerations.

6.1.4 An Inspecting Officer must, however, keep it prominently in his mind that he is concerned primarily with the accuracy of accounts and regularity of financial transactions and not with administration.

Local Audit

6.1.5 Local Audit may be distinguished from Inspection in that its purpose is to audit the initial accounts maintained in certain Government institutions and offices on the spot. The scope of Local Audit is not confined merely to seeing whether the initial accounts are maintained in proper form or whether the financial rules are properly observed but include a test audit in sufficient detail to verify the accuracy and completeness of accounts.

6.1.6 Classes of accounts with which Local Audit has to deal are so varied that it is not possible to prescribe any general rules and instructions that may be applicable to all local audits. It should, however, be borne in mind that the essential objective of the accounts of any institution is to present a definite financial picture and that an intelligent audit is not possible unless there is some consideration of the general financial picture as well as investigation of the details of the transactions that lead up to the financial results. Before taking up the audit of any particular institution, the local Audit staff should study the system of accounts and books prescribed to see why they have been prescribed and how far they fulfil the desired end. They should consult the periodical administration reports or other Government publications so as to obtain a correct perspective of the activities of the institution/office and to make their audit both intelligent and useful instead of allowing it to become merely a process of checking registers in a disconnected and mechanical way. Local Audit parties should also scrutinise certified *pro forma* accounts in institutions such as Agriculture/Horticulture farms where these are maintained.

Audit Approach

Demarcation of Duties

6.1.7 There should be clear demarcation of duties of the personnel in the audit parties. A broad outline of responsibilities and duties of various categories of personnel in the inspection parties conducting local audit of Civil Offices and Treasury Inspection is

contained in the Annexure to this chapter. The Audit Officer in charge of the Inspection Party is, however, not precluded from making changes in the distribution, to be indicated by him in writing, keeping in view the suitability of the individual official for performing the duties proposed to be entrusted or other relevant factors such as the absence of any of the members of the Audit Party. The inspection personnel should be involved in clearly defined areas of work so that their contribution in terms of quality and quantum of audit results can be identified and their accountability ensured.

Notes:

- (i) *The instructions in this paragraph and the subsequent one generally apply also to Commercial, Railway, Posts and Telecommunications, Defence and Receipt Audit Parties, subject to any special instructions regarding devolution of duties in those parties issued by the concerned wings of the Office of the Comptroller and Auditor General.*
- (ii) *Due to the wide diversity of activities, varying scales of operations and different types of records maintained by commercial undertakings and also due to the fact that the Comptroller and Auditor General is the sole Auditor in certain cases while he is required to conduct only a superimposed audit in other cases, the allocation of duties of the field staff in the Commercial Audit Wing has to be prescribed separately by the local Accountants General, Principal Directors of Commercial Audit and Ex-Officio Members, Audit Board, in respect of each commercial undertaking or group of undertakings of the same type under their control, keeping in view the guidelines issued by the Office of the Comptroller and Auditor General. In the case of multi-unit undertakings, the duty lists will be finalised by the Principal Director of Commercial Audit and Ex-Officio Member, Audit Board, auditing the unit.*

Responsibilities of Inspecting Officers

6.1.8 Normally, auditors should be able to issue inspection memos and put up notes. Separate reports, in the form of material for inclusion in the Inspection Report, should be submitted by them, the Section Officers and by the Assistant Audit Officers in the inspection party to the Inspecting Officer, based on the actual work done and inspection memos issued by them and after taking into account the replies thereto. The Inspecting Officer will remain responsible for the efficiency of the inspection as a whole, though some items of work may, in accordance with the local instructions or local usage, be entrusted to the subordinate staff. He must guide the members of the party in their work and determine the extent of independent action to be allowed to each of its members with reference to their experience, qualities and capacity to act independently. Based on such judgement, the Inspecting Officer may permit individual members of the party to issue audit memos themselves and see them in due course after issue. In cases where it is considered appropriate, he should stipulate that the memos be issued only with his approval. The Inspecting Officer should always keep himself posted with the progress of audit and the observations that have been communicated to the office inspected.

Audit Planning

Biennial Audit Plan

6.1.9 In order to improve the quality of Audit Reports, detailed and well-defined planning is required before local audit/inspection review/inspection is undertaken. Every year, each office will frame a formal Audit Plan covering a period of two years and comprising a detailed plan for the first of the two years and a broad frame work for the second year. The aim of the Audit Plan will be to:

- (i) derive the optimum mix of available resources for conducting the audits;

- (ii) prioritise the audit assignments to cover the mandatory audits and other high risk areas/sectors with special emphasis on current issues and thrust areas;
- (iii) improve the quality of audit to minimise the risk of crucial areas remaining uncovered;
- (iv) pay special attention to new and emerging challenges to audit attributable to changes in the auditee environment and develop the necessary information base and skills.

6.1.10 The overall objectives of the biennial plan would be to:

- (i) provide assurance to the legislature that all audit-worthy, significant and auditable entities were considered while deciding the priorities;
- (ii) provide a frame work for identifying the departments, programmes and common functions which are significant and/or vulnerable to risks and serious irregularities and, therefore, need urgent audit attention;
- (iii) optimise the use of available resources for achieving the long-term and short-term audit objectives;
- (iv) minimise redundant audits and ensure proper utilisation of available manpower and other resources;

Above all, the most important output and the main objective of the Audit Plan would be to ensure the comprehensiveness, quality and depth of the conventional Audit Reports.

Annual Audit Plan

6.1.11 Early in January each year, the Inspection (Civil) Headquarters Section will prepare a plan for local audit and inspections to be undertaken during the ensuing financial year based on the availability of parties during the year. The plan will be in the form of an annual programme and approved by the Accountant General (Audit). This will be further split up into quarterly programmes for various inspecting parties. In addition to the units selected for audit, copies of this programme of local audit should also be sent to the Administrative Departments and the Heads of the Departments concerned.

6.1.12 While preparing the Annual Audit Plan, care should be taken to include, on a regular basis, at least 25 per cent of the transactions from the Personal Ledger/Personal Deposit Accounts of the Drawing and Disbursing Officers being audited. Only amounts booked under Minor Head 106 under Major Head 8443 (relating to disbursements in the previous year's accounts) should be taken into account for this purpose.

6.1.13 Audit planning should also recognise the necessity of professional/technical assistance in complex areas of investigation. Therefore, provision may also be made in the plan for procurement of services of outside experts in the relevant fields, where necessary.

Use of Risk Assessment Methodology in Audit Planning

6.1.14 Risk assessment methodologies and techniques need considerable strengthening and an appropriate programme for risk assessment should be developed. The following could be some of the risk indicators:

- (i) Expenditure trends.
- (ii) Persistent and unexplained excess drawals.
- (iii) Unadjusted account bills.
- (iv) Transfers to Personal Ledger Accounts.

- (v) Large purchases.
- (vi) Delivery under programmes not being susceptible to verification.
- (vii) Leakage of revenue.
- (viii) Lack of attention to serious audit objections,
- (ix) Weaknesses in internal control mechanisms.

Creation of Data Bank

6.1.15 Availability of adequate information/data is a vital prerequisite factor for preparation of the Audit Plan. A comprehensive data bank and documentation covering reports of various committees, Study Reports, Plan/Budget documents, newspaper and journal clippings, etc. should therefore be carefully built up in every Audit office under functional heads or subject-wise. A portfolio in respect of each scheme and programme, which is susceptible of performance appraisal, should also be maintained. It should *inter alia* contain complete details of the programme, its objectives, financial and physical targets, performance standards, financial ratios, time schedules for the different components of the programme, etc. Various documents of relevance brought out by the Planning Commission or Planning Department of the State Government, the National Statistical Organization and other institutions of national importance should be made use of in this context. These portfolios should provide the necessary basic data and information for conducting meaningful audit. Before starting actual audit, the scheme document should be scrutinised carefully to see, to the extent possible, whether the targets fixed are realistic, and whether adequate inputs--financial, material and organisational--have been provided. Preliminary action should be initiated right then to obtain all necessary and wanting information.

Guidelines/Instructions to Audit Parties

6.1.16 Clear cut guidelines and instructions should be issued, in writing, to the Audit parties before they proceed on local inspection/audit. Additionally, various aspects of the audit are required to be discussed and guidelines provided to the parties by the Group Officers before they proceed to the field. It will be necessary for the Accountants General/Principal Directors of Audit as well as the Group Officers to devote their personal care and attention to this process.

6.1.17 The guidelines in respect of reviews should cover, *inter alia*, the under mentioned aspects:

- (i) Objective of the review.
- (ii) Areas to be covered.
- (iii) Points to be seen.
- (iv) Background material already available.
- (v) Additional information to be collected.
- (vi) Methods of analysis of information.
- (vii) Objections likely to be noticed.
- (viii) Time frame for completion of review.

These guidelines may be modified or amplified, if necessary, keeping in view various aspects that may be particularly relevant to the State concerned.

Rapport with Auditee Organisations

6.1.18 Greater personal rapport, equation and understanding should be developed between senior officers of the Audit department and the auditee organisations to facilitate useful interaction and inter-personal relationship.

Applicability to Public Works and Forest Audit

6.1.19 The above provisions should be followed suitably in the case of audit of Public Works and Forest Divisions also.

Communication of Results of Audit

6.1.20 The results of local audit and inspections should be set forth in an inspection report consisting of the following parts:

Part I

- (a) Introductory
- (b) Outstanding objections in brief from previous reports
- (c) Schedule of persistent irregularities.

Part II

Section A Major irregularities that are likely to materialise into draft paragraphs of the Audit Report and cases of system failure.

Section B Irregularities which, though not major, are required to be brought to the notice of higher authorities and followed up by the Accountant General and instances of recoveries to be effected or regularized.

Part III

Test Audit Note containing minor irregularities, to which a schedule of items settled on the spot should be attached. The procedural irregularities in respect of which the head of the office has held out assurances about following correct procedure in future should be noted in this Schedule.

6.1.21 As a rule, trivial matters, which can be and have been set right on the spot or are of no consequence to the finances of the Government, need not be mentioned. However, if a number of similar errors or irregularities are noticed, it may be desirable to mention their type, citing one or more instances, so that proper instructions may be issued for future guidance of the Government servants concerned. It is desirable that statements and figures in relation to any defects or irregularities discovered should be based on clear documentary evidence. It is not sufficient to quote the rule or the order violated; the actual or possible effect of such deviation on the financial interests of Government should be explained clearly. Particular care should be taken in regard to the language and tone of the report. The Inspection Report should be completed before the inspecting Audit Officer leaves the office inspected and it should not be signed until the officer in charge of the office (or any other officer acting on his behalf) has been given the opportunity of reading and discussing it and suggesting any omissions or modifications. The Inspection Report should be as brief as possible, but the points raised in it should be pursued until finally settled. The Test Audit Note does not require a reply in detail, but it should be verified at a subsequent inspection that adequate notice was taken of it.

Note: *At the time of vetting the Inspection Reports, the Branch Officer in-charge of the OAD (Head Quarters) Section should satisfy himself that only such of those objections or audit observations which merit inclusion in the report have been included therein and record a certificate to the effect that the Inspection Report includes objections of a serious nature only.*

6.1.22 Settlement of outstanding paragraphs of earlier inspection reports is one of the important duties of an Inspection Officer. The discussion and settlement of such outstanding objections in respect of offices situated at a station visited by an Inspection Party but which are not selected for inspection should as far as possible be done by the Inspecting Officer during his stay at that station.

6.1.23 Results and findings of audit of cash management and physical verification of cash by the Drawing and Disbursing Officer in the presence of Audit may be forwarded along with the Inspection Report. The Factual notes/Factual statements relating to potential draft paragraphs are to be prepared and forwarded by the Inspecting Officer to the Accountant General.

6.1.24 The Inspection Report forwarded by the Inspecting Officer is to be scrutinised and edited in Headquarters. After approval by the Group Officer, the edited Inspection Report is to be issued to the Head of the Office concerned with a copy to the next higher authority. Further replies to the objections contained in the Inspection Reports and their settlements are to be watched by the Headquarters sections concerned.

Other Guidelines

6.1.25 Some of the important matters to which attention should generally be paid by the Local Audit staff and the Officer-in-charge are mentioned in the Secret Memorandum of Instructions regarding the Extent of Audit. The detailed instructions for their guidance should be included in the local manuals or Memoranda of Instructions.

6.1.26 Instructions for conducting inspections of Public Works Offices, Public Sector Banks and Public Debt Offices are contained in Chapters 2,3 and 4 of this Section and in the Secret Memorandum of Instructions regarding the Extent of Audit. If, in addition to these instructions, any detailed or supplementary instructions are considered necessary for the guidance of the Inspecting Officer, such instructions should be prescribed in the local manuals or Memoranda of Instructions. The use of any form of questionnaire is prohibited.

Annexure
(See Para 6.1.7)
Distribution of work among personnel in Civil Audit Parties

I Civil Audit Party consisting of an Audit Officer, an Assistant Audit Officer/Section Officer and two Senior Auditors

A. Audit Officer

The duties and responsibilities assigned to the Inspecting Officer according to the provisions in Section VI of this Manual are sufficiently exhaustive. Besides performing the coordinating functions to achieve overall efficiency in performance and seeing that necessary processes of audit of the various documents have been carried out by the staff under him, the Audit Officer will also do a certain amount of original work and examine personally with reference to original documents all important points raised by the staff. He should personally review all tenders and agreements, particularly those of high value, and also see whether the state of accounts in the office inspected is satisfactory. He should himself draft the Inspection Report and discuss it with the head of the office inspected, whenever he is present at the close of the inspection.

The Audit Officer should ensure that physical verification of cash as per the records is done by the Drawing and Disbursing Officer in his presence and include comments, if any, arising from such verification in the Inspection Report.

B. Assistant Audit Officer/Section Officer

- (i) Audit of the accounts of receipts.
- (ii) Audit of the accounts of stores.
- (iii) Examination of the Cash book.

Notes:

- (a) When the party is unsupervised, the Assistant Audit Officer/Section Officer should ensure that physical verification of cash as per the records is verified by the Drawing and Disbursing Officer in his presence and include comments, if any, arising from such verification in the Inspection Report.
- (b) In cases where close supervision of the Senior Auditor's work in regard to issue of audit memos and check of disposal of previous Inspection reports are required, the assistance of the Senior Auditors may be availed of for the routine checking of receipts and payments under this item of work, subject, of course, to the overall responsibility and supervision resting with the Assistant Audit Officer/Section Officer.
- (iv) Examination of the vouchers for the months selected for test check which were submitted to Central Audit and made available to the party by the Headquarters, with the original records, contract documents, etc.
- (v) Audit of all vouchers not submitted to Central Audit.
- (vi) Verification of drawals from and deposits into treasury with reference to treasury records.

Note: *The instructions in Note (b) below item (iii) are applicable to this item of work also.*

- (vii) Examination of the points marked by Central Audit for special investigation.

- (viii) Audit of works expenditure.
- (ix) Scrutiny of accounts of stores, equipment, etc. received under various foreign aid programmes.
- (x) Examination of Departmental inspection reports.

C. Senior of the two Senior Auditors

- (i) Examination of service books, service rolls, broadsheets and ledgers in respect of Provident Fund accounts of Group D staff.
- (ii) Study of files containing important rules/orders issued by Government in respect of the institution under local audit and matters dealt with by it and of the Dictionary of References.
- (iii) Check of disposal of previous inspection reports.
- (iv) Triennial audit of taccavi accounts.
- (v) Audit of expenditure incurred by State Government in connection with large gatherings of political organisations.
- (vi) Scrutiny of establishment pay bills.
- (vii) Audit of travelling allowance bills.
- (viii) Examination of register of undisbursed pay and allowances.
- (ix) Scrutiny of register of advances.
- (x) Examination of accounts of immovable properties like land, buildings and other assets.

D. Junior of the two Senior Auditors

- (i) Scrutiny of Dead Stock Register.
- (ii) Examination of Register of Empties.
- (iii) Examination of Stamp Accounts.
- (iv) Scrutiny of Register of Deposits.
- (v) Examination of Log books and diaries of Government vehicles.
- (vi) Scrutiny of Register of Stationery.
- (vii) Examination of Register of Uniforms.
- (viii) Scrutiny of Register of Books and Periodicals.
- (ix) Scrutiny of Provident Fund accounts of Group D employees.

II Civil Audit Parties consisting of an Audit Officer, two Assistant Audit Officers/Section Officers and one Senior Auditor

A. Audit Officer

Same as those detailed in I.A above.

B. Assistant Audit Officer

Sl. Nos. (ii), (iii), (iv), (vi) and (ix) in I.B and Sl. Nos. (ii), (vi), (vii) and (viii) in I.C above.

C. Section Officer

Sl. Nos. (i), (v), (vii), (viii) and (x) in I.B and Sl. Nos. (i), (iii), (iv), (v), (ix) and (x) in I.C above.

D. Senior Auditor

Same as those detailed in I.D above.

Chapter-2 Inspection of Public Works Offices

Arrangements for inspection

6.2.1 The Accountant General should arrange for the inspection and test audit of the accounts of each Public Works Division by an Audit Officer of his establishment according to the programme of inspections, the principles of which are settled from time to time in consultation with the Comptroller and Auditor General.

Note: *As regards Audit planning for local inspection, the instructions contained in Chapter 1 of this Section should be referred to.*

6.2.2 The Inspecting Officer should be assisted, at the inspection of each divisional office, by staff adequate to complete the inspection of that office within the period allotted for the purpose. The staff must include at least one experienced Assistant Audit Officer or Section Officer. Inspection work is important and the staff should be selected carefully. A broad outline of the duties and responsibilities that could be entrusted to different categories of personnel in the Public Works inspection parties is contained in the Annexure to this chapter.

6.2.3 The inspection and test audit of the records should ordinarily be undertaken at the headquarters of the Divisional Officer. It is, however, open to the Accountant General to require the accounts records of sub-divisions or subordinate officers to be produced for inspection in the offices concerned or in the Divisional office itself.

6.2.4 The Divisional Officer should be given sufficient notice of the probable dates of inspection and should be requested to (i) obtain from his subordinate offices, the necessary books, documents, etc. which should be specified; and (ii) be present at his headquarters to meet the Inspecting Officer in time to discuss the results of the inspection with him.

Notes:

- (i) *While it is desirable to give the Divisional Officers enough time for the collection of the necessary records, the notice of the inspection should not be longer than is necessary for the purpose. Confidentiality should be maintained in regard to the tour programmes of Inspecting Officers till such time as the Divisional Officers concerned are actually notified about the scheduled inspection.*
- (ii) *The provisions of this paragraph do not apply to cases where the Accountant General (Audit) deems a surprise visit to an office by an Inspecting Officer necessary.*
- (iii) *All possible steps should be taken to secure production of important records required at an inspection. If these efforts are unsuccessful, the matter should be mentioned specifically in the inspection report and the concerned records should be obtained for examination in the Audit Office, if this is considered to be necessary.*

Thrust Areas of Audit Scrutiny

6.2.5 The Public Works inspection teams should undertake an in depth scrutiny of accounts and related documents of the Divisions and concentrate, in particular, on the following:

- (i) Allotment of funds.
- (ii) Cash credit limits against budget allotment and deposits.
- (iii) Utilisation of temporary imprest and reasons for unadjusted amounts and action taken for recovery.

- (iv) Miscellaneous Public Work Advances.
- (v) Deposits against works.
- (vi) Statement of works and expenditure incurred under Major Heads 3054, 5054, 4225 and 8443.
- (vii) Transfer entries
- (viii) Remittances into the Treasury.
- (ix) Misclassification of deposits and purchases under stock.
- (x) Road metal return and Material-At-Site Account.
- (xi) Cash balances.

Communication of Results of Audit

6.2.6 The Inspection Report (including the Test Audit Note which should be separately signed) should be forwarded to the Group Officer concerned in the Audit Office. It should be accompanied by a note by the Inspecting Officer enumerating instances, if any, involving considerable losses, write-off of substantial amounts, infructuous expenditure or other irregularities of importance included in the Report. He should be careful to obtain all relevant facts in connection with each such item and discuss it with the Divisional Officer if possible, and mention whether he has done so in the note. He should also prepare the relevant Factual Notes/Statements in respect of potential draft paragraphs and forward these with all supporting documents to the Accountant General.

6.2.7 A specific report on the scrutiny, by the Inspecting Officer, of the Divisional Accountant's Objection Book for the period covered by audit may be forwarded to the Group Officer, along with the remarks of the Inspecting Officers and extracts of entries and the supporting departmental materials, such as orders, references, etc., for further processing and action as deemed fit.

6.2.8 Where administration of the cadre of Divisional Accountants is vested in the Indian Audit and Accounts Department, the Inspecting Officer should submit to the Accountant General (A&E), through the Accountant General (Audit), a confidential report, in his own handwriting, on the work and conduct of the Divisional Accountant, as judged mainly by the quality of the work done by him and the results of the audit checks applied by him during the entire period covered by the inspection. No opinion on the work of the Divisional Accountant should be expressed in the Inspection Report.

Note: *The Inspecting Officer should form an opinion on the Divisional Accountant's knowledge of the rules and procedures relating to audit and accounts and ensure that the Divisional Accountant's personal copies of the codes and other books of reference are up to date.*

6.2.9 The Inspection Report, on receipt, should be examined generally in the Works Inspection (Headquarters) Section before it is sent out of the office. Under the orders of the Group Officer in charge, such remarks as are not in order or appropriate should be deleted or modified and those that are not considered to be of sufficient importance should be transferred from Parts I and II of the Report to the Test Audit Note (Part III).

Note: *As in the case of the Inspection Reports pertaining to the civil departments, at the time of vetting them, the Branch Officer In-charge of the Headquarters Section will satisfy himself that only such objections or observations as merit inclusion in the Inspection Report have been included therein and record a certificate to the effect that the Report includes only objections of a serious nature.*

6.2.10 The Test Audit Note should then be sent to the Divisional Officer for remarks and return, and the points raised therein should be dealt with and settled in the manner prescribed for Audit Notes in Section-IV, Chapter-4.

6.2.11 Parts I and II of the Inspection Report should be forwarded in duplicate to the Divisional Officer, in a tabular form providing separate columns against each item for incorporation of the replies and explanations of the Divisional officer, remarks of the Superintending Engineer, and final disposal by the Audit Office. The Divisional Officer should be requested to return one copy of the Report within a specified period, which should be prescribed under the orders of Government, through the Superintending Engineer. A copy of the Report should also be sent simultaneously to the Superintending Engineer and his attention specifically invited to any important items or to serious irregularities or other points requiring special or prompt attention. These two Parts should also be treated as Objection Statements and dealt with in the manner laid down in Section-IV, Chapter-4.

6.2.12 Serious irregularities may be brought to the notice of the Government. A Factual Note/ Statement is to be issued to the Government and the Head of the Department in respect of cases proposed to be included in the Audit Report.

6.2.13 If, on a consideration of the note of the Inspecting Officer mentioned in paragraph 6.2.6, it is held that any objection in the Inspection Report is of such importance that it may find a place in the Audit Report, it should form the subject of further study.

Other Guidelines

6.2.14 Necessary instructions for the scrutiny and test audit of various documents during inspection of Public Works Divisions are prescribed in the Secret Memorandum of Instructions regarding the Extent of Audit.

Annexure
(See Para 6.2.2)

Distribution of work among personnel in Public Works Inspection Parties

I Party with One Audit Officer, two Assistant Audit Officers/Section Officers and one Senior Auditor

A. Audit Officer

- (i) Study of the notes of Chief Engineer and Superintending Engineer on their inspection of divisions and those of the Executive Engineer and Divisional Accountant on their inspection of sub-divisions with a view to issuing appropriate directions to the audit staff.
- (ii) Review of budget allotments and actuals in respect of major items of revenue and expenditure, instances of large excesses, savings or short realisation.
- (iii) Review of all regular tenders and contracts, along with the related records and documents and of a percentage of the agreements executed since last inspection, including review of systems and procedures for invitation and finalisation of contracts and agreements.
- (iv) General review of the accounts of works, with reference to muster rolls, transfer entries, Suspense and Deposit registers, Schedule of rates, Register of Rents, Establishment records and monthly accounts.
- (v) Review of the system for and extent of check-measurements by the divisional and sub-divisional officers and other higher authorities and of check of Measurement Books by the Divisional Accountant.
- (vi) Review of Register of Revenue other than rents, including review of procedures for its assessment and realisation, special attention being paid to cases of shortfalls in revenue realisation.
- (vii) Review of the effectiveness of banking (treasury) arrangements.
- (viii) Review of the systems for receipt, disbursement, custody and verification of cash.
- (ix) Review of systems for acquisition, custody and management of stock and of stores transactions.
- (x) Review of accounts of manufacture operations.
- (xi) Scrutiny of Register of Bank Guarantees and verification of Guarantees and of action taken for their enforcement.
- (xii) Examination of adequacy of arrangements and the action taken by the Department for the prompt disposal of audit notes, rejoinders, Inspection Reports and money value objections.
- (xiii) Review of the Register of Divisional Accountant's audit objections.
- (xiv) Review of the action taken by the Divisional Accountant for the up to date maintenance of codes, manuals, circulars, etc.
- (xv) Value for Money Audit, in general.

B. Assistant Audit Officer

- (i) Complete and detailed analysis of selected works with reference to all connected documents, such as sanctioned estimates, agreements, measurement books, materials-at-site accounts, etc.
- (ii) Scrutiny of a few files relating to works.
- (iii) Scrutiny of a few tender documents.
- (iv) Examination of the Register of Works.
- (v) Examination of Statement of Annual Certificate of Balances.
- (vi) Study of Charge Reports of divisional and sub-divisional officers.
- (vii) Scrutiny of Muster rolls
- (viii) Complete check of contractors' ledgers for selected months.
- (ix) Scrutiny of Register of contractors' bills
- (x) Examination of Stores and Stock accounts (including general review of stores ledger, bin cards etc.).
- (xi) Review of arbitration cases.
- (xii) Review of Survey Reports and Register of Survey Reports.
- (xiii) Examination of Workshop accounts, use rates and proforma accounts.
- (xiv) Review of Register of Quarries and distance for leads.
- (xv) Review of Schedule of Rates.
- (xvi) Examination of data relating to extra and supplemental items.
- (xvii) Examination of abnormal or unworkable rates quoted by contractors.
- (xviii) Scrutiny of estimates for special repairs.
- (xix) Verification of action taken on previous Test Audit Notes.
- (xx) Settlement of outstanding paragraphs in previous inspection reports.
- (xxi) Examination and disposal of special points referred by Central Audit for local verification.

C. Section Officer

- (i) Scrutiny of cash books, amanath cash book, receipt books, treasury bill book, challans, cheque books and remittance books.
- (ii) Review of Stock Register of receipt books and cheque books.
- (iii) Examination of Register of Undisbursed Pay.
- (iv) Review of Acquittance Rolls.
- (v) Review of Schedule of Settlement with Treasuries.
- (vi) Scrutiny of transfer entries.
- (vii) Review of Tools and Plant.
- (viii) Scrutiny of Register of Rent and Other Receipts and of arrangements for their assessment, demand, collection and accounting.
- (ix) Review of Register of Valuables.
- (x) Examination of imprest and temporary advance accounts.
- (xi) Examination of Register of Liabilities.
- (xii) Clearance of debit advices received from the Accountant General (A&E).
- (xiii) Review of Register of Budget Allotments; instances of major savings, excesses, short realisation, etc. with reference to provisions; and of adequacy of reconciliation work done by the department.
- (xiv) Verification of accounts schedules, vouchers, cheques, etc., received from the Main Office with the relevant original records.

- (xv) Verification with Treasury records.
- (xvi) Review of Register of Agreements/Work Orders along with the related agreements/work orders
- (xvii) Scrutiny of Land acquisition cases.
- (xviii) Review of Cash Settlement Suspense Accounts.
- (xix) Examination of cases of theft, losses, etc.
- (xx) Realisation of sale value of tender forms with reference to the Tender Register and their accounting with reference to treasury schedules and transfer entries.
- (xxi) Examination of a few work files and tender documents.

D. Senior Auditor

- (i) Examination of Register of Service Books.
- (ii) Review of Service Books and Leave Accounts.
- (iii) Scrutiny of pay bills, TA bills, medical reimbursement claims, LTC claims and other personal claims.
- (iv) Examination of Provident Fund accounts.
- (v) Review of Register of Advances, sanctions to advances and their recovery.
- (vi) Review of Register of payments due to other departments (Income Tax, Sales Tax, court attachment, and other deductions).
- (vii) Examination of Register of Contingent Bills, along with original bills, sub-vouchers, etc.
- (viii) Scrutiny of different kinds of securities obtained.
- (ix) Review of deposit transactions.
- (x) Scrutiny of Register of Fixed Charges.
- (xi) Examination of Register of Vehicles and log books; Register of Spare Parts; petrol and diesel account.
- (xii) Check of Stamp Account.
- (xiii) Examination of Register of library books.
- (xiv) Examination of accounts of stationery and forms.
- (xv) Review of Register of Measurement Books, a few Measurement Books and results of Divisional Accountant's review thereof.
- (xvi) Examination of Register of leases and lease files, and Register of license fee for buildings and lands.
- (xvii) Verification of stores ledger, delivery notes, Materials-at-site register
- (xviii) Verification of unserviceable machinery.
- (xix) Scrutiny of Objection books and adjustment registers.
- (xx) Settlement of outstanding paras of previous Inspection Reports and verification of action taken on previous Test Audit Notes.

II Party consisting of an Audit Officer, an Assistant Audit Officer/Section Officer and two Senior Auditors

A. Audit Officer

Same as those detailed in I.A above.

B. Assistant Audit officer/ Section Officer

Same as those detailed in I. above.

C. Senior of the two Senior Auditors

Same as those detailed in I. above.

D. Junior of the two Senior Auditors

Same as those detailed in I.D above.

Notes:

- (i) *Any other records in the Division coming under audit purview should also be scrutinised, the work being allotted to any of the members of the party.*
- (ii) *The Audit Officer will generally undertake review work. Detailed scrutiny, wherever necessary, may be entrusted to any member of the party. It will be desirable, whenever considered necessary, for each member of the party to scrutinise the records to be examined by another member as well so that the scrutiny/examination is thorough and meaningful.*
- (iii) *The Audit Officer/senior member of the party should reallocate the work based on actual circumstances so that no item is left unchecked because of the absence of the Audit Officer or any other member of the party.*
- (iv) *In addition to the works selected for examination by the Headquarters Office, 10 to 15 important works executed during the period covered by audit may also be selected for examination based on their estimated cost with a view to bringing out points worthy of inclusion in the Draft Inspection Report. Under no circumstances should the departmental personnel be asked to make this selection. The list of selected works should be forwarded along with the Draft Inspection Report.*

Chapter-3

Inspection of Public Sector Banks

Objectives and Scope

6.3.1 Under the departmentalised accounting system, the receipts and payments of each Ministry/Department are handled by the public sector banks (including the State Bank of India and its subsidiaries) nominated for the particular Ministry/Department by the Reserve Bank of India. The scheme does not provide for internal audit of the basic accounts records in respect of these transactions maintained in the banks by the organisation of the Controller General of Accounts. Though the audit conducted by the auditors of the banks covers Government transactions as well, it is necessary for the Comptroller and Auditor General to audit these records in the discharge of his statutory responsibility for audit of all Government transactions.

6.3.2 The primary objective of inspection by the Indian Audit and Accounts Department is to assist the banks and the Government in establishing a system of sound functioning, strictly in accordance with the prescribed rules, in so far as Government transactions are concerned. This inspection is therefore intended to supplement, and not replace, the audit or inspection arrangements existing in these banks. Apart from undertaking any special enquiries that Government may desire, the audit staff of the Comptroller and Auditor General can do no more than check generally that the rules prescribed by the Government are observed,

6.3.3 Public sector banks more or less discharge treasury functions in respect of the Government transactions entrusted to them. The inspections should therefore be on the lines of treasury inspections in accordance with the general principles governing such inspections and the instructions contained in the Secret Memorandum of Instructions regarding the Extent of Audit.

Responsibilities of Inspection Staff

6.3.4 The Inspecting staff are responsible to ensure that:

- (i) the procedures followed by the banks transacting Government business meet all requirements of audit and that the accounts are properly maintained;
- (ii) the scrolls and challans are being despatched in time and credits are being afforded to the Ministry, Department or Office of Government concerned without delay;
- (iii) the specimen signatures of all drawing officers are properly recorded and are referred to by the bank officials before they make payments; and
- (iv) the procedure followed in dealing with cheques, the encashment of which is subject to the limitations of assignments, letters of credit, etc., is in accordance with the prescribed rules.

6.3.5 The public sector banks also transact Government business in respect of the National Defence Fund, Annuity Deposit Scheme, Compulsory Deposit Scheme, 1963, Government Deposit Scheme, 1968, Public Provident Fund Scheme and Special Deposit Scheme, 1975 of the Government of India. Under the scheme for payment of pension through public sector banks, these banks also make pension payments to Central and State Government pensioners. The records connected with these transactions should be

checked in audit with reference to the provisions of the schemes concerned and in accordance with the instructions in the Secret Memorandum of Instructions regarding the Extent of Audit. As far as possible the same inspection parties should be entrusted with the audit of all Government transactions in the branch of a public sector bank, so as to avoid multiple visits to the branches for purposes of audit.

Audit of Pension Payments

6.3.6 The following is the suggested periodicity and norms for audit of branches of public sector banks responsible for pension payments on behalf of Government :

A. Periodicity

Number of Pensioners Catered to	Periodicity
200 and above	Annual
50 and above but less than 200	Biennial
50 and below	Triennial

Note: *Audit of Link Branches is, however, to be undertaken annually. In branches that are audited biennially and triennially, vouchers of two months and three months respectively are to be checked during local audit.*

B. Norms

Number of Pensioners	Number of Party Days
(a) <u>Paying Branches</u>	
Up to 25	Nil
Between 26 and 100	1
Between 101 and 200	2
Above 200 but less than 400	3
400 and above	An extra day for every additional 100 or less cases
(b) <u>Link Branches</u>	2 to 3

Note: *Audit of branches dealing with 25 pensioners or less should not, however, be ignored altogether but should be clubbed with other visits.*

Communication of the Results of Audit

6.3.7 The results of the inspection should be incorporated in an Inspection Report which will be in three parts as prescribed in paragraph 6.1.18 and the instructions contained therein apply *mutatis mutandis* to these Inspection Reports also. However, Reports should be prepared separately on the audit of pension payments in respect of each category, such as Central Civil pensioners, Defence pensioners, Railway pensioners and State pensioners.

6.3.8 In the case of public sector banks, including the State Bank of India and its subsidiaries, handling transactions on behalf of various ministries and departments, copies of the Inspection Report pertaining to transactions other than pension payments should be sent to the bank inspected, its Head Office and Link Branch and to the Administrative Ministry concerned. In cases where a particular branch has transactions with departments/offices administered by more than one ministry, the copy of the Report may be sent to the Ministry of Finance (Banking Department) instead of to the

administrative ministries. Copies of the Inspection Reports relating to payment of pensions should be sent to the bank inspected, its Head Office and the Link Branch and the authorities indicated below:

Central Civil Pensions	Controller General of Accounts
Defence Pensions	Controller of Defence Accounts (Pensions)
Railway Pensions	Designated Financial Advisor and Chief Accounts Officer of the respective area
State Pensions	Finance Department or the Head of Department administering the scheme

Chapter-4

Inspection of Public Debt Offices

Scope of Audit

6.4.1 Except in regard to the issue and repayment of treasury bills of all Central and State Governments, which are dealt with by the Banking Department of the Offices of the Reserve Bank of India, the open market borrowings of Government are managed by the Public Debt Offices of the Bank. The work done in the Public Debt Offices in respect of the transactions connected with these borrowings is to be test checked by an inspection of the relevant records maintained in those offices by the local Accountants General (Audit).

Guidelines for Audit

6.4.2 Audit is to be conducted according to the guidelines contained in the 'Manual of Instructions for the inspection of Public Debt Offices by the Indian Audit and Accounts Department' issued by the Director General of Audit, Central Revenues, and other guidelines, if any, issued by him. The procedure to be followed for conducting this inspection is also prescribed in this Manual. The instructions contained in paragraphs 3.13.26 and 3.13.27 should also be kept in mind.

Communication of the Results of Audit

6.4.3 The results of the inspection should be set forth in an inspection report which will be in three parts as prescribed in paragraph 6.1.20. The Accountant General concerned should forward copies of the Inspection Reports to the Public Debt Office concerned, the Central Office and Central Debt Section of the Reserve Bank of India at Bombay, the Governments concerned, the Director General of Audit, Central Revenues, and all State Accountants General (Audit). The Director General of Audit, Central Revenues, will be responsible for the coordination of the Reports in respect of various Public Debt Offices while the Accountant General who conducted the audit will be responsible for settlement of the objections.

SECTION-VII **Results of Audit**

Chapter-1 **Raising and Pursuance of Objections**

Introduction

7.1.1 Audit depends, for its effectiveness, on its right and duty to report the results of its scrutiny to the proper authority so that appropriate action may be taken where possible to rectify the irregularity or impropriety, or to prevent its recurrence. This authority may be a departmental authority, Government itself or, in the last resort, the Legislature, through the Public Accounts Committee and Committee on Public Undertakings.

Treatment of objections

7.1.2 Treatment of the results of audit demands the highest qualities of understanding, balanced judgement and a sense of proportion. It is to enable the auditor to adequately deal with the results of his audit that he has been accorded a high degree of independence and prestige. An auditor must develop an instinct for assessing the importance of an individual irregularity as well as adequacy of the system. The auditor must remember that his primary functions are to secure the substantial correctness of accounts, the regularity and propriety of individual financial transactions, and examine the adequacy of systems and procedures. On completion of the detailed audit of accounts and transactions and on noticing infractions of rules and orders, he must therefore decide whether to insist on the regularisation of or rectification of irregularities or errors in individual cases and improvements in systems or whether to be satisfied with their prevention or recurrence in future.

7.1.3 In exercising his discretion about the treatment of the results of his audit, the auditor should pay due regard to the following general principles:

- (i) It is an important responsibility of Audit to ensure that various financial rules and orders satisfy the provisions of the law and are otherwise free from audit objection, and that these are properly applied. However, it is not its function to prescribe what the rules and orders should be.
- (ii) While it is imperative that financial rules and orders must be observed, mere rigid and literal enforcement of such rules and orders may degenerate into wholly unintelligent audit.
- (iii) As a general rule, undue insistence on trifling errors and technical irregularities should be avoided, and more time and attention devoted to the investigation of really important and substantial irregularities with the objective not only of securing rectification of the particular irregularity but also of ensuring regularity and propriety in similar cases in future.
- (iv) It may, however, have to be recognised that failure to appreciate the significance of what appears to be a trifling irregularity may result in failure to discover an important fraud or defalcation. Therefore, notice may be taken of the cumulative effect of numerous petty errors or irregularities as being indicative of carelessness and inefficiency in the maintenance of accounts or in financial administration generally.

7.1.4 The final decision on whether an objection should be pressed or not pursued further rests with the auditor. Ordinarily, except in the cases specified in paragraphs 7.1.17 to 7.1.19, where a transaction requires the authorisation of a higher authority, Audit must insist that such authorisation be obtained; or where a sum of money is recoverable, Audit must insist on its recovery save where the authority to waive recovery has been delegated, or the competent authority has directed that recovery be foregone. However, all objections are not of equal importance and the residuary discretion rests with the Comptroller and Auditor General and with the Accountant General under him to refrain from pressing an individual objection, when there is sufficient assurance that the aim of audit to secure regularity and propriety will be safeguarded in future.

7.1.5 To save time and trouble over audit objections involving petty sums powers have been delegated to Audit Officers by the Union and State Governments to waive audit objections under certain conditions that have been discussed later (see paragraphs 7.1.16 to 7.1.18). Those officers should exercise these powers freely but with discretion.

Note: *Audit Officers should not exercise these powers in respect of transactions of the Central Government and Union Territories the accounts of which have been departmentalised.*

Communication of Audit Observations

General principles

7.1.6 The following general principles should be kept in view while communicating audit observations to the departments/Government:

- (i) Before formally communicating audit observations, it will be desirable to discuss the major ones with the executive so that proper understanding and trust are developed between Audit and the executive. Audit should essentially view its role as an aid to management.
- (ii) All observations and objections must be conveyed in courteous and impersonal terms, and must be clear and intelligible. They should also be based on undisputed facts and amended or revised to the extent considered necessary based on the views held and clarifications furnished by the executive officers, which should be given due consideration.
- (iii) It is of the utmost importance that any statement or criticism of an irregularity in an Audit Report should be accurate, fair, moderately worded and dispassionate. Innuendo is forbidden; if a charge cannot be substantiated there should not be even any hint of it.
- (iv) Objections and observations in relation to any account or transactions subjected to audit should be communicated to the disbursing and, where necessary, to the controlling authorities at the earliest opportunity. The Treasury Officer should be addressed only when recoveries have to be ordered or in respect of objections for the settlement of which he is directly responsible.
- (v) Reports of individual cases of serious financial irregularities should be addressed, in the first instance, to the controlling authority concerned or to such other authority as may be specified by Government, though copies may be sent simultaneously to a higher authority for information in cases that are regarded to be so grave or serious that they will eventually have to be brought to the notice of that authority.

- (vi) Unless otherwise provided in any case, it is important that complete details of objections should be registered in the prescribed records maintained in the Audit Office before these are communicated to the authorities concerned.
- (vii) If a particular irregularity or case of fraud is considered serious enough to merit the attention of investigating authorities/agencies, it ought to find mention in the Audit Report.
- (ix) Accountants General, Principal Directors of Audit, etc. shall not, on their own, report any case to vigilance or any other investigating authority; nor should they endorse copies of extracts from Inspection Reports to any such agency. If at all it is considered necessary to bring specific cases to the notice of investigating agencies, such as the Central Bureau of Investigation, Central and State Vigilance Commissions, Intelligence Agencies, Lok Ayukta, etc., this should be done only with the specific approval of the Additional Deputy Comptroller and Auditor General.
- (x) While forwarding cases to investigating agencies, the Accountant General/Principal Director would appropriately include all details of the case and, where necessary, indicate also names of individuals, firms, etc. These should not, however, be mentioned in the Audit Report without the approval of the Additional Deputy Comptroller and Auditor General.
- (xi) Accountants General, Principal Directors, etc. should not, as a matter of course or routine, hold press conferences participate in panel discussions that are broadcast over radio or on television. They should brief the press only under exceptional circumstances after obtaining the prior approval of the Deputy Comptroller and Auditor General or Additional Deputy Comptroller and Auditor General concerned.

7.1.7 It is not necessary to report individual cases of serious financial irregularities to the Comptroller and Auditor General unless his intervention is deemed desirable; the Accountant General may, however, seek his advice in cases of doubt or difficulty. All serious and interesting cases of fraud or forgery, and cases indicating the need for changes in procedure should, however, be reported at once for his information.

Note: *All communications to the Comptroller and Auditor General for advice should contain (a) a clear statement of the point at issue; (b) the views of the Accountant General thereon; (c) details of the action, if any, he has already taken and of that proposed to be taken. where these may be necessary, copies of the relevant correspondence and documents should be enclosed to the reference to explain or clarify the issues involved.*

Reports on Defalcations and Losses

7.1.8 On receipt of a report on defalcation or loss of public money or property, the Accountant General (Audit) should obtain such further information as he may require on the subject, and carefully examine the case to ascertain whether the defalcation or loss was rendered possible by any defect in the rules or whether it was due to neglect of rules or lack of supervision on the part of the treasury or other authorities. He should then report the results of his examination to the authority competent to sanction the write-off of the loss unless he considers, for any special reasons, that the Government concerned should also be informed. The Accountant General (A&E) in consultation with the Accountant General (Audit) will act upon the sanction for the write-off on its issue by the competent authority.

7.1.9 Whenever any loss involving the possibility of the Reserve Bank of India being made liable to Government in respect of operations on Government account conducted by itself or by its agents or otherwise comes to his notice, the Accountant General (Audit) should obtain, without delay, such information as he may require on the subject. On receipt thereof, he should at once make a report of the case to the Finance Ministry or Department of the Government concerned for such action as it may deem fit.

Pursuance of Audit Observations

7.1.10 Every query or observation made by Audit in relation to any accounts or transactions should be promptly taken into consideration by the disbursing officer or by the government servant or authority to whom it may be addressed and returned with the necessary documents and/or explanations to the Accountant General concerned within such period as may be prescribed by him. As the irregularities rectified to the satisfaction of Audit will not ordinarily be pursued further it is to the advantage of the disbursing and departmental officers to expedite disposal of audit queries.

7.1.11 The responsibility for the settlement of objections and of other points raised in audit devolves primarily upon disbursing officers, heads of offices and controlling authorities. To assist the Finance Ministry or Department of the Government concerned in enforcing financial and accounting discipline, the Accountant General is expected to maintain a constant and careful watch over objections and to keep the controlling authorities fully acquainted with not only individual instances of serious disregard of financial rules and orders but also generally with the progress of the clearance of objections. The procedure to be observed in this regard should be determined by the Accountant General in consultation with the Finance Department.

7.1.12 Intelligent, prompt and vigorous pursuance of objections and timely reporting of important irregularities to Government are essential in order to ensure that the Audit Reports required to be submitted by the Comptroller and Auditor General serve their intended purpose and Government derives their full value. The Accountant General may take the following steps to pursue the outstanding objections to their logical conclusion:

- (i) Abstracts of outstanding objections may be prepared in such form as decided in consultation with the Finance Ministry or Department and submitted to Government or to any other authority specified on such dates as may be mutually agreed to. When so required by Government, these abstracts may be accompanied by suitable extracts of the more important of the outstanding objections relating to different departments..
- (ii) With a view to ensuring prompt settlement and clearance of audit objections by the executive, Government should be requested to
 - (a) prescribe a time schedule for furnishing replies to audit notes/ objections and inspection reports;
 - (b) ensure that departments maintain a Register of Audit Objections to be reviewed by them every month; and
 - (c) designate a senior officer in each ministry and department to be responsible for ensuring prompt attention to audit objections.

- (iii) Half-yearly lists of inspection reports and objections outstanding for over six months or one year should be sent to the ministries and departments concerned to enable them to have an idea of the pendency and to expedite their settlement.

Note: *The half-yearly lists intended for the Ministry of Finance should also include the paragraphs outstanding in the inspection reports on the transactions in public sector banks and public debt offices.*

- (iv) Each Ministry and Department should be requested to prescribe schedules and targets for clearance of the outstandings. They should also be requested to ensure that these are adhered to and to inform Audit, every six months, of the progress of settlement.
- (v) Group Officers should periodically discuss the outstanding objections with the Heads of Departments concerned. Items not settled at their level should be discussed between the Accountant General and Secretaries to Government concerned.
- (vi) Inspection reports and objections which could not be settled through discussions at lower levels should be referred to Audit Committees, each consisting of the Secretary to Government or Head of the Department concerned and sufficiently senior representatives of the Accountant General and the Finance Ministry/Department, to decide upon the further course of action to be taken for their settlement. Where such Committees do not exist and the progress of settlement of objections is not satisfactory, the Government should be persuaded to constitute them.
- (vii) In the case of Government Companies and Corporations, half yearly reports in respect of each public undertaking indicating the status of objections pending settlement as on 30th September and 31st March should be furnished to the administrative ministry concerned with the request that the undertakings concerned may be advised to take measures for their settlement. Audit Committees consisting of sufficiently senior officials such as the General Manager (Finance) of the undertaking and the Group Officer representing Audit should be constituted for each undertaking having a large number of objections outstanding for long periods. Minutes of the meetings of these Committees should be recorded and reviewed in the subsequent meetings.
- (viii) In the course of local audit/inspection, local audit parties should verify whether the procedures and systems prescribed for prompt settlement of audit objections are being strictly observed by the administrative authorities and specifically comment on this aspect in their inspection reports. In States where Standing Guard Files on the lines introduced by the Central Ministry of Finance are not maintained, the Accountant General may persuade the Government concerned to introduce such Guard Files for the guidance of administrative authorities.
- (ix) In order to make an impact on the administration and to prevent accumulation of unsettled inspection reports and audit objections, better rapport between Audit and the Government should be established emphasising that former as an aid to the latter. Besides effective liaison should also be maintained between the Accountants General and the Chief

Secretaries and Finance Secretaries. The assistance of the internal audit organisations in the ministries and departments could also be utilised with advantage.

Review of objections outstanding for more than three years

7.1.13 All inspection reports and audit objections outstanding for more than three years should be analysed and reviewed. The following guidelines may be followed in this regard:

- (i) Objections in respect of which the departmental views have not been accepted by Audit may be discussed by the Group Officer with the Secretary to Government concerned and pursued further if these are of such importance as to find mention in the Audit Report. Otherwise, attention of Government specifically having been drawn to these objections, they could be treated as having been settled.
- (ii) Those objections that have clearly ceased to be of any significance with the passage of time may not be pursued further.
- (iii) Audit observations or objections relating to initial and subsidiary accounts included in earlier inspection reports and still outstanding may be clubbed with or merged with similar objections included in the in the latest reports. Objections that have dealt with the issues involved only vaguely or in respect of which specific action or measures for rectification or improvements have been specifically suggested may not be pursued further.
- (iv) Objections dealing with instances of non-availability of sanctions for reserve limits of stock or failure to fix such limits could be dropped if these have been brought to the notice of the concerned authorities as well as the Legislature through the Audit Reports and pursued only if there is any suspicion of fraud or malafides.
- (v) Settlement of objections relating to non-receipt of agreements from contractors or suppliers could be considered by seeking the assistance of the regular inspection parties to verify if these had been received subsequently.
- (vi) Audit observations relating to non-receipt of sanctions to works estimates or sanctions regularizing excesses over estimates can be treated as having been settled depending on the outcome of the discussions with the Heads of Departments and on the basis of a written assurance from them that the necessary sanctions would be accorded, and after making a mention thereof in the Audit Report.
- (vii) Objections dealing with non-receipt of formal sanctions to contingent and miscellaneous expenditure need not be pursued further if there is clear evidence in the departmental records of such expenditure having been sanctioned by the competent authority. Cases of unauthorised expenditure still to be regularised can be reported to Government for investigation and appropriate action.
- (viii) Audit observations relating to petty items and other items for which details are not available can be treated as having been settled. As regards audit observations not accepted by the Government, the Accountant General can

either mention these in the Audit Report or not pursue them further depending upon their content and magnitude. In so far as cases relating to overpayments or amounts disallowed in audit that have been accepted by the departments are concerned, they could be pressed to expedite recoveries. On the other hand, items that have clearly become irrecoverable could be reported to Government for regularisation after necessary investigation. If the Government or the Chief Engineer (in the case of the Public Works Departments) gives an assurance that this would be done, the observations can be treated as having been settled subject to verification at the time of the next audit.

- (ix) Significant observations in the outstanding inspection reports relating to the Civil and Public Works Departments involving substantial amounts or gross lapses or failure of systems can be commented upon in the Audit Report individually or collectively.

Sanctions waiving recoveries pointed out by Audit

7.1.14 While it is the duty of Audit to call attention to any disbursement which it considers to be improper, it is the function of the executive authorities to order recovery of the amount, to confirm the disbursement or to waive the recovery of the sums improperly disbursed. If an executive authority desires, in any case, to waive recovery of an amount suggested by Audit, it may be required to furnish the necessary sanction. Such sanctions, on receipt, should be scrutinised by the Accountant General and, if he considers them to be open to criticism on grounds of propriety or for other reasons, he should raise the objections and pursue them.

Adjustment of recovery against amount due to the Government Servant

7.1.15 When recovery of sums due from a government servant remains outstanding and money due to him from the Government has also remained undrawn at the same time for a considerable period owing to his demise or resignation servant or any similar cause, the amount due from the government servant can be adjusted against the amount due to him from the Government and the objection can be settled. The Head of the office should be called upon to have the amount adjusted by presenting an adjustment bill.

Powers of Audit to waive recoveries

A. Recoveries on account of expenditure held to be irregular

7.1.16 In order to avoid unnecessary expenditure of time and labour on cases that are simple and unimportant in character, the State and Union Territory Governments have agreed to the exercise, on their behalf, by Audit Officers of the following powers of waiver which may not be delegated to subordinate officers:

- (i) Audit Officers of the status indicated below or equivalent may waive the recovery of irregular expenditure not exceeding the amount specified against each in any individual case:

	Amount
	Rs
Accountant General	500
Senior Deputy/Deputy Accountant General	200/150
Other Gazetted Officers (Sr. AO/AO/AAO)	50

Note: *If the irregularity is such that it is likely to recur, the government servant responsible should be told that the expenditure was irregular even if no recovery is made.*

- (ii) Certain expenditure is placed under objection not because the whole or any portion thereof cannot be justified by itself but because it is not strictly covered by any rule, or the authority for incurring the expenditure insufficient, or full proof such as is afforded by sub-vouchers to establish that it has been incurred has not been produced. In such cases, the Accountant General or the officers subordinate to him may waive recoveries up to the limit indicated below if the following conditions are fulfilled:

	Amount (Rs)
Accountant General	1,000
Senior Deputy/Deputy Accountant General	400/200
Other Gazetted Officers	150
Section Officer	50

- (a) The expenditure must not be recurring in nature.
- (b) If the objection is based on insufficiency of the sanction, the Audit Officer should be satisfied that the authority empowered to sanction the expenditure would do so if requested.
- (c) Where the objection relates to non-availability of sufficient proof of payment, the Audit Officer must be satisfied that it would be unnecessarily troublesome if submission of complete proof were to be insisted upon and must also see no reason to doubt that the charge has actually been paid.

- (iii) Where expenditure under objection has become irrecoverable for any reason, an Audit Officer of the status indicated below or equivalent may write off an amount not exceeding the amount specified against each in any individual case:

	Amount Rs
Accountant General	1,000
Senior Deputy /Deputy Accountant General	400/300
Other Gazetted Officers (Sr. AO/AO/AAO)	100

Note: *The powers conferred upon Audit Officers in terms of these provisions should not be exercised in respect of objections not based on their audit, such as bills received by them and forwarded to another office for audit, or in respect of any amount outstanding under a debt or deposit head. These powers may, however, be exercised in respect of overpayments from or amounts due to be refunded to the Provident Fund Accounts of individual subscribers established as irrecoverable.*

B. Recoveries relating to personal claims

7.1.17 The following guidelines should be kept in view in dealing with recoveries relating to personal claims of government servants:

- (i) Before insisting on the recovery of irregular or excessive payments of personal claims placed under objection after the lapse of more than a year after their actual disbursement, the Accountant General should, subject to

the provisions of sub-paragraph (ii) below, refer the matter for the orders of the Government concerned. If Government decides to waive the recovery and the Accountant General is satisfied with the decision, he will withdraw the objection. Otherwise, the circumstances of the case may be reported to the Legislature through the Audit Report.

Notes:

- (1) *The power to accept the orders of Government in such cases is vested personally in the Accountant General except in cases where the amount involved is Rs 1,000 or less. In such cases, the Senior Deputy Accountant General/Deputy Accountant General may accept the waiver orders up to the limit of Rs 1000/500 in each case. These powers should not, however, be delegated to subordinate officers.*
- (2) *All orders of Government waiving recoveries due without further action that have been accepted by Audit should be recorded in a register. The Accountant General should review the register at such intervals as may be considered appropriate by him; this should, however, be done at least annually. Relevant entries in the register should invariably indicate, inter alia, (i) how the overpayments occurred in each case; (ii) the rules that were contravened; (iii) the extent of responsibility of the drawing and disbursing officers on the one hand and of the Audit Office on the other; (iv) the reasons advanced by Government for waiving the recovery; (v) the grounds on which the Accountant General or his Group Officers accepted the Government orders; and (vi) the remedial measures, if any, taken to prevent the recurrence of similar cases.*

(ii) The Union and the State Governments have, however, agreed that the Accountant General and other Audit Officers may forgo, on their behalf, recoveries in cases of the type referred to at (i) above if the amount involved does not exceed the limits indicated below and if they are satisfied that the amount held under objection was drawn by the government servant concerned in the reasonable belief that he was entitled to it:

	Amount Rs
Accountant General	800
Senior Deputy/Deputy Accountant General	500/300
Other Gazetted Officers (Sr. AO/AO/AAO)	50

C. Recovery in other cases

7.1.18 The provisions contained in sub-paragraphs 7.1.16 and 7.1.17 *supra* apply *mutatis mutandis* to overpayments discovered during local audit and to non-recovery of government dues the recovery of which is to be watched by Audit.

Note: *Exercise of the powers mentioned in paragraphs 7.1.16 to 7.1.18 is subject to the restriction mentioned in the Note below paragraph 7.1.5 supra.*

Settlement of objections not be finalized by Audit Committees

7.1.19 When it is not possible to treat an objection raised in the course of audit as having been settled by the Accountant General in consultation with the executive authorities and the administrative departments concerned or based on the recommendations of Audit Committees, where constituted, details thereof should be reported to the Finance Ministry or Department for a final decision. If there is a difference of opinion between that Ministry/ Department and the Accountant General, the latter may take further action in

terms of the instructions for preparation of the Audit Report contained in Chapter VII.3 and/or, if deemed necessary, seek the advice of the Comptroller and Auditor General.

Settlement of objections based on Action Taken Reports

7.1.20 At the instance of the Financial Committees of Parliament, a procedure has been evolved to ensure that Government takes suitable action on all observations included in Audit Reports even if the Committees do not discuss them. According to this procedure, Government is required to intimate to the Committees the follow-up action on the observations, their replies being vetted by Audit. Adoption of a similar procedure could also be suggested to the Public Accounts Committees and Committees on Public Undertakings of the State Legislatures. Once this is done and based on the action taken, the related objections and audit paragraphs outstanding in the inspection reports could be treated as having been settled in so far as Audit is concerned and deleted from the objection books.

7.1.21 Individual money-value objections or paragraphs included in inspection reports, such as those relating to recovery of overpayments, non-availability of financial sanction, etc., should be pursued to finality and should not be dropped from the objection books or inspection reports. However, objections raised on grounds of propriety and included in the Audit Report for discussion by the Public Accounts Committee may be dropped from the objection books or inspection reports and further action thereon watched through the Reports of the Committee and the Action Taken Notes furnished by the ministries and departments. Those objections not included in the Audit Report either because the amount involved is not significant or the impropriety is not serious and which have remained outstanding for more than two years may also be removed from the objection book or inspection report after bringing them to the notice of the Secretary of the concerned Department for further necessary action.

7.1.22 To raise an objection and not pursue it further without any valid reason sends wrong signals to the organisations subjected to audit. An objection should not be treated as having been settled in the absence of a reply since settlement is possible based on the merits of the reply alone. Inspection reports should be properly vetted to avoid the inclusion therein of “wrong objections” taken by field parties.

Treatment of erroneous payments admitted in Audit

7.1.23 When erroneous payments have been admitted in Audit erroneously for a considerable period of time, owing either to a wrong interpretation of financial rules or to oversight, the following course of action should be adopted:

- (i) If wrong interpretation of financial rules is involved, the correct interpretation as clarified by the competent authority should, in the absence of any special instructions to the contrary, take effect only from the date of issue of the relevant orders clarifying the correct position.
- (ii) When erroneous payments have been left unchallenged through oversight, the Accountant General should not of his own motion undertake a re-audit of paid bills more than one year old. He should instead report the facts of the case to the Government for orders and a re-audit should not be undertaken unless the Government so desires.

Note: *Central Audit has to rely largely upon certificates and it is often possible and desirable to check such certificates by examination of the original documents during local inspection. Such examination is not a re-audit for the purpose of this clause.*

Chapter-2

Detailed Procedure for Registration and Clearance of Objections

Introduction

7.2.1 Subject to the general principles and rules laid down in Chapter-1 of this Section, the detailed procedure for communicating the results of audit to the proper executive and controlling authorities is described in this Chapter. The instructions contained herein apply generally to all objections arising out of audit whether conducted centrally or locally. They are also generally applicable to objections relating to public works transactions the instructions contained in this Chapter will be generally applicable, subject to the detailed instructions contained in Chapter IV.4.

Registration of objections

7.2.2 Objections and observations arising out of audit should be communicated at the earliest opportunity. These should, however, be registered at first in detail in the prescribed records maintained in the Audit Office.

Registration of objections relating to insufficient or irregular sanctions

7.2.3 A class of important objections cannot be omitted from collective reports or statistics; these must, however, be excluded from the ordinary records of objections booked against disbursing officers. These are objections relating to insufficient or otherwise irregular sanctions accorded by any authority above the disbursing officer. A record of these objections should be kept in a special register in Form MSO (Audit)-7. A separate register should ordinarily be maintained for the record of objections relating to irregular sanctions of the administrative departments or ministries of Government. The Accountant General should periodically review this register. He shall, at his discretion, determine the number of registers to be maintained for similar objections relating to sanctions accorded by other authorities and prescribe the manner in which these registers should be reviewed periodically. Correspondence relating to these objections should be addressed to the sanctioning authority. The disbursing officer(s) should, however, be informed simultaneously that the sanction has been held under objection. If it is considered necessary, at any time before the removal of the objection, to retrench the amount disbursed, the sanctioning authority should be addressed to issue the necessary retrenchment order to the disbursing officer(s).

Registration of financial irregularities

7.2.4 Instructions relating to the preparation of Audit Report are contained in Chapter-3 of this Section. The Accountant General may prescribe the detailed procedure for the registration of special irregularities and for collecting such statistics as may be required for the preparation of the Audit Report. Paragraph 7.1.6 (v) may also be seen in this context.

Registration of overlapping objections

7.2.5 When two or more objections are raised in respect of a single transaction relating to a work or distinct object of expenditure, and it is customary to maintain the statistics of each class of these objections separately, the several objections on the transactions should be registered separately as if they relate to different transactions. This special feature of the system of registration should, however, be borne in mind. In the compilation of all statistics and reports that include or present collectively the monetary value of objections

of several categories, every effort should be made to make due allowance for the exaggeration likely to result by this overlapping of objections. The fact of objections overlapping, its impact on the statistics and the steps taken to avoid any exaggeration should also be mentioned prominently.

Notes:

- (i) *The detailed procedure for eliminating the presentation of exaggerated statistics due to overlapping of objections may be prescribed by the Accountant General and set out clearly in the Office Manual.*
- (ii) *In the case of transactions not relating to public works, the Accountant General may permit all objections on a transaction to be recorded under a single, most serious, head, provided suitable safeguards are adopted in order to ensure that (a) the settlement of each of the objections can be watched; and (b) the general accuracy of the statistics relating to objections is maintained.*

7.2.6 It may be impractical in some cases to make allowance for exaggerations. In such cases, it will be advisable to exclude from all collective statistics the entire data relating to the particular class of objections and to mention this fact prominently in all reports and statements connected with the statistics.

Other Guidelines for Registration of Objections

7.2.7 Subject to any specific instructions contained in this Manual, it is left to the discretion of each Accountant General to maintain the record of objections in such manner as considered suitable based on local requirements. As far as possible, the objections should be recorded in the Objection Book Drawing Officer-wise. It is not necessary to maintain a separate record of objections by major heads of account; the Accountant General should, however, comply as far as possible with any express requests of the Government concerned in this regard.

7.2.8 For an efficient review of objections and of the progress of their clearance, it is desirable to maintain the objections of each financial year separately though they may be settled or cleared in a subsequent year.

Note: *In the case of progressive expenditure, an objection relating to excessive expenditure not covered by proper authority or sanction should be held to relate to the year in which it was first raised in audit, though further expenditure may have been incurred in a subsequent year.*

7.2.9 All records of audit objections maintained in the Audit Office should be written up with care and watched closely by the Assistant Audit Officer/Section Officer and the Audit Officer. Even where the Objection Statements have not actually been despatched, an objection once raised can be removed from the records of objections only after an Audit Officer or Assistant Audit Officer/Section Officer has examined that due authority exists for its removal and initialled the item concerned in token of his having done so.

7.2.10 As far as possible, the entry of an objection, whether in the Objection Book or in the Objection Statement or the Audit Note, should be fully descriptive so that there should ordinarily be no necessity to refer again to the connected voucher or account.

Objections that need not be registered

7.2.11 Only those objections arising out of local audit that can be quantified in terms of their money value need be registered in the Objection Book. As exceptions, the following types of objections need not be registered in the Objection Book though their monetary value can be quantified:

- (i) Trading and *pro forma* losses of Government concerns/schemes as these are only *pro forma* in nature and are only meant to apprise the departmental authorities of the manner of their functioning.
- (ii) Outstanding dues to Government on account of credit sales and other outstanding dues the accounts in respect of which are kept by the department for the purpose of watching recovery.
Note: *Items in respect of which recovery is delayed beyond a reasonable period (to be fixed by the Accountant General) should, however, be segregated and commented upon in the inspection report for being recorded in the Objection Book maintained by the OAD (Headquarters) Section for further pursuance.*
- (iii) Outstanding loans and advances made by departmental agencies if these are debited to a debt, deposit or advance head of account, as their recovery is watched through other records.
- (iv) Cases of differences, discrepancies, etc. in stock other than specific cases of shortages in the departmental stock balances responsibility for which has not been fixed to facilitate action for recovery.
- (v) Mere instructions to departmental officers for future guidance need not be registered in the Objection Books maintained in the Audit Office. If the pursuance of an objection indicates the need for prescribing a new procedure for general observance, such procedure should be communicated by a general letter and not by any form or statement intended solely for the communication of objections.

Notes:

- (i) *The provisions of this paragraph do not apply to objections raised by Commercial Audit Wings in the course of audit of autonomous and statutory bodies established under special Acts of Parliament or State Legislatures, and of Government Companies and deemed Government Companies as defined respectively in Sections 617 and 619B of the Companies Act, 1956.*
- (ii) *The procedure for the recording of objections arising out of audit of autonomous and statutory bodies not coming within the purview of Commercial Audit is described in the Manual of Instructions for Audit of Autonomous Bodies.*
- (iii) *The instructions requiring the registration of all objections arising out of audit are subject to the qualification that objections which are trivial or have been waived by Audit Officers under any of the provisions of paragraphs 7.1.16 to 7.1.18 should not be included in Objection Books, though a separate record of objections waived should be maintained for production at the time of inspections of the Comptroller and Auditor General. The requirement of maintenance of a separate record may, however, be dispensed with in the case of objections waived in terms of paragraph 7.1.16 (i).*

Clearance of Objections

7.2.12 The adjustment/settlement of each individual objection should be watched through the prescribed records until it is finally cleared or withdrawn, as the case may be.

7.2.13 The Accountant General should ensure that the Group Officer and the Audit Officer responsible for the settlement/adjustment and clearance of objections devote their unremitting personal attention to this task.

7.2.14 When it is decided to withdraw an objection once raised, either on reconsideration or in the light of information made available subsequently, the disbursing officer or any other authority to whom the objection was originally addressed should be informed forthwith so that he can keep a note of the withdrawal of the objection.

Money value of objections

7.2.15 If, in order to make a collective presentation, whether to controlling authorities or to the Legislature, of (i) the results of audit; and (ii) the progress of clearance of audit objections, it is found necessary to express the money value of objections in the relevant records, money columns should be opened therein for this purpose. There are, however, categories of objections that cannot be suitably expressed in monetary terms, or which, if so expressed, do not provide an adequate or fair statement of the degree and extent of deviation from rules. It is permissible, therefore, to omit altogether the money value in certain cases; in other cases, where quantification in monetary terms alone could be misleading, other relevant particulars may be recorded in addition, or the expression of money values may be dispensed with altogether, as may be settled in consultation with the Finance Ministry/Department.

7.2.16 Money value of the objections should be quantified and recorded in respect of the categories enumerated below or similar objections:

- (i) Non-availability of vouchers, sub-vouchers and payee's receipts.
- (ii) Absence of sanctions to advances, losses, etc.
- (iii) Non-availability of sanction to special charges.
- (iv) Non-availability of any other specific sanction required in terms of the relevant rule.
- (v) Objections relating to over payments and short recoveries.
- (vi) Instances of non-recovery, within such reasonable period as may be prescribed locally in respect of each class of debt, of sums owing to Government.
- (vii) Expenditure placed under objection on grounds of financial propriety.
- (viii) Non-allotment of funds and excesses over allotment.
- (ix) Expenditure on Deposit Works debited to Miscellaneous Works Advances.
- (x) Excesses over sanctioned limit of reserve stock in public works divisions.

7.2.17 Objections of the following types need not be quantified in monetary terms in the records of objections:

- (i) An objection that is in the form of a simple direction for future guidance, or of a cause for a document, the absence of which is not likely to affect the amount admissible.
- (ii) Failure to affix revenue stamp on a voucher otherwise complete.
- (iii) Instances of delays in settlement of debts by Government.
- (iv) Persistent delays in the submission of accounts returns, vouchers, etc.
- (v) Objections relating to fictitious adjustments and manipulations in accounts unless an actual loss has resulted.
- (vi) Objections pointing out deviations from rules that are indicative of disregard or negligence, but which do not represent charges incurred without proper sanction.
- (vii) Instances of excesses over allotments for public works suspense heads when an assurance is received from the competent authority that these are only temporary in nature and will not affect the net allotment for the year.

Note: *If, in the absence of such an assurance, the money value of the objection has been registered, a minus entry should be made in the money column on subsequent receipt of the assurance.*

- (viii) Errors in accounts, vouchers etc. which do not result in any deficit or surplus.
- (ix) Instructions and other observations relating to the form of accounts.
- (x) Observations calling for information not received.
- (xi) Enquiries about and observations on doubtful points.
- (xii) Remarks drawing attention to minor errors of procedure.

Preparation, despatch, return and final disposal of Objection Statements

7.2.18 In most cases, audit objections should be communicated directly to the disbursing or other responsible authority in specially printed audit memoranda and other half margin forms. The Treasury Officers should be addressed only in respect of objections for the removal of which they are directly responsible. These intimations, together with important treasury irregularities and directions or enquiries arising out of the audit of treasury vouchers, should be sent to them through Objection Statements in Form MSO (Audit)-8. At the time of dealing with the vouchers, the Assistant Audit Officer, Senior Auditor, and Auditor should have before them the requisite objection statements, specially printed audit memoranda and other half margin forms, and should write these up as each point to which attention is required to be drawn becomes evident in the course of audit of the vouchers. All objections, whether communicated directly to the responsible authorities or to the Treasury Officers, should be entered in the Objection Book. A Register of Objection Statement and Half Margins should be maintained in each Central Audit Support Section containing details of the issue, return and disposal of the Objection Statements, audit memoranda and half margins.

Note: *Printed audit memoranda and other half margin forms should be dealt with in the same manner as the Objection Statements.*

7.2.19 There should be one Objection Statement for each month and it should be sent expeditiously by the Central Audit Support Section to the Treasury Officer so as to guide him in making payments in the subsequent months. The Assistant Audit Officer will be responsible for ensuring that all objections that arise as a result of audit and which have to be communicated to the Treasury Officer are duly entered in the Objection Statement before it is sent to the Central Audit support Section.

7.2.20 On completion of audit and review by the Central Audit Party and after being vetted by the Central Audit Support Section, the audit notes/memos will be issued in original over the signature of an Audit Officer in convenient batches every month to the departments concerned with copies being sent to the Accountant General (A&E). The Central Audit Support Section will thereafter deal with the audit notes/memos and all related correspondence.

7.2.21 Before despatch (which must not be delayed), the objection must be neatly posted in the Objection Book (form MSO (Audit)-9) by the Auditor in the Central Audit Support Section. Each Assistant Audit Officer/Section Officer should maintain a memorandum book for keeping a note of the Objection Statements passed by him, and should ascertain daily that all the Objection Statements have been despatched. He should also ensure that all items in the passed Statements have been entered in the Objection Book, irrespective

of whether or not their money value has been quantified and recorded in any money column.

7.2.22 Return of the Objection Statements must be watched with equal care. They are due to be returned by the Treasury Officer within the time prescribed for the purpose and should not be allowed to be retained by him on the ground that one or two of the objections require further examination. These can be extracted for separate disposal while the other items are replied to.

7.2.23 The Auditor is responsible for the prompt disposal of the Objection Statement on its return. If any recovery is ordered, he will be responsible for watching the recovery. Though the government servant concerned may have been transferred to another department, the objection will not be removed from the Objection Book of the old department but will be transferred to that of government servant's new department, a note of the transfer being made simultaneously against the relevant item in the former Objection Book. The recovery due will, of course, be noted in the Last Pay Certificate by the officer-in-charge of the Treasury from which he last drew his entitlements and may also be intimated, with advantage, to the one who will pay him in future.

Objection Book

7.2.24 The Objection Books (of which there must be one for each treasury, departmental account, major head or any other group as is convenient) are the permanent office record of entries in the Objection Statements prepared upon the examination of each voucher or other document audited. Besides these objections, they also contain details of items adjusted but not cleared, though these may not be under objection. Objections should be detailed separately in the Objection Book (Form MSO (Audit)-10) under the following heads:

- (i) Items adjusted, but awaiting final clearance,
- (ii) Service payments for recovery.

It is imperative that entries pertaining to two different months' accounts should not be entered on the same page.

7.2.25 The Objection Book in the OAD (Headquarters) Section should be kept in Form MSO (Audit)-11, which provides separate columns for keeping a record of the objections under the following categories:

- (i) Misappropriation, fraud, defalcation, etc.
- (ii) Excess payments, loss/shortage of stores, etc.
- (iii) Credit sales, recoveries in respect of which have been pending beyond such reasonable period as may be prescribed by the Accountant General.
- (iv) Advances pending recovery/adjustment beyond such reasonable period as may be prescribed by the Accountant General.
- (v) Miscellaneous objections.

Note: See also paragraph 7.2.11.

7.2.26 Money value of objections, such as those relating to excess recoveries on account of provident fund subscriptions or income tax, that do not require any specific action on the part of the Treasury Officer and are intended only for his future guidance, should not be entered in any of the money columns and that under "Details of adjustment" may be scored through.

7.2.27 The head “Items adjusted, but awaiting final clearance” will accommodate the following items, for each of which a separate column is provided in the Objection Book:

- (i) Non-availability of sanction.
- (ii) Tour and other advances pending adjustment.
- (iii) Items that cannot be finally admitted in audit for other reasons.

These items represent charges that have been accounted for under the prescribed final heads of account; the entries in the Objection Book denote that they have been admitted only provisionally.

7.2.28 All sums accounted for against service heads for the recovery of which orders have been issued should be recorded under the head “Service Payments for recovery”. These payments represent overcharges on account of a completed service on a proper voucher and should be accepted as a charge against the Grant or Appropriation for which it was made, while recording it at the same time as under objection.

Adjustment Register

7.2.29 As items objected to are adjusted either in whole or in part, the adjustment should be posted in the Adjustment Register (Form M.S.O. (Audit)-12) and also against the original item in the Objection Book. When, however, an item placed under objection in the OAD (Headquarters) Section is adjusted by recovery or write off or after the objection has been suitably complied with, or after such information or documents as were wanting have been made available, the fact of the adjustment should be noted in the Adjustment Register in Form M.S.O. (Audit)-13 and also against the original item in the Objection Book in Form M.S.O.(Audit)-10.

7.2.30 The mode of adjustment adopted in respect of each item will be indicated in the column “How adjusted” and the Assistant Audit Officer/Section Officer will initial each entry in proof of his having examined and found it correct in every respect.

7.2.31 Each successive fragment of an objection disposed of based on the action taken by the authority concerned will be entered in the Objection Book under the column “Details of adjustment”. Each entry in the Adjustment Register must have its corresponding entry in the relevant columns of the Objection Book and the Assistant Audit Officer/Section Officer will initial both entries at the same time.

Notes:

- i) No entries should be made in the Adjustment Register in respect of objections against which no amounts have been entered in the money columns of the Objection Book.
- (ii) The Assistant Audit Officer/Section Officer may authenticate, with his initials, the entry of each adjustment in the Objection Book, provided that the corresponding entry has also been made clearly in the Adjustment Register. Such authentication may, however, be done only on the authority of an order signed by the Audit Officer in-charge in all cases where the objection has not been complied with fully. The Audit Officer will, of course, review at frequent intervals not only the Objection Book but also the Adjustment Register.
- (iii) If, in the case of objections awaiting clearance, recovery of part of the charge is ordered, that part of the objection alone will be entered as

adjusted, and the rest will continue to remain outstanding till finally disposed of. It may also so happen that a real objection is found to exist afterwards. Care must be taken to duly communicate the real objection, when found, to the Treasury Officer or other authority or government servant. This should also be noted in the Objection Book below the original objection or as a footnote thereto.

Closing of Objection Book

7.2.32 After despatch of the Objection Statements for the month, the money columns in the Objection Book should be totalled, the balance of the past month added thereto and balances struck after taking into account the adjustments, if any, made in the Adjustment Register and entered in the Objection Book. The Assistant Audit Officer/Section Officer will sign the certificate at the foot of the page or on the last page of the Objection Book for the month, which will be closed and balanced on the 8th of the second succeeding month.

Note: *The outstanding balance in each column of the Objection Book is to be carried forward from month to month and year to year.*

7.2.33 An Abstract of Objections must be attached to each Objection Book. The previous year's balance posted in the first column on the opening of the book will be the preliminary balance in the last year's abstract as detailed in the list prescribed in paragraph 7.2.35. Later, this will be corrected in red ink into the March Final balance as worked out in the last year's Objection Book and Abstract of Objections. The other entries in the first column will be made at the closing of each month. The adjustments of each month should be distributed over the periods of objection from the information in the Adjustment Register and posted in the proper line at the time of closing the book for the month.

Review of Objections

7.2.34 It is the duty of the Audit Officer concerned to watch carefully all outstanding objections. Items left unsettled for six months should be entered in a register. A summary of all relevant correspondence should be recorded against each item in the register and all subsequent correspondence should also be recorded. This register should be submitted at least once in each month to the Audit Officer who should review carefully all items therein.

7.2.35 A computerised data base on inspection reports should be maintained for effective follow up. A list must be prepared annually, for each district, department or sectional Objection Book, of all the items outstanding at the end of March arranged in chronological order (i.e. in the order in which they appear in the Objection Book) and in the same form as the Objection Book. The total of each district or department list should be equal to the balance struck at the bottom of the column for preliminary balance in the abstract prescribed in paragraph 7.2.33 in the Objection Book. The entries should be compared and initialled by the Assistant Audit Officer/Section Officer. The list should be inserted as part of the new Objection Book.

Note: *At the discretion of the Accountant General, The list may be prepared after the close of the March Final accounts and the procedure described in this paragraph modified suitably.*

7.2.36 In order to enable an appraisal of the results of the audit conducted centrally and locally, a follow-up action report may be sent to the Office of the Comptroller and Auditor General every quarter along with a synopsis of the more important and serious objections.

Combination of Objection Statement and Objection Book

7.2.37 As an alternative, some of the Audit Offices have successfully replaced the Objection Book with a file containing the original Objection Statements on their return from the treasury. Any other Audit Office could also adopt this at its option. The Objection Statement under this option is prepared in Form MSO (Audit)-14, which contains, in addition to the columns in the normal Objection Statement (Form MSO (Audit)-8), the adjustment columns of the Objection Book. It also contains on its final page the closing entries of the Objection Book. Under this option, the Objection Statement must contain all the objections hitherto entered in the Objection Book; therefore, even objections communicated to the offices concerned by means of separate audit memoranda should be included therein.

7.2.38 Every adjustment should be recorded at once in the Adjustment Register and also in the Objection Statement. If, however, any adjustment cannot be entered simultaneously in the latter owing to its not having been returned by the treasury, a distinguishing mark should be placed against the items in the Adjustment Register in order that the adjustment may be noted in the Objection Statement on its return.

7.2.39 It will be necessary to maintain the Abstract of Objections under this alternative as well. This Abstract and the Adjustment Register will be closed on the 8th of the second succeeding month as laid down in paragraph 7.2.32. The closing entries will be made in the final sheet of the Objection Statement on its return from the treasury.

CHAPTER-3

Preparation of Audit Reports

Mandate

7.3.1 According to Article 151(1) of the Constitution, the Reports of the Comptroller and Auditor General relating to the accounts of the Union shall be submitted to the President, who shall cause them to be laid before each House of Parliament. Under Clause (2) of the said Article, the Reports of the Comptroller and Auditor General relating to the accounts of a State shall be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State. Similarly, Section 49 of the Government of the Union Territories Act, 1963, provides that his Reports relating to the accounts of a Union Territory having a Legislature shall be submitted to its Administrator, who shall cause them to be laid before the Legislature of the Territory.

Scope and Content of Audit Reports

7.3.2 Generally, the Reports of the Comptroller and Auditor General of India draw attention to the following:

- (i) Matters arising from the Appropriation Accounts, the more important among them being:
 - (a) instances of expenditure incurred in excess of voted grants and charged appropriations, requiring regularisation;
 - (b) cases of expenditure incurred on a 'New Service' or 'New Instrument of Service' without the specific authority of the Parliament/Legislature;
 - (c) observations relating to efficiency of budgeting and control over expenditure; and
 - (d) recurring instances of major savings and excesses.
- (ii) Points of interest concerning the Finance Accounts. The Reports will also include comprehensive review(s) on one or more of the following topics:
 - (a) Budgetary deficit.
 - (b) Public debt.
 - (c) Investments by Government.
 - (d) Cash management.

***Note:** The topics mentioned are only illustrative and not exhaustive.*

- (iii) Results of audit of all expenditure from the Consolidated Fund (including expenditure on commercial and trading activities of Government departments) and of the accounts of stores and stock. Where necessary, the Report also deals with the adequacy or otherwise of the rules and regulations in force for the conduct of financial transactions and for ensuring their regularity and propriety.
- (iv) Observations arising from comprehensive reviews of various schemes and programmes implemented launched by the Union, State and Union Territory Governments.

- (v) Important cases of losses and write-off of Government dues, and of wasteful or nugatory expenditure.
- (vi) Points arising from audit under Section 16 of the Act of all receipts payable into the Consolidated Fund.
- (vii) Matters relating to Government Companies, deemed Government Companies, and statutory and other autonomous bodies, the accounts of which are audited under Section 19 of the Act.
- (viii) Points arising from audit under Section 14 of the Act of receipts and expenditure of bodies or authorities substantially financed by grants or loans from the Consolidated Fund.
- (ix) Results of audit under Sections 19(2) and 19(3) of the Act of the accounts of Corporations established by or under laws made by Parliament or State Legislatures respectively, and also of any body or authority, the audit of the accounts of which has been entrusted to the Comptroller and Auditor General under Section 20 of the Act.
- (x) Points arising from audit under Section 13(b) of the Act of all transactions relating to Contingency Funds and Public Accounts.
- (xi) Results of audit of all trading, manufacturing, profit and loss accounts and balance sheets and other subsidiary accounts maintained in any department under Section 13(c) Act.
- (xii) Any other matter of interest from the efficiency, financial or accounting points of view which the Comptroller and Auditor General considers necessary to bring to the notice of the Parliament/Legislature.

7.3.3 The Reports serve a dual purpose. To the Government concerned, the Report will indicate the extent to which its rules and orders are adhered to by its subordinates; it will also often suggest the directions in which the rules and orders can, with advantage, be amplified or modified. Simultaneously, the Report will apprise the Legislature, through its Financial Committees, how far the Government have complied with the rules and orders and in particular how far the moneys placed at its disposal were regularly and wisely spent. Similarly, the Report on Revenue Receipts will highlight the lapses on the part of assessing officers in complying with the revenue laws and the rules and orders issued thereunder by the Revenue Department. The legislature will also be kept informed, *inter-alia*, of instances of Government conveying decisions or directions not in conformity with the revenue laws passed by it. The Report is thus an important instrument in ensuring accountability of the Executive to the Legislature in matters concerning financial management.

7.3.4 The Appropriation Accounts deal with the expenditure for a financial year ending on 31st March. Besides dealing with audit of transactions brought to account up to the end of the financial year to which the Appropriation Accounts relate, the Report also includes (i) cases that came to notice in earlier years but could not be dealt with in the Reports pertaining to those years; and (ii) matters arising from transactions pertaining to a later year considered important for appreciation by the Legislature.

7.3.5 In case the results of audit cannot be included in the regular Report for one reason or the other, these could be included in separate Reports brought out for the purpose. Further, separate Reports may also be brought out in case some delay is anticipated in finalising the Finance and/or Appropriation Accounts.

Responsibility for Preparation

7.3.6 The respective Accountants General (Audit) prepare the Reports relating to the State and the Union Territory Governments. In most States, separate Reports are prepared in respect of the transactions of the Civil Departments and the State commercial undertakings and of Revenue Receipts, whereas only combined Reports are prepared in the smaller States and Union Territories.

7.3.7 Reports relating to the transactions and activities of the Union Government are prepared in a number of volumes dealing separately with the Civil Departments, the Posts and Telecommunications Departments, Defence Services, Railways, Scientific Departments, Autonomous Bodies, Central public sector undertakings, Revenue Receipts, etc. The State Accountants General (Audit) and the Principal Directors of Audit concerned contribute paragraphs and reviews for the Reports of the Union Government. The following table contains details of the Principal Audit Officers responsible for the preparation and authentication of the different volumes:

Responsibility for preparation and authentication

Report	Authority responsible for preparation and authentication
A. Union Government:	
Civil	Director General of Audit, Central Revenues, or any other Principal Director of Audit entrusted with any specific Report
Defence Services -- Army and Ordnance Factories	Director General of Audit, Defence Services

Defence Services-- Air Force and Navy	Principal Director of Audit, Air Force and Navy
Posts and Telecommunications	Principal Director of Audit, Posts and Telecommunications
Revenue Receipts- Indirect Taxes	Principal Director of Receipt Audit (Indirect Taxes)
Revenue Receipts-Direct Taxes	Principal Director of Receipt Audit (Direct Taxes)
Scientific Departments	Principal Director of Audit, Scientific Departments
Delhi Administration.	Accountant General (Audit, Delhi)
Other Autonomous Bodies	Director General of Audit, Central Revenues, or any other Principal Director of Audit entrusted with a specific Report
Railways	Additional Deputy Comptroller and Auditor General of India (Railways)
Commercial	Chairman, Audit Board & Ex-officio Deputy Comptroller and Auditor General (Commercial)
B. State Governments and Union Territory Governments having a Legislature	Accountant General (Audit) concerned

Notes:

- (i) *The Principal Directors of Commercial Audit and Ex-officio Members, Audit Board, contribute material for the Reports (Commercial).*
- (ii) *Paragraphs/reviews pertaining to autonomous bodies of Scientific Departments are included in the Report on Scientific Departments.*

General lay out and contents

7.3.8 Material included in the Report is arranged in chapters dealing with different topics. A general lay out of the Report on the accounts of a State/Union Territory Government and of the Union Government (Civil) Audit Report is contained in Annexure-1. This is, however, not a rigid arrangement; modifications should be made wherever necessary to suit the material selected for inclusion in individual Reports.

7.3.9 The Union Government (Civil) Report, as well as the Audit Reports (Civil) of certain State Governments in respect of which separate Reports (Commercial) and Reports (Revenue Receipts) are prepared do not contain audit observations pertaining to (i) Government Companies (including deemed Government Companies under Section 619B of the Companies Act) and Corporations and (ii) Direct and Indirect taxes of the Union Government, which are covered respectively in the Report (Commercial) and the Reports (Civil) - Revenue Receipts, dealing separately with Direct and Indirect Taxes levied by the Union Government. These, however, include observations relating to departmentally managed commercial and quasi-commercial undertakings, the relevant

material being prepared as prescribed later in paragraphs 7.3.12 and 7.3.13 in respect of the Commercial Audit Reports. The synoptic statement containing the summarised financial results will, however, be prepared in Form MSO (Audit)-15.

7.3.10 An Audit Board has been set up with effect from 1st April 1969 under the supervision of the Comptroller and Auditor General for undertaking comprehensive appraisals of the functioning of the Central commercial undertakings other than departmental undertakings. The Board reviews, on a selective basis every year, the functioning and performance of the Central Government Companies/Corporations. The concerns selected for comprehensive appraisal should be those that have been functioning at least during the preceding five years or those that present special features requiring to be commented upon. Depending upon the requirements of performance appraisal of the selected undertakings, the Audit Board meets in groups. Each group consists of the Chairman and two whole-time Members who are officers of the Indian Audit and Accounts Department appointed by the Comptroller and Auditor General and two part-time Members appointed by the Government of India after consultation with, and with the concurrence of, the Comptroller and Auditor General.

7.3.11 Depending on the requirements, Audit Boards, on a selective basis, have also been constituted in certain States where Commercial Audit Reports are separately prepared.

7.3.12 Reviews on Government Companies/Corporations would generally deal with the following:

- (a) Important changes introduced in the functioning of the concerns.
- (b) Important foreign collaboration agreements concluded by the concerns.
- (c) Targets set in different spheres of activities, such as production, sales, trading, consultancy, etc. and actual achievements thereagainst.
- (d) Cost of production of articles manufactured in relation to market prices.
- (f) Pricing policies.
- (g) Policies in regard to borrowings.
- (h) Financial results of the concerns along with comments on the economics and efficiency of their functioning. Comments on their performance in relation to private undertakings involved in identical activities are also included wherever possible.
- (i) Financial irregularities, other points of interest, etc.

These reviews may also include a brief reference to the important points mentioned in the comments issued by the Comptroller and Auditor General under Section 619(4) of the Companies Act, 1956, or the Supplementary Reports submitted by the Company Auditors under the directions issued by him.

7.3.13 To facilitate convenient perusal and consideration, the Commercial Audit Report of the Union Government will be prepared in separate parts. Part I should contain a brief summary of the overall working of all Government Companies, deemed Government Companies and Statutory Corporations and a synoptic statement in Form MSO (Audit)-16. Each subsequent part should contain results of comprehensive appraisals of the selected undertakings conducted during the year by the Audit Board. The last part of the Report should contain individual irregularities noticed in the undertakings not taken up for comprehensive appraisal by the Audit Board and a resume of the points selected from

the supplementary reports submitted by the Company Auditors in pursuance of the directives issued by the Comptroller and Auditor General and that of comments on the accounts of the companies issued by him under Section 619(4) of the Companies Act, 1956.

Note: *Important comments on the accounts of statutory corporations may also be incorporated while dealing with the respective corporations in the relevant parts of the Report, giving reference to the Separate Audit Reports containing detailed comments on the accounts.*

7.3.14 The Audit Report (Commercial) relating to a State Government, where it is compiled separately, deals with the results of audit of State Government Companies and Statutory Corporations. The layout and contents of the Report will be as indicated in the following paragraphs.

Chapter-I

7.3.15 This chapter is intended to provide a general overview of the functioning of all government companies and statutory corporations and should contain relevant statistical data about the investment, state of accounts, etc. of the companies and corporations. It should include, *inter alia*, paragraphs relating to investments made by Government in various companies and corporations and the guarantees given on their behalf. The summary of the overall working results should also include a synoptic statement in Form MSO (Audit)-16.

Chapter-II

7.3.16 This chapter will incorporate all reviews relating to government companies.

Chapter-III

7.3.17 In this chapter all reviews relating to the statutory corporations will be incorporated.

Chapter-IV

7.3.18 This chapter will cover miscellaneous topics of interest and incorporate individual draft paragraphs relating to companies and corporations not selected for review. These draft paragraphs relating to a particular company or corporation will be placed together. If the number of draft paragraphs relating to companies as well as corporations is large, there can be separate chapters titled "Miscellaneous topics of interest relating to Government Companies" and "Miscellaneous topics of interest relating to Statutory Corporations".

Note: *The instruction contained in the Note below paragraph 7.3.13 will apply mutatis mutandis to these Audit Reports also. In order to ensure adherence to this requirement, the draft comments to be incorporated in the conventional Audit Report should be brought out in the letter forwarding the Draft Audit Reports on the accounts of statutory corporations to the Comptroller and Auditor General (see paragraph 7.3.67).*

7.3.19 The Union Government (Civil) Audit Report on Revenue Receipts is generally presented in two volumes, one covering the results of audit of Indirect Taxes and the other of Direct Taxes. In these Reports and in the separate volumes of the State/Union Territory Audit Reports on Revenue Receipts or in the chapters on Revenue Receipts contained in the Civil Audit Reports of certain States and Union Territories, the results of audit are grouped and arranged in separate chapters as brought out in the following paragraphs.

7.3.20 Relevant statistical information and reviews on the functioning of the revenue collecting departments in general are presented in Chapter I. A preliminary paragraph reviewing briefly the total revenue receipts of the Government during the year to which the Report pertains as compared to the receipts in the preceding one or two years is included in this chapter to indicate the trend of the revenue receipts.

7.3.21 The following are some of the other issues dealt with in this chapter:

- (i) **Variations between budget estimates and actuals:** Reasons for substantial variations should be brought out clearly in the Audit Report. Decline in collections attributable to evasion or avoidance of tax, non-pursuance of claims, reduction of claims without adequate justification or authority, double or fraudulent refunds, reliefs, exemptions and concessions allowed on extraneous considerations, etc. may be commented upon in the section dealing with variations provided these have had a significant impact on revenues. Instances of fictitious inflation of revenue receipts by resorting, say, to collection of large sums from assessees at the close of the financial year and to the refund of such sums at the beginning of the next year noticed should be specifically commented upon.

Note: In respect of any new tax imposed by Government in the year to which the Report relates, the receipts estimated from the tax should be compared with the actual yield and the reasons for variations analysed.

- (ii) **Analysis of collections:** The total collections of tax may be broken up into its components and analysed under the following broad heads:
 - (a) Amount collected at pre-assessment stage.
 - (b) Amount collected after regular assessment.
 - (c) Amount refunded.
 - (d) Net collection of tax.

If any penalties were imposed on the assessees for belated payments of tax, the amounts levied and actually recovered should also be analysed.

- (iii) **Refunds:** Information on the volume of refund applications handled and the interest paid during the year on belated refunds and due to other reasons may be analysed in relation to the comparative position during the preceding one or two years.
- (iv) **Number of Assessees:** Statistical data in regard to the number of assessees and their break-up based on their legal status, income, etc. will be exhibited under this head.
- (v) **Assessments in arrears:** Statistics in regard to the number of assessments due to be completed during the year, those completed and those yet to be finalised at the end of the year (with the corresponding figures for the preceding year) are to be incorporated.
- (vi) **Arrears of revenue:** Break-up of the arrears, year-wise, should be presented, indicating separately those outstanding for more than five years. Few individual cases of substantial arrears should be examined and interesting features, if any, noticed should be brought out.

Delays in initiating recovery proceedings, absence of adequate pursuance, lack of coordination between the assessing and recovery officers, etc. may also be commented upon.

- (vii) **Frauds and evasions:** Information on cases of frauds and evasions pending at the beginning of the year, cases detected during the year, cases where investigations and/or assessments were completed and those pending at the end of the year should be incorporated. In cases where the investigations and assessments have been completed, details of the additional demands raised and penalties imposed or prosecutions launched may also be mentioned.
- (viii) **Write-off and remissions of revenue:** The number of cases and the amount involved should be furnished under this category indicating the broad reasons for the write-off or waiver. The cases may be grouped under the following broad categories:
 - (a) Whereabouts of defaulters are not known.
 - (b) Defaulters are no longer alive.
 - (c) Defaulters did not own any property.
 - (d) Defaulters had been adjudged insolvent.
 - (e) Records not traceable.

Departmental files relating to cases involving large amounts should be examined and irregularities, if any, brought out.

- (ix) **Cost of collection:** In cases where cost of collection of a particular tax is not separately ascertainable from the accounts, *pro rata* distribution of the expenditure should be made under orders of Government between (1) collection of revenues; and (2) other administrative functions and the percentage of expenditure to gross collection should be worked out on that basis.
- (x) **Specific audit observations:** Audit observations specific to the statistical information relating to the functioning of the revenue collecting departments in general should be grouped under broad categories and should be based on the totality of test audit to include the following:
 - (a) Analysis, head-wise and year-wise, of outstanding revenues.
 - (b) Detailed study of units where the outstandings are particularly heavy.
 - (c) Mention of cases where remedial action is likely to become time barred.
 - (d) Brief resume of the steps taken by departmental authorities and Government to settle objections.

Cases where remedial action has become time barred entailing considerable loss of revenue, or that present interesting features should be considered for specific mention.

- (xi) **Internal Control and Internal Audit:** In order to highlight the effectiveness of the internal audit organisation, interesting features relating to the internal audit systems may be mentioned including *inter alia* the following:
 - (a) Analysis, year-wise, of objections raised in internal audit, those settled and those outstanding and of the revenue implications.

- (b) Serious irregularities noticed in statutory audit in cases initially scrutinised in internal audit. A few high-value cases may be examined for this purpose.
- (c) Departments in which machinery for internal audit has not been established.

7.3.22 This chapter dealing with general issues to present, as it were, an overview will be followed by a chapter on system appraisals, separate chapters reporting on the results of audit of each major tax receipt and a chapter covering points arising from the audit of other tax receipts and non-tax receipts. The chapter on system appraisals will generally incorporate an evaluation of the adequacy, efficiency and effectiveness of the vital areas of assessment, collection, recovery and accounting of taxes as well as of any special legal provisions aimed at promoting industrial development, welfare schemes, etc. Audit observations in the latter chapters will be broadly arranged in the following two sections:

- (a) **Individual irregularities:** These will fall mainly under the following categories:
 - (i) Irregular or incorrect assessments, delays in completion of assessments and collections and erroneous refunds.
 - (ii) Other irregularities and deficiencies, such as defective maintenance of accounts, non-observance of prescribed procedures, etc.
 - (iii) Embezzlement of revenue realised.
 - (iv) Other losses.
- (b) **Other topics of interest:** Besides the results of systems studies of selected areas, these will include comments on the following:
 - (i) Exemptions given without authority under a valid law or rule.
 - (ii) Extra legal concessions or refunds of revenue.
 - (iii) Reduction of revenue demands of revenue and write-off of revenue due.
 - (iv) Substantial or appreciable arrears of revenue.
 - (v) Delays in initiating appropriate steps for the levy of newly- imposed taxes.
 - (vi) Progress made in imposition of development levy in areas where multipurpose projects have been executed.

7.3.23 All cases of under-assessment and defects in procedure need not be individually mentioned in the Audit Report; however, cases involving substantial revenue as well as other important and interesting cases should be brought to the notice of the Parliament/Legislatures. Cases in respect of which Government have taken remedial measures to recover the amounts under assessed or to remedy the deficiencies pointed out by Audit may be included in the Report only if they highlight any defects in systems and procedures or the revenue implication in so far as the State Audit Reports on Revenue Receipts are concerned is more than Rupees one lakh.

7.3.24 Instructions for the preparation of the Report relating to Railways are contained in the Railway Audit Manual issued under the authority of the Additional Deputy Comptroller and Auditor General (Railways).

7.3.25 It is difficult to lay down any hard and fast rule in regard to the choice of the material to be included in the Reports. Audit Officers will, however, keep in view the following guidelines/principles in processing material for comment in the Reports:

- (a) Cases involving transgression of statutory provisions, rules or orders and other cases that have led to or are likely to lead to substantial loss of public money may be mentioned individually. A series of less important irregularities indicative of a common defect in financial control or administration may be commented upon collectively as a system review. Normally, such irregularities should not be considered for comment if adequate remedial action has been taken by the administration. The importance of an irregularity or a case of loss should be judged in the context of the scope and magnitude of a scheme or project and the conditions in which it has been implemented.
- (b) Cases that are *subjudice* or have been referred to arbitration will not be mentioned in such a way as to prejudice the claim or their defence in a court of law or before an arbitrator. Similarly, care should be exercised in referring to cases in respect of which appellate proceedings are likely to be initiated against decisions of lower courts or arbitration awards.
- (c) Reports should not normally include very old cases. Exceptions may be made only in respect of cases that could not have come to the notice of Audit earlier and questions of principle are involved. Cases of lack of response to constructive suggestions of Audit aimed at remedying deficiencies in control systems may be commented upon, if the continuance of the unsatisfactory features is attendant with risk of fraud or loss to Government.
- (d) Ordinarily, cases in respect which Government is taking or has promised reasonably adequate action should not be included in the Report, unless there are any special features in a particular case that should be brought to the notice of the Legislature. The instructions contained in paragraph 7.3.23 *supra* may also be seen in this context.
- (e) On certain occasions, it may be necessary for Audit to comment upon the manner in which the administrative authorities had discharged their responsibility of investigating serious irregularities coming to their notice and the adequacy of the remedial action taken by them.
- (f) There could be instances where cases scrutinised in audit had also been examined, at some stage, by the Finance Ministry/Department and the administrative ministry or department concerned had not followed the advice given by the former. Such instances could also be mentioned in Audit Report, along with comments, where necessary, on the adequacy of the action taken by the Finance Ministry/Department or the administrative ministry/department.
- (f) Matters of a technical nature that have a substantial bearing on the finances of the Government should be gone into carefully. However, before these are included in the Audit Report, the Accountant General should satisfy himself that various documents forming the basis of the audit conclusions have been gone into in depth, the technical aspects

studied carefully and the remarks of the Government have been obtained as far as possible. Discussions with the technical officers concerned will also prove useful and facilitate proper appreciation of the issues involved.

- (g) While Audit is not precluded from drawing attention to the adequacy or otherwise of the disciplinary action taken in a case, it should not, as a normal rule, criticise decisions of the administrative authorities in regard to the nature or quantum of punishment imposed. On the other hand, it would be appropriate for Audit to offer comments if the disciplinary action taken in a series of cases finalised more or less continuously has obviously been extremely lenient. Similarly, marked differences noticed in the standards of disciplinary action adopted by different government departments may be brought to notice through the Report with adequate supporting evidence. Critical comments regarding the adequacy of disciplinary action should not, however, be conveyed to Government without the approval of the Comptroller and Auditor General.

7.3.26 Unless in any case it is otherwise prescribed, it is not necessary for the Accountant General to obtain the approval of the Comptroller and Auditor General before including a comment in a draft paragraph forwarded to the Government for their remarks. However, doubtful and complex cases as well as those of a sensitive nature may be freely referred to him for advice, when necessary. Some of the important points that can form the subject matter of comment in the Reports are indicated in Annexure-2. This list is only illustrative and not exhaustive.

Drafting of Reports and their submission

7.3.27 In drafting the Reports, it is essential that a detached, dispassionate and an objective attitude is maintained and that expressions suggestive of a political opinion or bias are avoided.

7.3.28 The Overview, which would be printed in the Report in distinct colored pages, should be drafted well, lucid, accurate and brief without compromising on essential details. The language used should be capable of being easily understood and use of parentheses should generally be avoided.

7.3.29 As the Audit Reports are intended for Parliamentarians, Legislators, the press and the people, the language used should be intelligible to an ordinary citizen. The Accountant General should endeavor to present a clear and correct account of the issues involved in the comments in plain language so that a person not versed in the intricacies of accounts and audit may be able to understand the financial implications without having to wade through a mass of statistical data or factual narration.

7.3.30 Accuracy, brevity, clarity and purposeful focus should be the hallmarks of the reports. The Audit findings should be significant. Efforts should be made to reduce the use of passive voice and complex sentences, and to avoid verbosity, parenthetical clauses and inclusion of information extraneous to the comments and strictly not relevant. The thrust of the paragraphs and reviews should come out clearly. Inclusion of statistical data that are not quite relevant and not necessary for a clear presentation of the issues should be avoided.

7.3.31 If a table is included in a review/paragraph, it should be followed by a clear analysis of the information contained therein.

7.3.32 Technical expressions and clichés should seldom be used; if, however, their use is unavoidable, they should be adequately explained. Dates should be mentioned when necessary for a clear presentation of the case and where the time sequence is relevant to the effectiveness of audit comments.

7.3.33 In dealing with cases of irregular, excessive or wasteful expenditure and losses, efforts should be made to quantify their extent.

7.3.34 Draft paragraphs and, more particularly, reviews should be supported, where desirable, by graphs, charts, photographs, diagrams, sketches, etc. in order to improve the visual impact. It should, however, be kept in view that clearances may be necessary from the authorities concerned before maps and other sensitive visuals are printed in the reports.

7.3.35 In the case of reviews, their highlights should be included in bold letters, immediately after the preliminary paragraphs of the reviews dealing with introductory observations, the organisational arrangements and the scope and extent of audit scrutiny. The highlights should not mention any point that has not been included in the review *per se*. Similarly, in the case of very large paragraphs, the issues involved and the audit observations may be succinctly summed up at the end of the paragraphs.

7.3.36 Audit paragraphs included in reports should clearly bring out defects in systems and procedures that led to the irregularity and the remedial or preventive measures, if any, adopted.

7.3.37 Care should be taken to avoid asperity in comments. The use of words such as "fraud" or "embezzlement" that denote criminal intent should be avoided unless the criminal act itself has been conclusively established. It would generally be sufficient to use some ordinary word, such as "loss", in such cases.

7.3.38 If, in any case, it is absolutely necessary to refer to any correspondence with the executive Government, its contents should be summarised as briefly as is compatible with clarity. Similarly, if it is necessary to refer to the infringement of any rule, whether statutory or administrative, a gist of the rule should be given and the actual or possible effect of the infringement on the financial interests of the State clearly explained.

7.3.39 The names of the departments, organisations and parties concerned with the irregularities, designation of the official(s) and the place of occurrence of the case should be mentioned unless in any case this may not be considered desirable by the Government.

7.3.40 It may also be desirable to maintain some degree of anonymity in reporting cases of misappropriation or loss when departmental action against officials held responsible is already in progress or criminal proceedings have been or are likely to be instituted.

7.3.41 There is no objection to names of private firms, including firms of contractors, being mentioned in the Report wherever this is considered desirable to bring out the importance of a case. Such mention will, however, not be made where the facts of the case are, or are likely, to be the subject matter of litigation, arbitration, etc.

7.3.42 In drafting comments based on a study of the Finance Accounts, care should be taken to avoid general expressions conveying praise or blame with reference to the standard of financial administration achieved by Government. The Report should also avoid references to estimates and prospects for future years.

7.3.43 The emphasis should be on quality rather than on quantity and on analysis rather than on mere narration. The thrust of the paragraphs and reviews should come out clearly.

7.3.44 The preparation of the Audit Report should receive the personal attention of the Accountants General. Every precaution should be taken to ensure that the factual information included therein has been fully verified and is complete in all respects for the purpose of supporting the audit conclusions. The key documents forming the basis of the audit comments in the Report must be attested copies of departmental records or statements and not merely memos issued by Audit. The Government concerned should be afforded an opportunity to make such observations and comments as they may deem appropriate on the draft audit comments and the irregularities proposed for inclusion in the Audit Report. The audit comments should be drafted after giving full consideration to the remarks of the Department/Government. Replies received from them should be critically examined and suitably incorporated in the reviews and paragraphs concerned. The replies may also be quoted verbatim where considered necessary for emphasis. Further audit comments on the replies may also be duly incorporated. However, when, despite concerted efforts, Governments' replies are inordinately delayed, the reviews and paragraphs may be finalised after taking into account such remarks of the Heads of Departments and other responsible officials as may be available.

7.3.45 That the audit observations were referred to the Ministry/Department concerned and that no replies were received from them should also be indicated, along with the number of reminders sent to them. Instances of receipt of only interim replies should also be suitably mentioned in the respective reviews/paragraphs.

7.3.46 The Accountant General may discuss with the concerned Administrative Secretaries the Government's replies and remarks on the draft paragraphs and reviews. Where considered necessary and possible, these may also be discussed with the Finance Secretary and the Chief Secretary.

7.3.47 The draft paragraphs proposed for inclusion in the Audit Report may be sent in triplicate to the Comptroller and Auditor General in convenient batches, as and when these are ready. As far as possible, paragraphs relating to a particular chapter of the Report should be sent in a single batch. Submission of the material should be so phased as to ensure the timely finalisation of the Audit Report for its presentation to the Parliament/Legislature at the commencement of the budget session.

7.3.48 The draft paragraphs/reviews to be sent to the headquarters office should be typed neatly in double space and on good quality paper, a third of which should be left as a margin. The draft paragraphs/reviews meant for inclusion in the Reports of the Union Government should be linked with the key documents (KDs) highlighting the relevant portions therein. Inspection Reports are not meant to be sent as KDs. Where it is not desirable to disclose the names of firms, contractors etc. or the nature of the equipment, these details should be mentioned in the form of marginal annotations. The points mentioned in the 'Highlights' should always be linked with the relevant sub-paragraph of the review.

7.3.49 A final draft of the Audit Report will be prepared by the concerned Accountant General/Principal Director of Audit after taking into account the comments of the Comptroller and Auditor General on the draft paragraphs and reviews sent initially in

batches. The information presented therein should also be duly updated based on subsequent developments and replies. In finalising this draft, due regard should also be paid to the observations/replies of Government.

7.3.50 Three bond copies of the final draft of the Audit Report, including overviews, should be prepared in loose sheets of A4 size paper. These will be placed in a plastic ring-clip folder and submitted to the Comptroller and Auditor General for approval.

Note: *No change whatsoever may be made in the draft Report approved by the Comptroller and Auditor General without obtaining the clearance of his office.*

7.3.51 Along with the bond copies, a brochure containing a gist of the audit observations included in the different Central Reports and all the three State Reports (Civil, Revenue Receipts and Commercial) should be prepared and submitted to the Comptroller and Auditor General for approval. The brochure, after approval, should be printed in English and the regional language concerned for wide circulation after the Audit Reports have been laid before the Parliament or the Legislature.

Note: *Instructions issued by Headquarters office for translation and printing of State Audit Reports in regional languages must be complied with.*

7.3.52 The instructions contained in the Revenue Audit Manual, Part I, Section II, should be followed in finalising the Union Government (Civil) Audit Report on Revenue Receipts. These instructions will equally apply in the case of Customs and Central Excise receipts and Other Revenue Receipts.

Printing and presentation of Reports

7.3.53 The instructions to be followed in the printing of the Audit Reports are contained in Annexure-3.

7.3.54 The printing of the Audit Reports should be expedited. Whenever there are undue delays, the State Government concerned should be requested to get the Reports printed through the private presses, ensuring at the same time that the confidentiality of these privileged documents is maintained. Where considered necessary, the intervention of the Finance Minister and/or the Governor of the State could also be sought through the headquarters office for expediting the printing of the Reports for which the State Governments are responsible.

7.3.55 The printed copies of the Reports should be submitted to the Comptroller and Auditor General for his countersignature so that these are available for presentation to the Parliament/Legislature as early as possible. As these reports also deal with points arising from the Finance Accounts and Appropriation Accounts, the Accountants General (A&E) and the Accountants General (Audit) should so coordinate their efforts so as to ensure, as far as possible, that all the three documents are forwarded simultaneously to the Comptroller and Auditor General, notwithstanding the fact that the simultaneous presentation of the Accounts with the Audit Reports to the State Legislatures has been dispensed with in terms of the Headquarters U.O. No. 334-AC-MIS/224-99 dated 7th July, 2000.

7.3.56 Five copies of the Reports of the State and Union Territory Governments and seven copies of the Reports of the Union Government should bear in the last page, the signature in original of the Authority responsible for authenticating the Reports in question. Adequate space for the countersignature of the Comptroller and Auditor General should be left immediately below this signature.

Note: *The Chairman, Audit Board, Accountant General (Audit), Director General of Audit or the Principal Director of Audit, as the case may be, actually in position at the time the Reports are finally printed are responsible for their authentication even if these had been finalised during the incumbency of their predecessors and should, therefore, sign the printed copies.*

7.3.57 In order to enable press correspondents to select the more important audit observations/comments for publication, a press brief, which should be more or less a copy of the "Overview" printed in the Report, should be issued separately for each Report as and when it is laid before the Parliament/Legislature. Copies of the Reports will also be made available along with the press brief. The brochure referred to in paragraph 7.3.51 *supra* will, however, be circulated along with the last Report laid. The Press brief and its accompanying documents should be sent demiofficially by the Principal Audit Officer responsible on the same day that the Report are laid to the editors or regional representatives of news papers, as the case may be, the Press Information Bureau, Secretary to the Legislature and to the leading local and national television news channels.

7.3.58 Any errors noticed in the printed copies should be neatly corrected in the copies sent to the Comptroller and Auditor General. Where the number of errors is such as will require the inclusion of an errata, this should be printed only after an intimation of the document having been signed by the Comptroller and Auditor General is received. This will enable the Accountant General to incorporate in the errata any other mistakes or other typographical errors that may be pointed out by the Comptroller and Auditor General. The errata should confine itself to only the more significant errors.

7.3.59 No correction slips should be issued after the Reports have been forwarded to Government. If a serious error or misprint comes to notice after this has been done, it should be immediately brought to the notice of the Comptroller and Auditor General along with an explanation of the circumstances in which the error could not be noticed and rectified earlier. If it is decided to issue an amendment, the correction slip will be issued in the name of the Accountant General who is responsible for the preparation of the Report, but it should not bear any date. The Accountant General shall ensure that any such correction slip issued is pasted in the copies countersigned by the Comptroller and Auditor General and intended to be laid on the table of the Parliament/Legislature.

7.3.60 No correction slip can be issued after the documents have been laid before the Legislature. Any errors noticed subsequently should be reported to the Comptroller and Auditor General with an explanation for the omission to detect them earlier.

Reports on accounts of statutory corporations, autonomous bodies, etc.

7.3.61 Separate Audit Reports should be prepared on the accounts of statutory corporations, autonomous bodies, etc. where the relevant Acts provide for the audit and the certification of their accounts by the Comptroller and Auditor General or by any other person appointed by him in this behalf.

7.3.62 These separate Audit Reports will include mainly comments relating to the correctness of the accounts and the conclusions which can be drawn from them; other comments on irregularities affecting the accounts can also be included, but these should relate to matters the facts of which are beyond dispute and in regard to which there is not likely to be any difference of opinion between Audit and the Administration.

7.3.63 These Reports are expected to contain observations on the following:

- (i) All points that vitiate the certification of accounts as representing a true and fair picture of the working and state of affairs of the organisation.
- (ii) Utilisation of assistance given by Government – the observations would cover instances of under-utilisation, diversion of assistance to purposes not covered by the sanction, excess release or belated receipt of grants and assistance, etc.
- (iii) Non-fulfillment of the intended objectives of the scheme of assistance.
- (iv) Cases of avoidable or infructuous expenditure, losses, delays and irregularities in execution of works and schemes, etc.
- (v) Omission to initiate remedial action on persistent irregularities.
- (vi) Absence of internal controls and checks that reduce the degree of reliability of the accounts, non-maintenance of basic records, delays in recovery of dues or adjustment of advances, etc.
- (vii) Inaccuracies in accounts and in classification.
- (viii) Overall financial position and necessity for continued dependence on Government assistance.
- (ix) Major audit comments pertaining to financial irregularities, losses, failure of objectives, cost and time overruns, etc. noticed in the course of audit.

These are, however, not to be considered as exhaustive.

7.3.64 Audit is not precluded from including in these Reports any comments relating to the accounts of previous years, if these are important and adequate action has not been taken.

7.3.65 Any important issues on which Audit considers it necessary to express an opinion or conclusion critical in nature, and in particular issues in respect of which a difference of opinion is likely between Audit and the Administration, should be reserved for inclusion in the conventional Audit Report.

7.3.66 Though there may not be a specific provision in the relevant Acts, Rules/Regulations and/or Bye-laws of certain registered societies and autonomous bodies providing for the audit of their accounts by the Comptroller and Auditor General or by any other person appointed by him in this behalf and/or submission of the Audit Report to the Parliament/Legislature. Government nevertheless entrusts, under executive orders, the audit of their accounts to the Comptroller and Auditor General under the provisions of the Act governing his duties, powers and conditions of service and the Audit Reports along with the related certified accounts are laid before the Parliament/Legislature. Separate, formal Audit Reports have to be prepared and submitted to the Government concerned in these cases also.

7.3.67 In all cases where the Audit Reports are placed before the Parliament or the State/ Union Territory Legislature, the Reports, along with the annual accounts and the audit certificate proposed to be issued, should be shown to the Comptroller and Auditor General at the draft stage. Simultaneously, a copy of the draft Audit Report may be issued to the heads of the organisations concerned calling for their comments, if any, within a period of three weeks. It is not necessary to send the draft Reports to Government for comments before they are finalised. Only in rare cases involving very important and/or controversial issues, it may be desirable also to ascertain simultaneously

the comments of the Government. Failure to receive the replies of the organisations should be promptly brought to the notice of Government and also taken up with the organisation concerned. It is desirable that replies to important audit observations proposed to be included in the Separate Audit Report are obtained, considered and reflected, wherever necessary, in the relevant paragraphs of the Report. In case the replies of the organisation are not received despite best efforts, the Report may be finalised after including therein a specific comment about the non-receipt of replies and the efforts made to secure responses. After the draft Reports have been duly approved, these will be signed by the Principal Auditor, namely, Accountant General (Audit) or Director General of Audit or Principal Director of Audit, unless the relevant Acts or Rules (as in the case of Damodar Valley Corporation) specifically provide for them to be signed by the Comptroller and Auditor General and forwarded to Government for being placed before the Parliament/Legislature.

Note: *While forwarding the draft Audit Reports on the accounts of such statutory corporations, autonomous Bodies etc. to the headquarters office, information about the audit comments being processed for inclusion in the conventional Audit Report should invariably be furnished.*

7.3.68 While forwarding the certified annual accounts and the Audit Report thereon to Government for presentation to the Parliament/Legislature, they should be requested to intimate the date of presentation and to forward a copy of these documents, as presented, to the Accountant General, and to the Comptroller and Auditor General also in the case of documents presented to Parliament. The Principal Audit Officer concerned should also keep the Comptroller and Auditor General informed of the dates on which the documents are forwarded to Government for presentation to the Parliament/Legislature.

Annexure-1
(Referred to in paragraph 7.3.8)
General lay out of the Audit Report

A. States/Union Territories

Overview

Chapter I – General

Comments arising out of a study of the Finance Accounts that have a bearing on the general financial position of Government and any other comment of a general nature will be included in this chapter. These comments should be preceded by a summary of the accounts of Government emerging from the Appropriation Accounts and the Statements of Finance Accounts under the following headings:

- I Statement of Financial Position as at the end of the financial year.
- II Abstract of Receipts and Disbursements for the year.

The audit comments will include brief paragraphs on Government's investments and guarantees.

Chapter II - Appropriation Audit and Control over Expenditure

This chapter will deal with important comments arising as a result of appropriation audit and from a study of the Appropriation Accounts. Where possible, comments on physical progress of projects/schemes/programmes in relation to the targets and actual expenditure may be included. Any other points establishing linkages between the budget and accounts in terms of policies and their effect may also be commented upon.

Chapter III - Civil Departments

Irregularities and other points pertaining to expenditure incurred by various civil departments, other than that on works, will be included in this chapter. The arrangement of departments in the chapter and of paragraphs under a department may be decided keeping in view the importance of the individual reviews and paragraphs.

Chapter IV - Works Expenditure

This chapter will deal with observations arising out of the audit of works expenditure.

Chapter V - Stores and Stock Accounts

This chapter will contain a synopsis of important Stores Accounts and also include points noticed in the course of audit of stores and stock transactions. The audit emphasis should *inter alia* be on an assessment of the efficiency and effectiveness of purchase functions, systems followed in the departments and arrangements for inventory control and management as a whole. If necessary, one or two major store holding departments may be taken up each year for a detailed appraisal of their procedures and material management systems.

Chapter VI - Revenue Receipts

Results of audit of revenue receipts will be incorporated in this Chapter in States/Union Territories where no separate Audit Report on Revenue Receipts is prepared.

Chapter VII - Government Commercial and Trading Activities

This chapter will also cover results of audit of Government Companies/Corporations in States/Union Territories where no separate Commercial Audit Report is prepared.

Chapter VIII - Financial Assistance to Local Bodies and others

Chapter IX - Outstanding Objections and Inspection Reports

A review of the shortcomings in the system and procedures for prompt action on audit objections, etc. may be included here.

Chapter X - Other topics of interest

B. Union (Civil)

Overview

Chapter I - General

Comments arising out of a study of Finance Accounts that have a bearing on the general financial position of Government and any other comment of a general nature will be included in this chapter. These comments should be preceded by a summary of the accounts of the Union Government emerging from the Appropriation Accounts and the Statements of Finance Accounts under the following headings:

- I Statement of Financial Position as at the end of the financial year.
- II Abstract of Receipts and Disbursements for the year.

The audit comments will *inter-alia* include brief paragraphs on Government's investments and guarantees.

Chapter II - Appropriation Audit and Control over Expenditure

This chapter will deal with important comments arising out of appropriation audit and on a study of the Appropriation Accounts.

Chapter III - Expenditure-Civil Departments

Irregularities and other points pertaining to expenditure incurred by civil departments, other than that relating to works, will be included in this chapter.

Chapter IV - Works Expenditure

This chapter will deal with points arising out of the audit of works expenditure.

Chapter V - Stores Purchases

Chapter VI - Departmentally managed Government Undertakings.

Annexure-2
(Referred to in paragraph 7.3.26)

Important points that can form the subject matter of comments in Audit Reports

1. Administration of grants and control over expenditure:

- (a) Any notable changes in the arrangement of grants, such as significant increase or decrease in their number, their amalgamation or sub-division, etc.
- (b) Matters affecting the completeness or accuracy of the accounts.
- (c) Expenditure on services not duly authorised in the Schedule to an Appropriation Act.

Note: *In the absence of an authoritative definition of the term 'New Service', the Accountant General should be guided by such case law as may have been evolved by the Committee on Public Accounts concerned. In doubtful cases, he should obtain the orders of the Comptroller and Auditor General.*

- (d) Expenditure not in accordance with the intentions of the Legislature or which indicates gravely faulty administration of the grant or appropriation. Any re-appropriation that should be brought to the notice of the Public Accounts Committee under the rules will also be mentioned.
- (e) Any expenditure on any object disapproved by the Legislature or requiring its specific approval, but incurred in its absence.
- (f) Any important item of expenditure incurred without necessary sanction or contrary to a valid condition or restriction imposed by the Legislature.
- (g) Expenditure incurred in excess of voted grants and charged appropriations.

2. Revenues

- (a) Actual realisations from the levy of additional or fresh taxes and duties in comparison to the forecasts in the Budget.
- (b) Disproportionate increases in recent years in the cost of collection of taxes.
- (c) Non-revision of prices of forest produce sold by Government with reference to the prevailing market prices.
- (d) Arrears and other irregularities in realisation of revenues.
- (e) Delays in notification of detailed rules for levy and collection of taxes and duties after an Act for the purpose has been passed by the Legislature.
- (f) Efficacy of internal audit machinery and systems in the major revenue-earning departments and review of the results of internal audit.
- (g) Trends of realisation of extraordinary receipts and special features, if any.
- (h) Cases of remission of revenue (other than land revenue) and abandonment of claims to revenue required to be reported to the Audit Office by Heads of Departments.
- (i) Large claims against foreign governments, local bodies or other outside parties that have been outstanding for prolonged periods.

3. Expenditure

- (a) Expenditure not in conformity with the authority that governs it.
- (b) Irregularities connected with contracts.

- (c) Major items of extraordinary or apparently unnecessary expenditure such as:
 - (i) ex-gratia payments;
 - (ii) compensation paid for damages sustained;
 - (iii) payments in excess of amounts admissible under a statute, contract or rules;
 - (iv) payments necessitated by failure to enforce contractual terms; and
 - (v) irrecoverable advance payments made on account of services not rendered ultimately.
- (d) Any uneconomical or apparently wasteful expenditure attributable to:
 - (i) execution of works without adequate investigation of their utility or feasibility;
 - (ii) execution of works by Government agencies not possessing the ability or facilities for proper execution;
 - (iii) unsatisfactory functioning of Government commercial undertakings;
 - (iv) physical achievements of schemes and projects not being commensurate with the expenditure incurred; and
 - (v) any other causes; and
- (e) important cases of losses, write-off, nugatory or improper expenditure.

4. Debt, Deposits and Remittances transactions

- (a) Debt position of the Government -- A consolidated statement of debt may be presented and salient features, such as the magnitude of debts, expenditure on debt servicing, amortisation arrangements, arrears in repayment, etc. may be highlighted.
- (b) State of loan records.
- (c) Arrears in realisation of loans.
- (d) Acceptance and verification of balances.
- (e) Deviations in utilisation of loan proceeds and from the stated objectives in support of the borrowings and manner of application of borrowed funds not in conformity with sound and prudent principles of public finance.
- (f) Review of Reserve Funds – Extent to which the objectives of the funds are fulfilled.
- (g) Review of outstandings under Suspense and Remittance heads.

5. Grants-in-aid

- (a) Irregularities connected with administration and utilisation of grants-in-aid.
- (b) Overpayments and irregular payments.
- (c) Results of audit of bodies or authorities in receipt of substantial financial assistance from Government under Sections 14 and 15 of the Act.

6. General

- (a) Any irregularity in connection with the withdrawal and disbursement of money, designed to bring about a closer accord between expenditure and allotments, such as:

- (i) withdrawal of money in advance of requirements, particularly towards the close of a financial year; and
- (ii) deferment of payments that are due and fully matured.
- (b) State of initial accounts and delays in submission of accounts by treasuries, and public works and forest divisions - types of irregularities generally committed - steps taken by Government to improve the efficiency of their functioning.
- (c) Absence of adequate administrative regulations and procedures to secure proper and effective check on monetary transactions, such as those relating to purchase of stores.
- (d) Points arising out of scrutiny of the utilisation of Central assistance by the State Governments. They will be reported by the State Accountants General to the Central Ministry concerned and after obtaining the comments of the Central Ministry, Accountants General will propose suitable draft paragraphs for incorporation in the Central Audit Report.

Note: *Any serious delay in the issue of necessary financial or accounting rules (statutory or non-statutory) by a Government should receive suitable mention in the Audit Report, unless the Accountant General considers that the rules to be framed are not so important as to seriously impair efficiency, or is satisfied that there will be no further delay. While formulating any comments, he should, however, mention the causes of the delay, particularly in cases where it would be unfair to comment without doing so.*

Annexure-3
(Referred to in paragraph 7.3.53)

Instructions to be followed in the printing of Audit Reports

In preparing the documents for the press, every endeavour should be made to minimise the cost of printing, consistent with the requirement of presenting a clear, intelligible and readable compilation. The following points, in particular, should be borne in mind:

- (a) Before the documents are sent to press, the general arrangement of their printing should be carefully considered and the instructions given should be sufficiently clear and precise. The manuscript should be legibly typewritten and should be sent in its final form.
- (b) The size of the documents should preferably be "RA 4".
- (c) All statements should be printed vertically and not horizontally.
- (d) "Charged" expenditure should be printed in italics.
- (e) Different and distinctive types should be used for printing the headings and sub-headings.
- (f) Fractions of a rupee should be omitted.
- (g) The copyright of the Audit Reports which are prepared by the Indian Audit and Accounts Department rests with the Comptroller and Auditor General. The following should be printed at the back page of compilation:

" © Comptroller and Auditor General of India..... (Year of publication) "

- (h) Copies of the documents in excess of the number really necessary should not be printed. The number required for the use of the Government concerned should be ascertained beforehand. The Audit Officer arranging printing of the documents should estimate his requirements for his office library, for circulation among his establishment and for supply to officers with whom he exchanges publications. The number of copies to be offered for sale should be determined well in advance in consultation with the Publication Branch of the Government concerned.
- (i) The logo of the State Government would continue to be printed on the cover of the State Audit Reports wherever this is already being done. The Ashoka Pillar with its own motto will be printed on the covers of all other Reports.
- (j) The space between the designation of the Principal Audit Officer and the word "Countersigned" on the signatory page of the printed Audit Report should be one inch (1") and that between the word "Countersigned" and the name of the Comptroller and Auditor General should be one and a half inches (1 1/2"). Similarly, the space between the text of the Audit Certificate and the name of the Comptroller and Auditor General should be one and a half inches (1 1/2") inches in the Finance Accounts and Appropriation Accounts.

Formats for all the Audit Reports have been standardised with a view to exhibiting them on the Internet. The Reports should be formatted on common parameters according to the instructions contained in letter No.85-Rep(c)/156-98 dated 25th January, 1999 issued by the Comptroller and Auditor General.

CHAPTER-4

Submission of Audit Reports and Subsequent Action

Submission of Reports to Government

7.4.1 The Finance Accounts and Appropriation Accounts which are prepared by the various Accountants General (A&E) are duly certified and signed by the Comptroller and Auditor General. These accounts prepared by other authorities (vide paragraphs 3.16.2 and 3.16.3) are signed/countersigned by the accounting authorities and certified by the Comptroller and Auditor General. The Audit Reports are signed by the Principal Auditors, viz. the Director General of Audit/Accountants General (Audit)/Principal Directors of Audit, etc. and countersigned by the Comptroller and Auditor General. Two copies of the State Accounts and Reports, and three copies of the Central Accounts and Reports bearing the signature of the Comptroller and Auditor General, are forwarded to the respective Governments for submission to the Governor/President in compliance with Article 151 of the Constitution. Two copies of each of the documents relating to the Union Territories are forwarded to the respective Governments of the respective for submission to the Administrator of the Union Territory in compliance with Section 49 of the Government of Union Territories Act, 1963.

7.4.2 One copy each of the documents signed by the Comptroller and Auditor General is returned to the Accountant General (A&E) or the Accountant General (Audit) or Director General of Audit concerned, as the case may be, for record in his office.

7.4.3 On the Reports and Accounts being signed by the Comptroller and Auditor General, the Additional Deputy Comptroller and Auditor General in charge of the Reports relating to the Union Government will forward to the Ministry of Finance all Reports of the Union Government, including those relating to Revenue Receipts but excluding those relating to the Central public undertakings audit observations in respect of which are included in the Commercial Reports. He will simultaneously keep the Secretary to the President informed demiofficially by sending to him an unsigned copy of each of the Reports. The Deputy Comptroller and Auditor General or the Additional Deputy Comptroller and Auditor General, as the case may be, responsible for Railway Audit will take similar action to keep the Secretary to the President informed of the Reports relating to Railways. The Chairman, Audit Board, will, on the other hand, forward the Commercial Reports to Government and the Secretary to the President.

7.4.4 Similarly, the Additional Deputy Comptroller and Auditor General in charge of Reports relating to State Governments will forward them to the Finance Department of the State Government concerned and also keep the Secretary to the Governor informed demiofficially by forwarding to him an unsigned copy of the Reports.

7.4.5 Requisite number of copies of the Union, State and Union Territory Finance Accounts, Appropriation Accounts and Audit Reports may be supplied to the Finance Ministry/Department after these documents are formally submitted by the Comptroller and Auditor General to the president/Governor/Administrator as the case may be. While doing so, it should, however, be clearly stipulated that these copies should be used for purely departmental purposes and neither published nor made available to the members of the Parliament or Legislature or to others until the documents are presented to the Parliament or the State /Union Territory Legislature. Copies of the Reports and Accounts

should be made available to other ministries, departments, etc. only after these have been presented to the Parliament/Legislature.

Notes: When a state is under president's rule, the procedure to be followed for submission of C&AG's Audit Report is the same as that applicable in respect of the Union Government Audit Report.

It has been decided by the Government of India in the Ministry of Finance that wherever President's Rule in a state is extended beyond one year, the C&AG's Reports relating to the state would be placed in Parliament (vide d.o. No. F 6(9) – B(R)/94 dated 22.6.1994 of Ministry of Finance Department of Economic Affairs).

Action taken on the Reports by Government

7.4.6 Soon after the Accounts and Reports relating to a State or Union Territory are presented to the Legislature, the Accountant General concerned will send a report to the Comptroller and Auditor General. If there is undue delay in presentation of the documents, the Accountant General will send a report to the Comptroller and Auditor General and also take such action locally as may be found appropriate for securing their early presentation to the Legislature. The Accountant General will also advise the State Government to take appropriate action immediately to complete the process for placing individually before the Legislature each of the Reports submitted to them without linking this with the receipt or presentation of other Audit Reports.

7.4.7 The procedures that the Parliament and Legislatures follow in dealing with these Accounts and Reports are regulated by the rules framed or adapted under Article 118 and Article 208 of the Constitution in respect of the Union and States respectively and Section 33 of the Government of Union Territories Act, 1963 in respect of the Union Territories. These rules provide for examination of the Accounts and Reports by a Committee of the respective Legislature known as the Public Accounts Committee. At the Centre, there is a separate Parliamentary Committee on Public Undertakings to consider the Audit Reports (Commercial) relating to the Central public sector corporations and companies. Some of the State Legislatures have also established Public Undertakings Committees to consider the Audit Reports (Commercial) relating to the State public undertakings or the audit observations included in the chapters relating to corporations and companies contained in the Audit Reports of those States in respect of which separate Audit Reports (Commercial) are not prepared.

7.4.8 The Public Accounts and the Public Undertakings Committees of the respective Legislatures do not, however, function as executive bodies. They submit their reports containing their findings on the Audit Reports and Accounts examined by them and their recommendations to the to the Legislature concerned.

7.4.9 The Accountants General/Principal Directors of Audit are usually invited to be present at the meetings of the Committees on Public Accounts and Public Undertakings when witnesses are examined and the Accounts and Reports are considered. They should endeavour to attend all these meetings personally and assist the Committees in their deliberations.

7.4.10 Immediately after the Accounts and Reports have been considered by the respective Public Accounts Committees or Public Undertaking Committees and their reports have been presented to the Legislature, the State Accountants General will submit a report to the Comptroller and Auditor General drawing attention to:

- (i) those paragraphs of the proceedings or report which contain observations or recommendations of considerable importance; and

- (ii) any adverse comments relating to any views expressed by Audit in the Reports or any comments that contain a reflection, express or implied, on the Indian Audit and Accounts Department for its failure to take proper action.

The Accountants General's reports on (ii) above will also contain their own views and opinions on the comments/observations of the Committees.

7.4.11 The recommendations of the Committees are considered by the ministries or departments of Government concerned. The Accountant General will watch the action taken on the recommendations of the Committee and the orders, if any, issued as a consequence. If, in any case, the action taken by Government is considered inadequate, it will be open to the Accountant General to take up the matter with the Government and to comment on the matter, if considered necessary, in a subsequent Audit Report.

Vetting of Notes submitted by Government

7.4.12 Ministries and departments of the Government of India submit "Notes" to the Lok Sabha Secretariat for the information of the Central Public Accounts Committee with regard to:

- (a) excesses over voted grants and charged appropriations requiring regularisation;
- (b) the list of points issued by the Lok Sabha Secretariat on the audit reviews and paragraphs selected by the Committee for oral evidence;
- (c) points that arise during the discussion of the Audit Report and Accounts in the Committee and in respect of which the Committee desires further information or clarifications;
- (d) the action taken or proposed to be taken by the Ministries or departments on the recommendations contained in the reports of the Committee; and
- (e) remedial or corrective action taken or proposed to be taken by the Ministries and Departments in respect of audit reviews and paragraphs not selected for detailed examination by the Committee.

Note: *The Notes mentioned at (d) and (e) above are generally referred to as 'Action Taken Notes'.*

7.4.13 Notes relating to audit reviews and paragraphs intended for the Committee are invariably shown to the Principal Audit Officer at the draft stage. The original records and files forming the basis of these notes are also then made available to the Principal Audit Officer who is required to vet the draft notes (a) by verifying, as far as possible, the facts contained therein; and (b) by exercising a general scrutiny to see whether all the facts and information required by the Committee have been duly incorporated therein. The Principal Director of Receipt Audit vets such notes relating to the Central Audit Report (Civil) on Revenue Receipts, in consultation, where necessary, with the Accountant General concerned.

7.4.14 Before returning the draft notes and connected papers to the ministries/departments concerned, the Principal Audit Officer consults the Comptroller and Auditor General on the remarks or suggestions proposed to be offered by him, except in cases where the draft notes are only in the nature of an interim reply to the Committee or merely contain factual information on which there may be little scope for comment or otherwise deal with non-controversial issues. If, however, the draft notes attempt an explanation of financial or accounting irregularities (including excesses over grants) or

contain arguments justifying a particular point of view, as opposed to the line of criticism adopted in the Audit Report or in the Committee's Reports, the file should be shown to the Comptroller and Auditor General before the Principal Audit Officer finalises his comments and returns the draft note to the ministry/department.

7.4.15 In all cases where the notes are finally dealt with by the Principal Audit Officer in terms of the above procedure, one copy each of the ministry/department's note and the reply thereto should be sent to the Comptroller and Auditor General for information and record.

7.4.16 Where the draft notes are forwarded to the accredited Audit Officer who contributed the relevant audit paragraph, they may be returned by him directly to the ministry/department if these are only in the nature of interim replies under intimation to the Principal Audit Officer and the Comptroller and Auditor General. In all other cases, further comments and remarks on the draft notes should be communicated only to the Principal Audit Officer responsible for the final vetting of the notes.

7.4.17 Audit should not normally take more than a fortnight to offer comments on the draft notes. When the vetting involves consultations with other field offices, the specific issues that they are required to verify or comment upon may be indicated to those offices for urgent action and report. In the meantime, there is no objection to the notes being returned to the ministries/departments along with observations on the general issues dealt with in them after such quick verification as is possible, indicating, where necessary, that certain issues or data are being verified and further comments, if any, will follow.

7.4.18 In certain cases, particularly in respect of notes on points arising out of evidence tendered before the Committee, the Lok Sabha Secretariat has also been calling for advance copies of the relevant notes in case any delay is anticipated in getting them vetted by Audit. Every endeavour should be made by Audit to communicate the comments, if any, in these cases well in time before the Committee finalises their report. Where there is very little time available for this to be done, the results of audit scrutiny may be taken into account in suggesting modifications or additions when the draft report of the Committee is referred to Audit.

7.4.19 The procedure of getting similar notes furnished by the State Governments to their Legislature Secretariats vetted by Audit and the procedure relating to the furnishing of advance copies of the notes to the Secretariat are also followed in some States. In such cases, the instructions contained in paragraphs 7.4.14, 7.4.17 and 7.4.18 *supra* should be borne in mind.

7.4.20 In certain States, the reports of the Public Accounts Committee/Public Undertakings Committee are discussed by the State Legislature. In such cases, after the proceedings of the discussion of the Reports by the Legislature are received and scrutinised, the Accountant General will send a report to the Comptroller and Auditor General drawing specific attention to the important points, if any, appending extracts of the proceedings, where necessary.