MANUAL OF OFFICE PROCEDURE
COMMERCIAL AUDIT WING
OFFICE OF THE ACCOUNTANT GENERAL
(AUDIT) UTTARAKHAND, DEHRADUN

PREFACE

I am pleased that the Manual of Commercial Audit procedure dealing with general principles to be followed in the audit of the State Government commercial units, in the state of Uttarakhand and matters relating to the audit of Government Companies/ Statutory Corporations and departmentally managed undertakings are ready for issue and use. In this manual, an attempt has been made to highlight the activities of the Government undertakings and the audit procedure to be followed in relation there to.

This manual consists of 7 chapters. Chapter I deal with Commercial Audit (Headquarters) section. Chapter II A deals with a provisions relating to accounts and audit of Government Companies under Companies' Act and general instructions relating to audit. Chapter II B deals with provisions relating to accounts and audit of Government Companies under the new Companies' Act, 2013. Chapter III contains general principles of audit of Uttarakhand State Road Transport Corporation. Chapter IV deals with other Statutory Corporations. Chapter V deals with general principles of auditing. Chapter VI discusses Scope of Audit in Government Companies. In Chapter VII, the Scope of Audit in Companies falling under Section 619 (B) of the Companies Act, 1956, is discussed.

This manual gives detailed procedure to be followed in audit of Government Companies/Statutory Corporations under the audit control of Accountant General (Audit), Uttarakhand.

This manual is not intended to serve as a substitute for other recognised text books of commercial accounting and auditing and other instructions or guidelines in force. It is instead intended to serve as supplement to the instructions contained elsewhere. Suggestions for any improvements in the manual are welcome.

Dehradun
Dated: 12th April 2016

….sd/-…..
(Saurabh Narain)
Accountant General (Audit)
Uttarakhand

CHAPTER-I

1.0 COMMERCIAL AUDIT (HEADQUARTERS) SECTION

1.01 INTRODUCTORY

The Office of the Accountant General, Uttarakhand, Dehradun was established in November 2000. The Accountant General (Audit) has been entrusted with the audit of State Public Sector Companies, Statutory Corporations, Regulatory Commission (Uttarakhand Electricity Regulatory Commission), preparation of State Audit Reports thereof and assisting the Committee on Public Undertakings (COPU) in their discussions on these Audit Reports.

1.02 ECONOMIC SECTOR-1 (PSU)

Economic sector is entrusted with the audit of state public sector undertakings.

This group has been entrusted with the audit of Government Companies and Corporations of Government of Uttarakhand under Section 19 of the Comptroller & Auditor General's (D.P.C.) Act, 1971. The State had 21 Government Companies, 01 deemed Government Company under the purview of Section 619 (B) of the Companies Act, 1956, three Statutory Corporations as on 31 March 2014 and one quasi-judiciary autonomous body *i.e.* Uttarakhand Electricity Regulatory Commission established under Section 104(2) of Electricity Act 2003.

(a) Statutory Corporations – At present there are only three Statutory Corporations, as per table given below:

Sl.No	Name of the Corporation	Authority for audit by the C&AG	Audit Arrangement
1.	Uttarakhand State Road Transport Corporation	Section 33(2) of the Road Transport Corporation Act,1950	Sole audit by CAG
2.	Uttarakhand Pey Jal Sansthan Vikas Evam Nirman Nigam	Section 52 (3) of the U P Water Supply Act and Sewerage Act, 1975	Sole audit by CAG
3.	Uttarakhand Van Vikas Nigam	Section 20(1) of the Comptroller and Auditor General's (Duties, Power and Condition of Service) Act,1971	Sole audit by CAG

(b) Government Companies :

This group deals with audit of 21 Government Companies and 01 deemed Government Company. In addition there is 03 non-working Government Companies (including 01 company under liquidation). Accounts of these Companies are audited under section 619 (4) of the Companies' Act 1956 (or section 143(6) of the new Companies' Act, 2013) in respect of accounting periods, commencing from 1 April 2014.

1.03 Types of audit conducted in ES-1

The Economic Sector -1 (ES-1) is responsible for the audit of Statutory Corporations, Government Companies and certification of accounts thereof. The audit of the Statutory Corporations and Companies is conducted in three ways:

i. Regular transaction audit ;
ii. Performance audit and theme based compliance audit ; and
iii. Annual Accounts Audit;

i. Regular Transaction Audit

For conducting transaction audit, Companies and Corporations (and their units) are divided into three categories *viz* A, B and C. Companies and units categorized as 'A' are audited every year, 'B' once in two years and 'C' once in three years. For classification, Headquarters of all the companies and Corporations are categorized as 'A' whereas units of the companies and corporations are classified as A, B and C on the basis of various factors of risk assessment i.e. materiality, criticality and internal controls. Detailed categorization of the Companies and corporations is given in para 2.01.01.

(Authority –HQ office letter No 501/CA –II/Co-ord/Audit Plan/2010-11/166-2009 dated 11 September 2009)

ii. Performance audit and theme based compliance audit

Performance audit of the companies and corporations as well as theme based compliance audit of any activity of the company is conducted on selection basis.

iii. Annual Accounts Audit

The Accounts of companies for every financial year are to be finalized within six months from the end of relevant financial year under Sections 166, 210, 619, and 619-B of the Companies Act, 1956 (or u/s 96(1) and 143(6) of new Companies' Act, 2013) read with Section 19 of Comptroller & Auditor General's (Duties, Power and Condition of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of financial year.

In case of Government Companies and deemed Government Companies whose paid-up capital / turnover is Rs. 10 crore or more, accounts are audited annually and in rest of the cases (including deemed Government Company) on selection basis once in three years. In case of audit of accounts on selection basis, decision of the AG is solicited on case to case basis.

In case of accounts audit, on receipt of accounts certified by the Statutory Auditors, local parties are deputed for audit. The parties after completing the audit, issue draft comments to the Management and Statutory Auditors after approval by the Group Officer and submit the file containing audit notes and draft comments in the Economic Sector - I. On receipt of replies to the draft comments or after lapse of a reasonable time in case replies are not received, the section processes the draft comments for sending them to the Headquarters along with aide-memoire containing draft comments, Management's and Statutory Auditor's replies and justification for proposing the comments for approval. The comments approved by the HQ are issued to the Company under the signature of the Accountant General.

In case the Accountant General has no comments to offer under section 619 (4) of the Companies Act, a 'Nil' Comments Certificate is issued to the Company by the Accountant General under intimation to HQ alongwith an aide-memoire containing all the observations on the Accounts, Management's replies and remarks of our office thereon. In case, accounts are not selected for audit, a 'Non-review Certificate' is issued to the Company by the Accountant General under intimation to the HQ. The Accountant General may finalise the comments at his level in respect of those companies whose accounts are in arrear for more than five years. However, copies of the comments issued are to be endorsed to HQ for information.

(ADAI letter no 58/CAII/Co-ordn/Selection of Review/03-04/108-2003 dated 09/14.01.2004)

(ii) Statutory Auditors of the Companies are appointed by the Comptroller & Auditor General of India. For this purpose, assessment report of auditor's performance is also sent to HQ along with the proposed draft comments.

(iii) The Companies' Act 2013 has been passed by the Parliament and notified in August 2013. The said Act is applicable with effect from accounting period started from (2014-15) 1st April 2014.

1.04 Working in Economic Sector-1 (Headquarters)

The main work of the Section is to edit the draft inspection reports received from the field audit parties, issue audit inspection reports to the Management of the audited units and their respective HQs, pursuance and settlement of old outstanding objections, processing potential draft paragraphs and forwarding them to the Report Section for processing and inclusion in the State Audit Report (Commercial Chapter), and finalisation of the draft comments on accounts received from field audit parties.

Following records are to be maintained by the Section:

***(a)* Register for watching receipt, issue and settlement of AIR.**

On receipt of draft inspection reports from the field audit parties, they are edited in the section so as to ensure correctness of the observations contained in the audit paras. The draft audit inspection reports, duly vetted by the A.A.O.(HQ) and A.O.(HQ) of the Section are put up to the Group Officer for approval. Thereafter the AIRs containing audit paragraphs approved by the Group Officer are issued to the Management of the companies and corporations and details thereof noted in the register for watching receipt and issue of AIRs.

Similarly, vigorous pursuance is required to be made by the Section for obtaining replies to the outstanding paras of old AIRs. The replies of management, as and when received, are to be checked in the section and objections settled, if the replies are convincing or after due verification of the replies by the field parties. The details of paras so settled should be noted in the Progress Register.

The field audit parties are required to verify the old AIRs on the spot during the course of audit and the results of such verification giving express opinion for settlement/continuance of old paras are to be forwarded to the HQ (O/o AG (Audit) Uttarakhand) along with the draft AIR. The ES-1(HQ) would examine such verification memos and settle the outstanding paras, if deemed fit. Such settlement should also be noted in the register for watching settlement of inspection reports.

***(b)* Register for watching receipt and issue of Inspection Reports.**

According to Regulations on Audit and Accounts 2007 (Regulation No 194), Inspection Reports are to be issued within a period of six weeks from the date of completion of the inspection. A register for watching receipt and issue of Inspection Reports is to be maintained in the following format.

Sl.No.	Name of office inspected	Name of inspection officer	Period of Audit	Date of receipt	Date of Submission for approval by G.O.	Date of approval	Date sent for typing	Date of return from typing	Date of issue
1	2	3	4	5	6	7	8	9	10

Another register for watching settlement of inspection reports is to be maintained in form SY-328 in the following format:-

Sl.No.	Name of Unit	Item No. of the register for watching	No. and date	No. and date of receipt	No. and date of reminder	Date of receipt of first	Date of issue of remarks	Further correspondence date of receipt of further	Paragraphs outstanding six months after	Date of settlement with	Date of closure of the report	Remarks

	inspected	Receipt/Issue of AIR	under which the AIR was issued	of reply	issued	reply	further reminder	replies date of issue of further remarks/reminder	issue of I.Rs.No. of paras in IR should be entered here	reference to file number	with reference to file number	
1	2	3	4	5	6	7	8	9	10	11	12	13

(c) Maintenance of Objection Book

In cases where the Accountant General acts as the sole auditor for certifying the accounts of organisations, it is necessary to ascertain money value of objections as per AIRs under the following categories viz.

(i) Want of stamped receipts or other proof of payments.

(ii) Non recovery of over payments.

(iii) Non adjustment of advance given

(iv) Expenditure incurred without sanction or with inadequate sanction.

In respect of each of these categories, it would be necessary to ascertain that the points of objections are settled before the accounts are certified as correct or, if it is not possible to so settle, to bring the matter to the notice of organization and government where necessary so that steps to settle them are taken if the objections are of considerable magnitude. If objections accumulate, it would even be necessary to incorporate them in a separate paragraph in the conventional Audit Report.

The objection book and adjustment register in the form M.S.O. (Tech.) 127-B and 128 B shall be maintained in respect of Departmental Commercial Undertakings (C& A.G. letter No. 279-CA-IV/49-69 dated 16.7.69).

(d) Register of important points

Important points requiring detailed examination emerging from references received from respective departments, Govt. orders / notifications and complaints of the units received in the office should be noted in the Register of Important points and should be forwarded to the field audit parties for spot verification and examination during the course of their audit.

(e) Potential Draft Para Register

Important financial irregularities and losses noticed during the course of editing draft AIR's which could be processed as draft para should be noted down in the Potential Draft Para register and a copy of such points together with connected audit memo, etc. should be forwarded to the Report Section for processing as draft para.

(f) Incumbency Register

The section should maintain an incumbency register in which details of the tenure of each staff posted in the section together with the details of work allotted to them shall be recorded.

(g) Important circular guard file / reference register.

The sections should maintain guard files of circular / orders / notifications received from the Office of the Comptroller and Auditor General of India and also such other orders issued by the Accountant General and Sr. Dy. Accountant General.

(h) Maintenance of Audit Note Book

Audit Note Book shall be maintained with a view to providing:-

(i) a consolidated record of the organisation and functions of each of the undertakings which are audited and,

(ii) details as to which member of the party checked a particular documents, for each undertaking showing broadly the essential particulars relating to the audit thereof such as its objects and functions, organisational setup, system of financial control, the accounting system of internal audit, etc. The Audit Note Book should be available with the audit party at the time of conducting audit of a particular unit for their guidance and noting. The model form for audit note book is given in annexure A attached. (CAG letter No. V/Tech-9/82 No. 503-CA IV/ 81-82 dated 16.7.82)

(i) Calendar of Return

A calendar of return is to be maintained in the prescribed form in order to observe the due dates prescribed for the various items of work and returns to be submitted to the HQ. The actual date on which the work is completed and returns are submitted should be filled in calendar of returns and it should be submitted to the Audit Officer/Dy, Accountant General on due dates each month.

(j) Progress Register of Annual Accounts

The receipt of certified accounts of Companies / Corporations should be immediately noted down in this register. This register should invariably give the following information.

(i) Name of the Company / Corporation and Year of Account.

(ii) Date of receipt of accounts in the Office.

(iii) Date on which audit started.

(iv) Date of conclusion of audit.

(v) Date of issue of draft comments to Management and Statutory Auditors.

(vii Date of receipt of replies to draft comments from the Management and Statutory Auditors.

(vii) Date of forwarding the draft comments to the Comptroller and Auditor General of India. Total number of comments may also be given.

(viii) Date or receipt of approved comments from the Comptroller and Auditor General of India (No. of Comments).

(ix) Date of issue of comments / nil comments to the Management.

(x) Proposed date of Annual General Meetings.

(xi) Date of issue of non-selection certificate.

(k) Register of appointment of Auditors

The notifications regarding the appointment of Auditors received from the Headquarters should be noted down in the register of appointment of auditors. This register should *inter-alia* give the following information.

(i) Name of Company

(ii) Name and Address of Auditors

(iii) Year for which appointment is made

(iv) Remuneration approved

(v) No. and date of appointment order

(l) Register of Companies

A register of Companies under audit should be maintained and any addition of new company as well as deletion of existing one should be noted down in this register, along with their date of incorporation/ liquidation.

(m) Commercial Audit Manual

The Audit Officer (HQs) shall be responsible for keeping the Commercial Audit Manual up to date. He should put up draft corrections / additions as soon as any rules, orders or other communication affecting the contents / coverage of this manual come to notice. He shall also supply correction slips to the field staff.

(n) Statistical Information Register

A register showing following statistical information for each accounting year should be maintained in the section in order to give ready information to higher officers as and when required :-

(i) Name of Company.

(ii) Date of incorporation.

(iii) Authorised Capital.

(iv) Paid up capital.

(v) Profit / losses of the year.

(vi) Long term loans.

(vii) Progressive profits / Losses.

(viii) Accounting year period.

(ix) Period for which accounts are in arrears.

(x) Total interest charged to Profit / Loss account.

(xi) Interest on long term loans.

1.05 Framing of Audit Programme

(a) Selection of Units due for audit.

The transaction audit of the accounts of all companies and corporations and their units is to be carried out periodically. For the purpose of regular/transaction audit an audit cycle register having the following information of various units under audit is maintained and kept up to date-.

(i) Name of the company / units.

(ii) Address.

(iii) When last audited.

(iv) Period during which current audit is booked.

(v) No. of days required / prescribed for conducting the audit, and.

(vi) Whether the company / unit is subject to audit once or twice in year.

(b) Duration of audit.

The number of days required for the audit of accounts of various Govt. Companies / Corporations / Undertakings and their units is dependent upon the quantum of checks to be exercised, provision in the budget and availability of field staff. Though it is not feasible to lay down norms for fixing the duration of local audit, it is necessary that the existing time allocation should be closely reviewed at suitable intervals from the point of view of expansion / decrease / increase in volume of activities of various units to this end. The inspecting officers, Asst. Audit officers, should report their opinion after due assessment of work involved in the unit, about the sufficiency of time required for audit. However, it has been decided by the Comptroller and Auditor General of India that the period of local audit should not exceed 50 working days at a time.

(c) Composition of Field parties.

The composition of local audit parties should be determined with reference to the nature and complexity of the work of the office or the organisation being inspected. It is also necessary to improve the operational level of local audit parties for which the composition of local audit parties (normally two Asstt. Audit Officers and one Auditor or one Asstt. Audit Officer and two Auditors) can be varied particularly for major and important audits. Each audit party is normally supervised by an Audit Officer.

This composition of field parties can be varied for major and important audits and even three or four Asstt. Audit Officers with one or two auditors and full time supervision of Audit Officer provided with a view to improve the quality of local audit and cut down its duration.

(No. 673/T/I/JA (TA) 75 dt 5.8.76 fro Addl. Dy. CAG of India)

(d) Selection of staff for field inspection.

(i) If inspections are to serve a useful purpose and if the maximum value is to be obtained for the expenses incurred on inspections, the inspection work shall be entrusted to specially trained, competent and intelligent staff who would, in addition to exercising the routine prescribed checks, also examine the accounts intelligently and pay due regard to the principles of efficiency audit.

(CAG's letter No. 539/Admn./5 Rep/49 dt. 23.3.1950)

(ii) It shall be ensured that the personnel of local audit parties, particularly Audit Officers, Asstt. Audit Officers are not changed in the midst of an inspection as this seriously affects the efficiency of local audit.

(CAG letter No. 683-TA-I/ZE 75 dt. 5.8.1976)

(e) Tour Programmes

(i) Quarterly tour programmes of field inspection parties and Audit Officers shall be drawn by the Section. The number of parties to be floated shall depend upon the availability of requisite staff.

The tour programmes so drawn shall be approved by Sr. Dy. Accountant General/ Dy. Accountant General (ES). Notice of intimation of audit to the offices booked for audit shall also be sent well in advance.

(ii) Deviations/revisions and extension in approved tour programmes for audit should not be permitted as a matter of routine. In exceptional cases, however, the deviations/revisions and extension may be allowed with approval of Sr. Dy. Accountant General/Dy. Accountant General if the request duly supported by detailed circumstances for the same is received from the field parties well in advance.

1.06 GENERAL GUIDELINES / INSTRUCTIONS FOR FIELD PARTIES

(i) Meeting with the Head of Office inspected

At the very outset, the A.O. /A.A.O. of audit party shall seek meeting with the Head of the Office and discuss broadly the activities undertaken by the unit and invite suggestions which the latter may like to offer regarding any special aspect for examination during audit. In case of manufacturing unit, the factory of the unit should be visited with a view to understand process of production.

(ii) Action to be taken when accounts are not ready or the office is reluctant for audit

When it is found that the accounts of an office are not ready for audit, the Audit Officer/Asstt. Audit officer of the party should at once report the facts and seek instruction from the Headquarters. If no clarifications / instructions are received from the Headquarters within a reasonable time, the audit of next unit as per approved programme shall be taken up by the Audit Officer /Asstt. Audit Officer simultaneously keeping the Headquarters informed.

(iii) Conduct of field Staff

All officers and members of field parties, while on inspection, should, on no account, take obligations of the office under inspection, as it may detract them from their independence and proper discharge of duties. A request for arranging accommodation will not, however, be considered an obligation.

(iv) Attitude of Field Staff

The field staff, while in field, should avoid any misunderstanding or friction with the local officials with whom they come in contact. They should bear in mind that frivolous, unnecessary and badly drafted objections not only bring discredit to audit and cause annoyance to the local officials but also create hindrance in smooth conduct of audit.

(v) Maintenance of Records by Field Parties

(a) An attendance register showing day to day attendance of each member of party should be maintained and should be put up to Sr. Dy. Accountant General / Accountant General on their visits.

(b) Whenever the Audit Officer/Asstt. Audit Officer is transferred/ relieved from the party, he should handover the attendance register and correspondence file to the reliever or, in his absence, to the senior most member in the party.

(c) Office copies of all the correspondence exchanged with the Headquarters should be kept in the file and put up to Audit Officer on his visit.

(d) A diary of day to day work done by each member of the party should be maintained and signed daily on conclusion of audit of each unit.

(e) A despatch register showing day to day despatches of letter, telegrams, AIRs, etc. should also be maintained.

(f) A file containing all circulars issued by the Headquarters should be maintained by the Asstt. Audit Officer of the audit party for reference by the party members.

(vi) Working Hours and Holidays

The working hours and holidays of the office under inspection shall be observed by the field audit parties.

(vii) Time Schedule

The Audit Officers, Asstt. Audit Officers are required to follow the tour programme approved by the Headquarters. In exceptional cases where further extension of or deviation in the programme is considered necessary, prior approval should be obtained from Sr. Dy. Accountant General (Economic Sector). Any deviation in programme not having prior approval would be treated as unauthorised and liable to disciplinary action with forfeiture of TA/DA. In emergent cases where deviation / extension is necessary, the matter should be reported to Sr. Dy. Accountant General (Economic Sector) through FAX/telegrams /email for getting approval.

(viii) Leave while on Inspection Duties

Intimation about person leaving camp/station on casual leave, regular leave or otherwise should be sent to Headquarters through FAX/email the same day on which leave is applied for. FAX intimation should also be sent on the day on which such a person joins after leave. Asstt. Audit Officers and Auditors should not leave camp on holidays nor proceed on leave without prior sanction of the Audit Officer. If Audit Officer is absent, sanction should be sought from Sr. DAG/DAG. Audit Officers should obtain prior approval of Sr. Dy. Accountant General (Economic Sector) before leaving camp or proceeding on leave.

(ix) Period to be covered in Audit

The period since last audit to the month for which the accounts have been prepared, approved and available should be covered in the current audit.

(x) Test Month

In case of offices the audit of which is carried out by the Chartered Accountants and supplementary audit is conducted by CAG, a general scrutiny of vouchers, transactions is required to be carried out and the audit party should mainly concentrate on efficiency cum performance audit. A test month (normally the month in which highest expenditure was incurred during the period of audit) shall be selected by the Audit Officer or senior most Asstt. Audit Officer for detailed audit as per the procedure indicated in Office Circular No ITA/35/2013-14/191-194 dated 19 September 2013.

(xi) Distribution of Work

The Audit Officer/ Asstt. Audit Officer of the party shall make a fair distribution of work among the party members keeping in view the devolution of duties and importance of the individual items of work and the same should be noted by them under dated initials. On completion of audit, the Audit Officer, or in his absence. Asstt. Audit Officer. will certify whether the work as distributed to members of the audit party was successfully completed. This memo of distribution of work together with copy of the diary of work actually done by each member of the party shall be attached with the draft Inspection Report.

1.07 INSPECTION REPORT

The Inspection Report should be divided into three parts and each should include the following particulars.

Part-I (a) Introductory

(b) Outstanding paragraphs of pervious AIR’s

(c) A schedule of persistent irregularities

(d) Records not produced

Part-II A Important Irregularities likely to be developed into draft paragraphs or requiring attention of higher management.

Part II B Comparatively less important irregularities.

Part-III Test Audit Note containing minor irregularities.

In case of an office, the accounts of which are audited for the first time, a brief history indicating background nature and object of the schemes or projects, government sanction and the name of the agency by which scheme project is financed should be given in Part I (A)-Introductory. The audit inspection report sent by audit party to Headquarters should be invariably accompanied with a forwarding memo in prescribed proforma (Annexure-B).

1.08 Guidelines for Drafting the Report

The following instructions should be followed

(a) Isolated routine objections need not be taken in the report but if a number of similar points are noticed, all these should be clubbed under a suitable heading.

(b) The para should be drafted after due consideration of reply furnished by the Management. After narrating the main objection, the reply of the Management should invariably be incorporated in brief even though the reply is not acceptable to audit and the grounds on which the reply is not acceptable in audit should be mentioned in the paragraph.

(c) Each para should be properly drafted under a suitable heading showing money value of the objection also.

(d) As a matter of rule, objection already raised in the past should not be taken in the current audit but in exceptional cases, where the current developments are significant or by providing certain available information, it is possible to develop the para into a draft para, such para should be taken afresh by settling the old ones and giving remarks to this effect in the margin.

(e) The material for report should be collected by the field staff themselves after detailed examination of the available records. The units under audit should not ordinarily, except under the specific direction of the supervising officer, be asked to furnish details on which conclusions in audit have to be based. Details furnished by the management should be examined to ensure their accuracy.

(f) Where in the opinion of Inspecting Officer, any para may develop into a draft para, he should ensure the correctness of the factual position of the para and see that all relevant copies of orders and extracts are attached as annexure to the para.

(g) Unrecognized and uncommon abbreviations should not, as a matter of rule, be used and if there be a necessity to do so, its elaboration should be given with abbreviation in bracket when used for the first time in the report.

(h) The drafting of the paras should be in a most courteous and polite language and adequate care should be taken in use of words like forgery, misappropriation, embezzlement, frauds, etc. As a matter of fact, the more serious the nature of objection, the greater is the need for using language which should be unexceptionable, moderate and impersonal.

(i) The Para should be drafted in third person.

(j) All details necessary for a clear understanding and narration of the objection should be given which may *inter alia* include (a) explanation of the transaction (b) a description of the nature and magnitude of the irregularity (c) any extraordinary circumstances that might have existed (d) the detected lacunae, if any, in the system which led to the irregularity and (e) the adequacy/inadequacy of remedial action taken, if any.

(k) The name(s) of the official(s) personally responsible for any irregularity should not be disclosed in the Audit Inspection Report. Only in cases of very serious dereliction of duty or embezzlement, the designation or status of the officer(s) responsible should be given. In case of serious irregularities, the name(s) with designation should be mentioned in the initial audit notes.

(l) Cases, which are sub-judice, should not be mentioned in such a way as to prejudice the claim or the defense in the court of law.

(m) Where the departmental officers have acted in pursuance of any instruction issued by their Head of Department, the matter should not generally be the subject of comment in the report of that office but it should be forwarded to the Headquarters (Economic Sector) for necessary action.

(n) Facts and figures/detailed calculation should invariably be given in support of observations.

(o) **Test Audit Note:** The test audit note should be issued to the Head of the Office inspected under the signature of A.O./A.A.O. Particular care should be taken to see that only such points are included in the test audit note as can be set right by the Head of Office inspected without reference to higher authority. The objection in the test audit note shall not be pursued by the Headquarters but it is the duty of the next audit party to verify the compliance thereon and to incorporate the outstanding items in the current inspection report.

(p) Drafting should be done in accordance with the Style Guide issued by the CAG of India.

1.09 Discussion of the report

The draft inspection report should be prepared and discussed with the Head of Office under audit on the last day of inspection. In case where the Head of the Office/unit is not expected to be available on the last date of inspection, he should be requested to nominate any other officer under his control for discussion of audit report. In no case the inspection report should be withheld for discussion after conclusion of audit. The draft inspection report should be dispatched at the most within 3 days from the date of conclusion of audit irrespective of the fact whether the replies were received and discussions were held or not.

1.10 Documents required for submission to headquarter in case of Audit of Financial statements

On conclusion of audit of Financial Statements, the draft comments on the accounts under section 619(4) of the Companies' Act, 1956 or 143 6 (b) of the Companies' Act 2013 should be discussed with the Head of Office of audited entity. The following documents should be attached while forwarding the draft comments to the Commercial Audit Wing, Headquarters.

(i) Proforma for performance of Auditor duly filled in Annexure C

(ii) Office copy of letters issued to Management and Statutory Auditors requiring them to furnish further replies to draft comments within 10 days

(iii) Information required in C&AG of India circular dated 27. 2.1980 in Annexure D

1.11 Instructions regarding State Audit Reports (Commercial).

A number of circulars containing instructions regarding State Audit Reports (Commercial) have been issued by the Headquarters. A gist of such circulars is given below for ready reference and compliance in future.

Sl.No.	Letter/Circular No	Subject
(i)	No.509/CA-II/CS-II Gen-cir./39-2003 dated 30.05.2003	Pr. AG/AG are required to issue draft paragraphs/reviews to the Companies/Corporations and the Government and send them simultaneously to Headquarters' for vetting
(ii)	No.13-CA-II 2001-02/Misc/48-2002 dated 27.06.2003	All audit paras must contain (i) central idea or theme of the para, (ii) a specific observation on the system lapse or flaw in the decision due to which irregularity or loss occured and (iii) rectification measures to plug the flaws.
(iii)	No. 560/CA-II/398-99 dated 27.06.2003.	Every draft para/review submitted to Headquarters for Audit Report (Commercial) and covering letter forwarding the same should be signed by the concerned Pr.AG/AG. The Covering letter of which should be addressed to ADAI (C & SCS) highlighting important points in draft paras/reviews
(iv)	D.O.No.535/CAII/184-2001dated 30.06.2003	All the cases where replies have been received, Pr. AG/AG should devote personal attention to verification of facts for arriving at a conclusive view point.
(v)	No. 678-CA-II/48/99 / vol III dated 27.06. 2003.	Comprehensive guidelines for attempting the reviews need to be complied with for improving the quality of Audit Reports.
(vi)	No.686/CA-II/Co-ordination/ dated 27.06.03.	Revision of draft paragraphs/reviews appraisal may be carried out to the extent required on the basis of Headquarters queries at every stage and also in despatching of material/submission to Headquarters.
(vii)	No. 560/CA-II/398-99 dated 15.09.2003.	A separate para on "Internal Audit/ Internal Control" to be included in Audit Report (Commercial) 2002-03 and onwards in all comprehensive reviews on the working of the State PSU's. A para on "Internal Audit based on major comments/recommendations by Statutory Auditors in the supplementary reports under section 619(3) (a) of the Companies Act,1956 in respect of State PSUs may also be incorporated in Chapter-I (Introductory Chapter) below the para on Result of Audit of accounts of PSUs.
(viii)	No. 732-CA-II/398-99 dated 27.06.2003.	Para on "Reforms in Power Sector" to be included in the Chapter- I of State Audit Reports (Commercial)/Commercial Chapter of Civil Audit Reports only if such details lead to some meaningful audit comments or conclusion. Otherwise factual position may be mentioned in brief.
(ix)	No. 560/CA-II/398-99 dated 27.06.2003.	Directions issued by the DG (Audit) on Internal Control mechanism and adoption of Style Guide for Audit Reports are equally applicable to all State Audit Report (Commercial) 2002-03 and onwards.
(x)	No.783-CA-II / Coordn / MAE / 2000-03 / 55-2003 dated 8.10.2003.	Weighted aggregation of money value in respect of certification of accounts may also be sent alongwith approved comments in respect of each Govt. Company/Corporation and consolidated statement of weighted aggregation of money value of approved comments during the period from 1 October to 30 September each year may be sent alongwith bond copy of Audit Report.
(xi)	No. 804-CA-II/398-99 dated 23.10.2003.	Names of the officials personally responsible for any irregularity should not be disclosed in the Audit Report (Commercial)/Commercial Chapters.
(xii)	No. 818/CA-II/143-97 dated 05.11.2003.	All the draft paragraphs incorporating Management / Government's replies to initial draft paragraphs alongwith rebuttal may be re-issued second time to the concerned Department with a copy to the concerned State PSU and the concerned Department/State PSUs may be given 7-10 days time to respond. If no reply thereto is received within the prescribed time, the draft paragraph may be included in the Audit report as it is. If the replies of the State Government / Management are received, a summary of their replies may be included in the Audit Report.

(xiii)	No. 864/CA-II/398-99 dated 21.11.2003.	All draft reviews / paragraphs for Audit Report (Commercial)/Commercial Chapters may be marked invariably as confidential while sending them to Headquarters for approval or to the State Govt./State PSU for verification of facts or calling for comments. Adequate care may be taken at every stage

(Headquarters letter No. 904/CA-II/398-99 dated 10.12.2003)

ANNEXURE–A

Para 1.04 (h)

Model form of the Audit Note Book

The audit note book to be maintained by the officer in charge will contain the following:-

(i) The main objects of the Company (as laid down in the Memorandum of Association).

(ii) (a) The contracts, if any, entered into for the erection, installation and supervision of machinery, equipments, etc.

(b) Contracts for Technical consultations.

(c) Other contracts, if any.

In all these cases, the currency of the contract and other salient features may be indicated.

(iii) The method of valuation of finished stores work in progress, raw materials and stores.

(iv) The method for providing depreciation.

(v) The method for pricing stores.

(vi) The system of accounting for receipts.

(vii) The basis of fixing fines for ousted goods.

(viii) A list of books of accounts registers and other records maintained.

The various items of works which are to be done in any audit are listed below. Special items of work peculiar to any company/corporation may be added to this. The initials of the person, who did the work, may be taken in the specified column.

		1 Phase	II Phase	1 Phase	II Phase
1.	Cash book General Review.				
2.	Petty Cash book General Review.				
3.	Salaries and wages, fixation of Pay, Analysis of the wages for various jobs, verification of leave cases etc.				
4.	Purchase, local and foreign; Full examination of Major purchases.				
5.	Purchase Return book.				
6.	Sales book. (General Review).				
7.	Bills receivable and payable book.				
8.	Journals (General Review).				
9.	Creditors ledger, Examination of individual accounts, reconciliation of individual accounts, with control accounts.				
10.	Debtors ledger, Examination of overdue accounts provisions for bad debts, adjustments of advances periodical reconciliation with statement of accounts.				
11.	Nominal ledgers, Examination of the following items with special reference to the last years profits, Rents, Rates, Salaries, wages Insurance, Telephone, Printing and Stationary, Discount interest etc.				
12.	Stock valuation method.				
13.	Provision relating to depreciation Bad debts, Income Tax, and other taxes incurred, interest on loan.				
14.	Dividends.				
15.	Maintenance of stationary books.				
16.	Physical inventory.				
17.	Plant and Machinery Register.				
18.	Examination of construction expenses, estimates, invitation of tenders, Comparative Statements, terms of contracts, periodical measurement advance payments, extra items, comparison of rates, with similar contracts, penalty, guarantee clause, obligations of the company for execution of the contracts etc.				
19.	Examination of costing records, booking of direct materials labour, allocation of overheads, production prog, and fulfillment.				

20. Examination of documents relating to:
    - (i) Transport
    - (ii) Packing
    - (iii) Workshop etc.
21. Agenda and Minutes of Meeting of the Board of directors / committees.
22. Examination of General items.
    - (i) Sufficiency of depreciation.
    - (ii) Amount of reserve.
    - (iii) Sufficiency of working capital.
    - (iv) Ratio of equity and share capital.
    - (v) General state of books, records etc.
    - (vi) Ways and means position.
    - (vii) Stock and stores Control.
    - (viii) Capitalisation of expenses.
    - (ix) Preparation of Budgets.
    - (x) Any other matter.
23. All schedules pertaining to the balance sheet, P/Loss account of the Company should invariably be placed in the final accounts of the Company. In case where review of the accounts is not conducted, this may be done during Ist phase audit.
24. Reports submitted by Company Auditors vide instructions issued to them under 619 (3) of the Companies Act, 1956 & section 143 of new Companies Act, 2013 should be reviewed during the 1st phase audit or when available.

N.B. The inspecting Officer should personally examine these points.

ANNEXURE-B

(Referred to para 1.07)

Office of the Accountant General (Audit) Uttarakhand
Vaibhav Palace, Indira Nagar, Dehradun

Forwarding Memo

1. Name of the unit audited	
2. Period covered.	
3. Period of Audit conducted:	
4. Drafted A.I.R. Part I-A	From page
5. Drafted A.I.R. Part- II-A	From page
6. Drafted A.I.R. Part- II-B	From page
7. Drafted AIR Part-III	From page
8. Audit Memo	From page
9. Acknowledgement Sheet	From page
10. Diary of Work done	From page
11. Verification of old A.I.R.	From page
12. Distribution of work	From page
13. List of Service Book Checked	From page
14. Test month	From page
15. GPF records checked, if any	From page
16. Whether the audit was supervised	Yes/ No
17. Special points noticed, if any	
18. Details of month selected for Arithmetical Accuracy	
19. Details of month selected for Checking of receipts	

Asstt. Audit Officer

Audit Officer (Eco.)

ANNEXURE–C

Para 1.10

PROFORMA ON THE PERFORMANCE OF AUDITORS OF GOVERNMENT COMPANIES AND CORPORATION

(C&AG's Letter No. 64-CA-V/30-2003 dates 11.07.2011)

To be sent to the Comptroller and Auditor General's Office with the endorsement copy of Comments/Nil comments/Non review certificate on the accounts of the Company.

A	**Basic Data**			
(i)	Name of the Company/Corporation			
(ii)	Name of the Branch/Units of the Company/Corporation audited			
(iii)	Year of Account			
(iv)	Name of Statutory Auditors and Branch Auditors and the partner who certified the financial statement on behalf of the CA firm.			
(v)	Name of the partners, chartered Accountant Employees and other employees who actually audited the Company/Unit and the man days deployed/spent by the Partners/CA employees/other employees on the audit.			
	Name	Man days/hours spent in Audit	TA/DA paid/payable (Rs.)	Out of Pocket expenses paid/payable (Rs.)
	(a) Partners			
	(b) Chartered Accountant Employees			
	(c) Other employees			
(vi)	Audit fee and other remuneration paid/payable to the Auditors by the Company (please give separate entries for each Audit firm and each type of remuneration).			

Name of the Statutory Auditor/branch auditor	Audit fees mentioned in the annexure II attached with the appointment letter	Audit fees actually paid by the Company	Details of other remuneration/fee paid/payable to the auditor alongwith amount thereof for the year of account:	
			i) Tax Audit	Rs.
			ii) VAT Audit	Rs.
			iii) Half yearly Financial reviews/Quarterly Financial	Rs.
			vi) Reviews	
			v) Others (specifying the nature of services rendered)	Rs.

B	**Parameters for assessing the performance of auditor**		
		YES	**NO**
1.	Has the Auditor failed to report non-compliance of any Accounting Standards by the Company Management?		
2.	Has the Auditor failed to report on any assertions as specified in Sections 227(2) and (3) of the Companies Act, 1956?		
3.	Whether the Auditors failed to report on any matter specified in CARO 2003.		
4.	Whether the Auditor failed to report non compliance of any of the provisions of Part I and Part II of schedule VI of the Companies Act 1956 regarding preparation of Balance Sheet and Profit and Loss Account?		
5.	Whether the Auditor failed to report non-compliance of any of the requirements prescribed by any Regulatory authority *viz.* SEBI, IRDA, RBI, BPE, NHB and Administrative Ministry etc. regarding preparation of financial statements?		
6.	Whether the Auditor failed to state (whenever possible) the effect of individual qualification and total effect of all the qualifications on profit or loss or state of affairs?		
7.	Whether the Auditors failed to offer his comments on the provisional comments issued by the DG/PAG/AG/MAB office within time stipulated by the DG/PAG/AG/MAB.		
8.	Whether the Auditor failed to submit Report under section 619(3)(a) of the Companies Act 1956 with the Statutory Auditors report?		
9.	Whether the auditors delayed the audit and submission of Audit Report without proper justification?		

C **Assessment of performance of Statutory Auditors (s).**

(i) Failure by the auditor in any one of the above parameters should be interpreted as serious lapse. Accordingly, if the reply is in **affirmative in any one of the above,** the performance of the Statutory/Branch auditors **may be adjudged as unsatisfactory**.

(ii) If the performance is assessed as Unsatisfactory,

(a) A special memo is issued to Statutory Auditors spelling out the various failures/lapse on account of which their performance is proposed to be considered as unsatisfactory?

(b) The auditor should also be given an opportunity for personal hearing in case they desire to be heard in person?

(iii) The proforma assessing the performance of the auditors as unsatisfactory should invariably be sent along with the following documents/information:

1. A copy of the special memo issued to the auditors alongwith the date of issue.
2. A copy of the reply of the auditors to the special memo (**or** the fact of their failure to reply **within a reasonable time**) with the date of reply.
3. Whether a personal hearing was given and if so, name of the partner who has represented the firm.
4. Remarks of the DG/PAG/MAB/AG on the reply of the auditors in aide-memoir's form.
5. A detailed note in the form of speaking order of the DG/PAG/MAB/AG indicating the reasons and justification for considering the performance of the Statutory Auditors as adverse.

Signature of DG/PAG/AG/MAB

ANNEXURE–D

Para 1.10

Information required vide Comptroller and Auditor General of India letter No. 228-CA II / 113-78 dated 27.2.80 in respect of

....

(a) Date of approval of accounts by the Board of Directors.

(b) Date of certification by the Statutory Auditors

(c) Date of receipt of accounts

  (i) Provisional

  (ii) Approved

(d) Date of commencement and completion of Audit

(e) Date of issue of draft comments to

  (i) Management (ii) Auditors

(f) Date of receipt of replies from

  (i) Management

  (ii) Auditors

(g) Proposed date of Annual General Meeting.

Dy. Accountant General

CHAPTER II A

PROVISIONS RELATING TO ACCOUNTS AND AUDIT OF GOVERNMENT COMPANIES UNDER COMPANIES ACT, 1956

2.01 DEFINITION

A Government company means any company in which not less than 51% of the paid up share capital is held by the Central Government or State Governments wholly or jointly and includes a company which is a subsidiary of such a Government company (Section 617 of the Companies Act, 1956).

2.01.01 A list of holding and subsidiary companies on functional basis *i.e.* manufacturing, financing, trading, consultancy, community development, construction, agriculture, mining, tourism etc. is given in Annexure E.

2.01.02 Special procedure for appointment of Auditors and issue of directions to Auditors (Section 619), power to modify Act in relation to Government Companies (Section 620) and provisions for placing of the Annual Reports of Government Companies in Parliament / State Legislatures are the distinguishing features of Government companies under the Act. Section 620 of the Act empowers the Central Government to direct, by notification in the official gazette, that any of the provisions of the Act (other than Section 618, 619 and 619-A) specified in the notification shall not apply to any Government company; or shall apply to any Government company only with such exceptions as may be specified in the notifications. The provisions of the Act, as amended by notifications shall apply to Government companies.

2.01.03 MEMORANDUM AND ARTICLES OF ASSOCIATION

The Memorandum of Association is an important document defining the powers and objects of the company. The Articles of Association deal with provisions relating to the internal management of the company. On receipt of information regarding the incorporation of a State Government Company, the Economic Section-I should call for a copy of the Memorandum and Articles of Association of the Company. The scrutiny of the documents is mainly directed to see that sufficient powers have been reserved for the Governor in the Memorandum and Articles of Association in respect of matters specified below.

(i) the issue of mandatory directions and instructions to the Company.

(ii) appointment of Managing Director and other Directors and sanctioning of posts carrying pay exceeding a specified limit.

(iii) incurring of capital expenditure on schemes over a specified limit.

(iv) sale, lease or disposal or otherwise of the whole or substantially the whole of the undertaking of the company.

(v) formation of a subsidiary company.

After scrutiny, the documents are forwarded to the CAG with the remarks of the A.G. After obtaining the instructions of the CAG of India, the question of carrying out amendments if any, to the Memorandum of Association or Articles of Association may be taken up with the State Government.

(C & AG letter 2196 Admn III/278-60 dated 4.11.1960 and 2559-Admn III/532-60 dated 27.12.1960 and CAG letter NO. GA IV/tech 8/82 No. 494 CA IV 83-81 dt. 25.6.82.)

2.01.04 BOOKS OF ACCOUNT AND STATUTORY BOOKS

Section 209 of the Act requires every company to keep at its registered office or at such other place in India as the Board of Directors may decide, proper books of account with respect to:

(a) all sums of money received and expended by it and the matters in respect of which the receipt and expenditure take place.

(b) all sales and purchases of goods by the Company.

(c) the assets and liabilities of the Company and

(d) such particulars relating to utilisation of material or labour or to other items of cost as may be prescribed by the Central Government in the case of Company pertaining to any class of companies engaged in production processing, manufacturing or mining activities.

According to Section 209(3), a company shall not be deemed to have kept proper books of account unless it has kept such books as are necessary to give a true and fair view of the state of affairs of the company and to explain its transactions.

Section 209(3) should be read along with the provisions of Section 541(2) dealing with the liability in case of winding up of a company. Section 541(2) provides that it shall be deemed that proper books of account have not been kept in the case of any company unless it has maintained;

(a) such books of accounts as are necessary to exhibit and explain the transactions and financial position of the business of the company, including books containing entries made from day to day in sufficient detail of all cash received and all cash paid; and

(b) where the business of the company involved dealings in goods, statements of the annual stock takings and (except in the case of goods sold by way of ordinary retail trade) of all goods sold and purchased, showing the goods and the buyers and sellers thereof in sufficient detail to enable those goods and those buyers and sellers to be identified.

It is also to be noted that where a company has a branch office, whether in or outside India, books of account relating to the transactions at the branch may be kept at the branch, but proper summarized returns must be sent by the branch of the company at its registered office at intervals of not more than three months (Section 209(2)).

The Act also requires that the books of account and the relevant vouchers must be preserved for a minimum of eight years in good order [Section 209 (4A)].

Statutory Books

In addition to the books of account mentioned earlier, the Companies Act specifically requires certain other books to be kept by a Company for maintaining a record of its different activities in order to safeguard the interests of the shareholders. These books are known as Statutory Books.

According to the Act, the following books must be maintained by a Company:

(1) Register of investments made by the Company but not held by it in its own name Section 49(7).

(2) Register of Charges under Section 143(1).

(3) Register of Members. Section 150(1).

(4) Index of Members where the number is more than fifty unless the Register of members itself affords an index. Section 151(1).

(5) Register of Debenture-holders. Section 152(1).

(6) Index of Debenture-holders where the number is more than fifty unless the Register of Debenture-holders itself affords an index. Section 152(2).

(7) Register of Foreign Members and Debenture-holders and its duplicate. Section 157(1) and 158(4).

(8) Books for recording minutes of proceedings of general meetings and of Board meetings. Section 193(1).

(9) Register of Contracts, Companies and firms in which Directors are interested directly or indirectly. Section 301(5).

(10) Register of Directors, Managing Director, Manager and Secretary. Section 303(1).

(11) Register of Director's Shareholdings. Section 307(1).

(12) Register of loans, guarantees, etc. to companies under the same management. Section 370(1C).

(13) Register of investments in shares and debentures of other companies under. Section 372(5).

2.01.05 SCOPE OF AUDIT

The audit of a Government company is conducted by the Indian Audit and Accounts Department under Section 619(3) (b) and 619(4) of the Act.

Section 619(3) (b) of the Act refers to the supplementary or test audit of the Company's accounts conducted by or on behalf of the CAG. This is efficiency cum propriety audit. The results of audit are communicated to the Company/State Government and important matters are brought to the notice of the State Legislature through Audit Report (Commercial). Section 619(4) confers an independent right on the CAG to comment upon or supplement the Company Auditor's report and this right is not conditional.

Major irregularities having substantial financial significance arising out of the supplementary test audit conducted under Section 619(3) (b) of the Act may be included in the comments to be offered on the report of the Company Auditors under Section 619(4) provided such :

(i) objections are not of a tentative or unfinalised character and/or.

(ii) they do not pertain to matters of special interest to the shareholders, as distinct from tax payers of the country represented by Legislature / Parliament.

(CAG's circular letter No. 370-Rep / 222 59-PT-II dated 3rd November, 1959).

The comments (under Section 619(4) of the Act) should have a direct bearing on the accounts or any lacuna in the Company Auditor's Report which needs to be commented upon or supplemented in terms of Section 619(4).

(Letter No. 36-CA II/190 69 dated 17.1.1963 from CAG).

The observations under Section 619(3) (b) of the Act unlike the comments under Section 619(4) are not to be placed before the Annual General Meeting of the Company.

2.01.06 APPOINTMENT OF AUDITORS

The Auditor of a Government company shall be appointed or reappointed by the Central Government on the advice of the CAG. The Auditor is required to submit a copy of the Audit Report to the CAG who has the right to comment upon or supplement the report in such a manner as he may deem fit under Section 619(4) of the Act.

In case of appointment of Auditors of a Government company for the first time, the company is to take up the matter with the Government of India (Company Law Board) who would appoint the Auditor in consultation with CAG. In order to enable the CAG to render his advice to the Government of India (Company Law Board), it would be necessary for the AG to initiate necessary action in respect of appointment of Auditors for the second and subsequent accounting years by a proper evaluation of the performance of the auditors appointed previously. Such an evaluation is made for the purpose of determining whether the auditors should be given further audits either by way of re-appointment or by allotment of fresh audit. Results of evaluation may indicate any one of the following:-

I. Where there are no corrections to the accounts and no comments on the accounts, the auditor's performance may be considered to be satisfactory.

II. Where there are either corrections or comments, or both, such cases would fall in either of the following categories:

(a) The corrections / comments are not of such a serious nature that the auditor's performance can still be considered satisfactory or adequate.

(b) Where the corrections / comments are of a serious nature, the auditor's performance would be deemed to be unsatisfactory. Depending on the seriousness of the 'failure', a view would have to be taken as to whether –

(1) They should merely be cautioned for future but not denied appointments.

(2) Reappointment of the auditors of the company in question may be withheld but other existing audits may be renewed in the normal course.

(3) The auditors being considered for smaller companies.

(4) Withholding of all audits for a period of time.

This being a matter of considerable importance, the evaluation of the performance of the Auditors should receive the personal attention/approval of the A.G.

The evaluation of the performance of Auditors should be communicated to the CAG in the prescribed Proforma in Annexure C alongwith the Draft comments under section 619 (4) of the Act forwarded for approval. Where accounts are in arrears, the information on the performance of auditors in the prescribed proforma should be sent immediately on receipt of certified accounts.

The following details should be forwarded to the CAG in connection with the evaluation of the performance of the Auditors:

1. Information in the prescribed proforma.
2. Replies of the Management and Auditors in respect of draft comments proposed.
3. Where the performance of the Auditors is considered unsatisfactory, the proforma should be accompanied by a self contained note on the important errors of commission and omission taking into account the explanation or clarifications given by the Auditors.
4. A statement of corrections made in the accounts and the Auditors observations in regard to each of these items should also be sent in cases where there are no comments but the accounts were revised based on the observations of audit.

(Letter No. 157-CA V/33-74 dated 5.1.1979 and No. 1. CA V/33-74 dated 5.2.1980-CA IV / Tech 14-81 and No. 642 CA V /14-81 dated 30.6.1981)

2.01.07 POWER TO ISSUE DIRECTIVES

CAG is empowered under Section 619 (3) (a) of the Act, to direct the manner in which the accounts shall be audited and to give such audit instructions in regard to any matter relating to the performance of his functions as such. CAG has decided that such directions should be issued to the Statutory Auditors and Branch Auditors of Government companies [having a paid up **capital of Rs. 1 crore and above**. Whenever a State Government company has a paid up **capital of Rs. 1 crore and above, CAG may be approached for the issue** of necessary directions].

The answers to the various matters specified in the directions should be prepared in the form of a report by the Statutory Auditors as well as by the Branch Auditors.

The Branch Auditors should prepare the report within a period of two weeks from the date of signing of their report and send the same to:

(a) The Statutory Auditors consolidating the accounts of the company.

(b) Office of the Accountant General (Audit), Uttarakhand, C-1/105 Vaibhav Palace, Indira Nagar, Dehradun–248006.

The Statutory Auditors should prepare a consolidated report under the directions, taking into account the report of the branch auditors, wherever applicable, and send the same alongwith their report under Section 227 of the Companies Act, 1956 to:

(i) Additional Deputy Comptroller and Auditor General (NR) 9- Deendayal Upadhayay Marg, New Delhi

(ii) Office of the Accountant General (Audit), Uttarakhand, C-1/105 Vaibhav Palace, Indira Nagar, Dehradun–248006

(iii) The Board of Directors of the Company.

Where there are more than one Statutory Auditor, the Report under Section 619 (3) (a) of the Companies Act, 1956 will be prepared jointly by the Statutory Auditors and signed by all of them.

The report submitted by the Statutory Auditors as per directions under section 619(3) (a) of the Act is in addition to the report furnished by him under section 227 of the Act. The matters referred to by the Statutory Auditors in their special report may be taken up with the Management / State Government, if found necessary.

A summary of the remarks of the Auditors relating to deficiencies in accounting, internal control etc. may be incorporated in Audit Report (Commercial).

2.01.08 BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

At every Annual General Meeting of the company held in pursuance of Section 166, the Board of Directors of the Company shall lay before the Company, a Balance Sheet as at end of the period specified in sub section (3) of the Section 210 of the Companies Act, and a profit and loss account for the period. (Section 210 of the Companies Act).

The Balance Sheet of the Company can also be drawn out in the vertical form specified in the notification issued by Government of India on 23rd December 1978 in exercise of powers conferred under Section (1) of Section 641 of the Act.

A company should file three copies of Balance Sheet and Profit and Loss Account within thirty days of the date of the holding of the Annual General meeting (the date being determined in accordance with Section 166 of the Act). irrespective of the fact whether the Annual General Meeting has been held or not held on the said date or audited accounts have been laid or not before the annual general meeting. (Section 220 of the Act).

Part I of the schedule VI of the Companies Act provides the form in which the balance sheet should be drawn out and the details that are required to be disclosed under various categories of assets and liabilities. Notes to Part I of Schedule VI contain general instructions for preparation of balance sheet. The information required to be given under any of the items of the balance sheet may be given in separate schedules to be annexed to and forming part of the balance sheet.

Part II of Schedule VI to the Act lays down the requirements of disclosure in the Profit and Loss Account. No particular form to draw up the profit and loss account has been suggested in the Act. However, detailed instructions have been laid down about the information to be disclosed with regard to the various items in the profit and loss account. A considerable amount of quantitative and other information is to be disclosed in the profit and loss account.

The law does not postulate the grant of any exemption from laying the profit and loss account in any eventuality. Therefore, a company cannot escape the responsibility of laying the profit and loss account on the plea that expenditure incurred was during construction and that the company had not commenced business. It is mandatory for every company to prepare a profit and loss account from the date of its incorporation as per Sub-Section 3 of Section 210 of the Act. The intention is that every company should render to its shareholders and Government, accounts of its revenue expenditure and income even though they may have been incurred or received during the period of construction. There will be no objection if such account is called development account or incidental expenditure during construction period or by any other suitable name and such accounts would be deemed to be profit and loss account, within the meaning of Section 210(3) of the Act and there would be adequate compliance of statutory requirements. There is no objection to the company transferring the entire expenditure during construction to an account “expenditure during construction account” which could be shown on the asset side of the balance sheet to be adjusted in future years as and when the company earns profit.

Such profit and loss account should be an “account” by itself and not a schedule to the balance sheet.

A comment under section 619(4) of the Companies Act should be made where either no profit and loss account has been prepared by a company or profit and loss account is shown as schedule to the balance sheet.

(Letter No. 81-CA IV / 15-79, No. CA IV / Tech. 1-81 dated 29.1.1981 from CAG).

2.01.09 STATUTORY AUDITORS’ REPORT TO MEMBERS

Section 227(3) of the Act prescribed the matters on which the Company Auditor has to report. Accordingly company auditor has to give certain facts and comments in his audit report. While making his report the auditor should also consider various matters required to be enquired into under Section 227(I-A) of the Act.

Under Section 227(4A), of the Act, the Central Government has issued the ‘Manufacturing and other Companies (Auditor’s Report) Order, 1975. These orders require the Auditor to report on specified matters.

2.01.10 THE CONCEPT OF TRUE AND FAIR VIEW

The primary duty of the Auditor is to determine whether the balance sheet shows a true and fair view of the state of company’s affairs as at the end of the financial year and whether the profit and loss account shows a true and fair view of the working results of the company for the year. What constitutes a true and fair view is thus a matter of judgement in the particular circumstances of a case.

The following guidelines are generally followed in judging whether the balance sheet shows the true and fair view of the company's affairs:

(i) Balance Sheet and Profit and Loss Account should be drawn in conformity with the requirements of the Act.

(ii) The main objective of Schedule VI to the Act is that financial statements should disclose all material items so as to give a true and fair view of the actual state of affairs. Whatever is 'important' or 'essential' in a given auditing situation would automatically be material. The decision regarding the materiality of an item has to be based on the circumstances of each particular case.

There should be neither an overstatement nor an understatement of the financial position and working results shown in the balance sheet and profit and loss account respectively. There should be no window-dressing or an attempt to show a better picture than what it is in reality. Similarly there should be no secret reserves in normal circumstances.

(iii) All material facts regarding expenses, revenues, assets and liabilities of the company should be disclosed and there should be no misstatements. The assets and liabilities should be valued properly on the principle of 'anticipate no profits and provide for all losses'.

(iv) All unusual, exceptional and non-recurring items should be disclosed separately.

(v) The generally accepted principles of accounting and applicable accounting standards should be consistently applied in bringing out the balance sheet and profit and loss account. The fact of any change in the principles of accounting should be suitably disclosed.

(vi) The Auditor should see the situation as it exists at the end of the accounting period.

(vii) If certain subsequent events before the signing of the audit report enable a better assessment of the position as at the date of the balance sheet such events should be taken into account. The annual accounts should take cognizance of events occurring after the balance sheet date only if such events:

(a) assist in formulating an opinion regarding the amounts properly attributable to the conditions existing on the balance sheet date to any item, the amount of which was uncertain on that date or

(b) arise from legislation affecting items in the accounts.

The true and fair view is with reference to the position that prevails on the last day of the accounting period.

(viii) The financial statements should convey the required information clearly.

The failure of the Statutory Auditor to bring out deficiencies in accounting which result in the Balance sheet and Profit and Loss Account not rendering a true and fair view should automatically be considered for a comment under Section 619(4) of the Companies Act.

2.01.11 PROCEDURE FOR ISSUE OF COMMENTS UNDER SECTION 619(4) OF THE COMPANIES ACT

The draft comments under section 619(4) of the Companies Act may be issued by the Inspecting Officer simultaneously to the Statutory Auditors / Branch Auditors, and to the Management with instructions to furnish their remarks / replies within **ten days** of the date of issue. On receipt of the remarks / replies of Statutory Auditors and Management, the full particulars of the finally proposed comments as issued to the Management, reply thereto as also remarks of the auditors thereon and further observations of the AG on the replies / remarks of the Statutory Auditors and management should be sent to the CAG. On receipt of approval of the CAG, final comments / Nil comment are issued under Section 619(4) of the Act. AG can himself finalise the comments under Section 619(4) of the Companies Act and issue them where the accounts are in arrears for more than five years. The draft comments need not be sent to Headquarters office for approval. However, copies of comments issued may be endorsed to Headquarters office for information. (DO No. 58/CA.II/Co-ordn./Selection of reviews/ 03-04/108-2003 Dated 14-01-2004)

2.01.11.01 Criteria for Selection of State Public Sector Undertakings (SPSUs) for audit of accounts U/S 609 (4) of Companies Act, 1956

The existing criteria for selection of SPSUs for audit of their accounts for supplementary audit u/s 619(4) of the Companies Act, 1956 have been revised as under:

1. In the case of Companies with Paid up Capital of Rs. 25 crore or more, supplementary audit will be conducted every year.
2. In the case of Companies with Paid up Capital of Rs. 10 crore or more but less than Rs. 25 crore, supplementary audit will be conducted once in three years.
3. In the case of Companies with Paid up Capital of less than Rs. 10 crore, supplementary audit will be conducted once in five years.

4. Notwithstanding the above criteria based on the Paid up Capital of Companies, in case a PAG/AG, based on the assessment of risks, wishes to conduct the supplementary audit of Companies falling under the category of (2) and (3) above for more than one year, they may do so without any restrictions.
5. While issuing a non review certificate in the case of Companies falling under the category (2) and (3) above, the PAG/AG must ensure that minimum checks such as arithmetical accuracy, general compliance in drawing the financial statements, compliance with earlier year observations and correctly carry forwarding the previous figures are done. The report section of the commercial wing may carry out the general checking of the accounts before PAG/AG signs the non review certificate.

In the case of a company not selected for the review for the year under Section 619(4) of the Companies Act, a non-review certificate may be issued to the Company on receipt of certified accounts in prescribed form (Annexure I (3)).

In case, AG has no comments to offer under section 619(4) of the Companies Act, a Nil Comment Certificate as per prescribed Proforma Annexure I (2) may be issued to the company by the AG without reference to CAG.

The following information may be supplied at the time of forwarding draft comments both in the case of original and revised accounts and including the cases where nil comments are issued:

(a) Date of approval of accounts by Board of Directors.

(b) Date of certification by the Statutory Auditors.

(c) Date of receipt of accounts.
- (i) Provisional.
- (ii) Approved.

(d) Date of commencement and completion of audit.

(e) Date of issue of draft comments to
- (i) Management
- (ii) Auditors.

(f) Date of receipt of replies from
- (i) Management
- (ii) Auditors.

(g) Proposed date of annual general meeting.

(Letter No. 228-CA II/11-78 dated 27.2.1980 from the Comptroller and Auditor General).

2.01.11.02 GUIDANCE FOR EXERCISING JUDGEMENT IN DETERMINING THE SIGNIFICANCE / MATERIALITY FOR C & AG'S COMMENTS:

The materiality depends on the size and nature of an item, judged in the particular circumstances of its misstatement and determining the significance / materiality of the comment is wholly the matter of the auditor's own professional judgment. In this regard, instructions /guidance issued by Central Commercial Wing are reproduced below:

The guidance has been divided in two parts –

CAG's comments on Financial Statements and, CAG's comments on Statutory Auditor's report.

CAG's comments on Financial Statements:

1. **Compliance with legal and regulatory requirements:** If the legal or regulatory requirements applicable to the preparation and presentation of the financial statements have not been followed or complied with, the fact should, with reasons, if any, be commented upon. Such legal / regulatory requirements are prescribed as under:
   - (a) Requirements regarding form and contents of the financial statements as prescribed under the regulating Act like Section 211 of the Companies Act 1956 read with Schedule VI and Section 11 (1) (a) of the Insurance Act, 1938 read with Schedule B to IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulation, 2000.
   - (b) Compliance with prescribed Accounting Standards, as applicable.
2. **Disclosure of Accounting Policy:** Inadequate or improper disclosure of an accounting policy when it is likely that a user of the financial statements would be misled by the description should be commented upon.
3. **Impact of comment:** If the impact of an audit comment or the aggregate impact of a number of comments –
   - (a) converts profits into loss or vice versa in a financial statement ;
   - (b) reverses a trend in the accounts generally or in a particular figure;
   - (c) increases losses above the limits for disclosure;

(d) increases the amount in an expenditure head above the threshold that requires an explanation in the account; and

(e) creates or eliminates the margin of solvency in a balance sheet (post balance sheet events should also be considered).

4. Repeated comments: In case certain comments are being repeated in the Statutory Auditor's Report or are not being proposed for issue as CAG's comments due to low materiality (value) or on which Management has offered an assurance but the same has not been complied with, such comments may be proposed after a cycle of two years.

5. Money value of the comments:

(a) Individual comments

(i) Individual observations on Profit / Loss Account involving money value equal to or exceeding 2 per cent of the net profit / loss ; and

(ii) Individual observations on Balance Sheet involving money value equal to or exceeding 2 per cent of the value of net assets / liability (line item)[1] to which it pertains should be considered material / significant.

(b) Aggregated Comments

(i) All quantified observations on the Profit / Loss Account should be aggregated, irrespective of individual values. If the value exceeds 3 per cent of the net profit / loss, all observations together should be considered material / significant.

(ii) All quantified observations on a particular asset / Liability head should be aggregated, irrespective of individual values. If the value equals or exceeds 3 per cent of the net value of asset / liability, all observations should be considered material / significant. The base figure should be the line items in the balance sheet referred to in Footnote[1].

CAG's comments on Statutory Auditor's report:

Liabilities, Current Liabilities and Provision

6. Comments on Statutory Auditor's Report should be taken in the following cases:

(a) Non-compliance with Auditing and Assurance Standards of ICAI.

(b) Non-compliance with reporting requirements of Companies Act, 1956 including any notifications prescribing reporting requirements under the Companies Act.

(c) Wrong quantification involving significant variations.

(d) Non-quantification of major qualifications where it can be demonstrated as quantifiable in supplementary audit and meets the criteria of materiality / significance by value as listed above.

7. The 'true and fair' opinion is given by the Statutory Auditors. The opinion of the Statutory Auditors may be viewed in the context of the comments in totality in the following cases:

(a) If as an impact of the observations, profit is converted into loss and vice-versa, irrespective of the monetary value.

(b) If the aggregate value of the CAG's observations and the value of the Statutory Auditors quantified qualifications on Profit and Loss account equals or exceeds 20 per cent of the net profit / loss, the Statutory Auditors opinion should be reviewed to consider the sustainability of a 'true and fair' view, if such a view has been expressed by the Statutory Auditor.

(c) If the aggregate value of the CAG's observations and the quantified value of the Statutory Auditors qualifications on the Balance Sheet equals or exceeds 10 per cent of the total assets / liabilities, the Statutory Auditors opinion should be reviewed to consider the sustainability of a 'true and fair' view, if such a view has been expressed by the Statutory Auditor.

It is reiterated that the monetary values and percentages mentioned in these guidelines should not be viewed in isolation of the particular circumstances of the financial statements / Statutory Auditor's Report.

-Sd-

Director General (Commercial)

(C&AG's Letter No. CA-IV /05-2006 dt.20.06.2007.)

---

[1] **Assets-** Fixed Assets, CWIP, Investment, Current Assets, Loan and Advances, Deferred Tax Assets and Deferred Revenue.

Liabilities- Share Capital, Reserves and Surplus. Secured Loans, Unsecured Loans, Deferred Tax.

2.01.12 FORM FOR COMMUNICATION OF COMMENTS UNDER SECTION 619(4) OF THE COMPANIES ACT

(i) Format for issue of Comments'.

(ii) Format for issue of 'Nil Comments'.

(iii) Format for issue of 'Non-Review Certificate'.

(iv) Format for issue of 'Nil Comments after Revision of Accounts'.

(v) Format for issue of 'Comments after Revision of Accounts'.

(vi) Compliance Certificate.

(vii) Title sheet for Comments on Accounts.

(viii) Check list to ensure compliance of Auditing Standard- 1 to 29 are given in Annexure I (8).

(C & AG Letter No. 289 / CA-II / Gen / Circular / 2006-07 / 82-2005 dated 30.3.2007)

2.01.12.01 Audit Certificate in case of Separate Audit Report (SAR) with Nil Comments on the accounts of Statutory corporations / Regulatory Authority.

We have audited the attached Balance Sheet of .... (Please indicate the name of the Corporation / Board) as at 31st March .... (year) and the Profit and Loss Account / Receipt and Payment Account / Income and Expenditure Account (strike out which is not applicable) for the year ended on that date annexed thereto under Section .... (Please indicate the Section and name of the relevant Act). These financial statements include the accounts of .... units/branches (strike out if not applicable). These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with applicable rules and the auditing standards generally accepted in India. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by managements, as well as evaluating the overall presentation of financial statements. We believe that our audit provides a reasonable basis for our opinion.

Based on our audit, we report that:

(i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

(ii) The Balance Sheet and Profit and Loss Account / Receipt and Payment Account / Income and Expenditure Account (Strike out which is not applicable) dealt with in this report have been drawn up in the format approved by the Government of .... under Section .... (Please indicate the respective Govt. and the section of the applicable Act).

(iii) We report that the Balance Sheet and the Manufacturing Account / Profit and Loss Account / Receipt and Payment Account / Income and expenditure Account (Strike out which is not applicable) dealt with by this report are in agreement with the books of accounts. However, the audit observations on the financial transactions with regard to compliance with the law, rules and regulations (propriety and regularity) and efficiency-cum-performance aspects, etc, if any, are issued separately through Inspection Reports/CAG's Audit Reports.

(iv) In our opinion and to the best of our information and according to the explanations given to us, the said Balance Sheet and Profit & Loss Account / Receipt & Payment Account / Income & Expenditure Account (strike out which is not applicable) read together with the Accounting Policies and Notes thereon give a true and fair view.

 (a) In so far as it relates to the Balance Sheet of the state of affairs of the Corporation / Board as at 31st March .... (year) ; and

 (b) In so far as it relates to the Profit and Loss Account / Receipt and Payment Account / Income and Expenditure Account (Strike out which is not applicable) of the profit / loss / surplus / deficit for the year ended on that date.

(C&AG Letter No. Certificate / 04-05 / 8-205 / KW dated 13.6.2006)

2.01.13 REVISION OF CERTIFIED ACCOUNTS

When the certified accounts are amended they are reapproved by the Board of the Company and are again certified by the Statutory Auditors. The amended accounts usually contain disclosure of the fact of having revised the accounts and in the absence of such a disclosure the Statutory Auditor's report makes a reference to the revision of the accounts.

Where the revision of accounts substantially affects the working results or brings out important points of significance having a bearing on the accounts, the fact of revision of accounts together with its impact on the accounts, if substantial, should be disclosed in the financial notes or in the auditor's report. Audit should not be satisfied with a mere mention of the fact that the accounts have been revised in the financial note or in the Statutory Auditors Report. In the event of the failure of the Company / Auditor to make a proper disclosure, it would be desirable to make a succinct comment to bring out the effect of the revision made in the accounts.

In case of any doubt as to whether the impact of the revision was substantial or not, the matter may be referred to the CAG before issue of comments under section 619(4) of the Companies Act. (CAG.letter No. 393-C-IV/89-79 and No. Ca. IV / Tech / 5-82 dated 1.5.82).

2.01.13.01 Revision of accounts by the Government Companies in the light of draft comments raised in local audit.

A 'nil' comment certificate could be issued in case the fact of the revision of accounts had been disclosed by the company in the light of the draft comments raised in local audit either in the financial notes or in the auditors' Report. It was, however, indicated that where the effect of the revision on the accounts was of a minor nature and a disclosure about the revision was not made either in accounts of the company or in the Auditors' Report, there was no need to raise a comment, under Section 619(4) of the Companies Act, 1956.

The format of 'nil' comment certificate which is not to be issued in cases where accounts are revised, does not bring in fact of revision of accounts as a result of our observation. To a lay reader, it would appear that the CAG had no comments at stage. In order to bring in the fact of revision of accounts in light of the observations made in local audit, it has been deemed that the comments of the C.A.G. under Section 619(4) of the Companies Act, 1956 may be issued in the following formats :-

(i) Where management decides to revise the accounts in the light of draft comments and the fact of the revision is mentioned either in the financial notes or in the Auditors' Reports, the comments of the C.A.G. may be issued as follows :-

"In view of the revisions made in the accounts as a result of the observations made by the Comptroller and Auditor General of India as indicated in para No……….of the Auditors' Report to the shareholders or Note No. ……… of notes forming part of Accounts. There are no further comments to offer upon or supplement to the Auditors' Report under Section 619(4) of the Companies Act, 1956 on the accounts of the Company .... (Name of the Company) for the year ended ....

(ii) Where management decides to revise the accounts in the light of some of the draft comments only and does not revise the accounts in respect of the remaining observations, the comments on accounts may be issued as follows :-

"The accounts of the company have been revised as a result of the observations made by the Comptroller and Auditor General of India as indicated in para .... of the Auditors' Report to the shareholders or Note No. .... of Notes forming part of accounts. The following further comments are made upon or supplement to the auditors' report under Section 619(4) of the Companies Act, 1956 on the accounts of the company (name of the company) for the year ended....................

(iii) Where company revises the accounts but the fact of revision is not mentioned either in the Financial Notes or in the Auditors' Report, the comments of the C.A.G. may be issued as follows :-

"The Balance sheet and Profit and Loss Account adopted by the Board of Directors and certified by the Auditors on ....were revised in the light of the audit observations of the CAG of India under Section 619(4) of the Companies Act, 1956 resulting in a net increase / decrease of Rs. .... in profit / Loss for the year ended .... and increase / decrease in assets and liabilities in the Balance sheet as at .... There are no further comment upon or supplement to the Auditors' Report under Section 619(4) of the Companies Act, 1956 on the accounts of the company (name of the company) for the year ended ....

(iv) In cases of revision in the accounts where the effect of the revision in the accounts is of minor nature and a disclosure about the revision is not made either in accounts of the company or in Auditor's report there is no need to take a comment under Section 619(4) of the companies Act, 1956.

(C&AG's Letter No. 58-CA IV / 89-79 dt. 4.2.88)

Guidance Note on Auditor's Report on Revised Accounts of Companies before Circulation to Shareholders* –

1. The attention of the Council has been drawn to the fact that in some cases, the Balance Sheet and the Profit and Loss Account of companies, approved by the Board of Directors and authenticated on its behalf in terms of Section 215 of the Companies Act and audited and reported upon by the Statutory Auditors are amended by the Companies for various reasons, before circulation to the shareholders. In such cases, the amended accounts are re-approved by the Boards of the Companies and statutory auditors are requested to make a report once again on the amended accounts.

2. The questions which arises for consideration is the manner in which the Statutory Auditor should report upon such amended accounts. The Statutory Auditor owes a duty to the members of the company and this duty is completed when he addresses a report to the members. It is for the company to circulate the report to the members. The Companies Act does not normally contemplate the revision of the accounts and a further report by the Statutory Auditor on the amended accounts. <u>At the same time, it is entirely within the competence of a Board of Directors to amend the accounts and resubmit them to the Statutory Auditors for report before the accounts</u>

are placed before the annual general meeting. The report issued by the statutory auditor on such amended accounts will be in substitution of the report issued on the accounts before amendment and unless all copies of the original accounts and reports are returned to the auditor, such substitution is not possible.

3. Having considered the issue involved and to safeguard the position of the Statutory Auditor, the Council recommends that members of the Institute, when called upon to issue a report on the amended accounts for the same period consequent upon the revision of the Balance sheet and / or the Profit and Loss Account should ensure that all copies of the original accounts and report are returned to the auditor, and adequate disclosure of the fact of the revision on the account already approved by the Board and reported upon by the Statutory Auditors appears as a specific Note on the amended accounts. In case the statutory auditor is satisfied that the disclosure so made by the company in the Note on the accounts is adequate, there may not be any further need for the auditor to refer to the revision of the Balance Sheet and / or the Profit and Loss Account in his report. However, if the Notes to accounts do not contain any note on the revision or if such a note is contained therein but not considered by the Statutory Auditor as adequately comprehensive, it will be the duty of the Statutory Auditor to refer to the fact of revision of the accounts in his report.

4. In the opinion of the Council, the general principles enunciated above are as well applicable to the audit of the accounts of Government Companies as defined in Section 617 of the Companies Act. In respect of such Companies, since it may not be possible for all copies of the original accounts and report to be returned to the auditors, it would be necessary to ensure that adequate disclosure is made as discussed above either by way of a note in the accounts or by a reference in auditor's report.

2.01.13.02 Revision of Audit Certificate in case of certification of accounts of Statutory Corporations where CAG is the sole auditor.

Audit Certificate

We have audited the attached Balance Sheet of ....(Please indicate the name of the Corporation / Board) as at 31st March .... (year) and the Profit and Loss Account / Receipt and Payment Account / Income and Expenditure Account (Strike out which is not applicable) for the year ended on that date annexed thereto under Section .... (Please indicate the Section and name of the relevant Act). These financial statements include the accounts of .... units / branches (strike out if not applicable). These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with applicable rules and the auditing standards generally accepted in India. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of financial statements. We believe that our audit provides a reasonable basis for our opinion.

Based on our audit, we report that :

(i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

(ii) The Balance Sheet and Profit and Loss Account / Receipt and Payment Account / Income and Expenditure Account (Strike out which is not applicable) dealt with in this report have been drawn up / not drawn up in the format approved by the Government of .... under Section .... (Please indicate the respective Govt. and the section of the applicable Act).

(iii) Subject to our major observations given below and detailed observations in the Separate Audit Report annexed herewith, we report that the Balance Sheet and the Manufacturing Account / Profit and Loss Account / Receipt and Payment Account / Income and Expenditure Account. (Strike out which is not applicable) dealt with by this report are in agreement with the books of accounts.

1. ....

2. ....

(iv) In our opinion and to the best of our information and according to the explanations given to us, the said Balance Sheet and Profit & Loss Account / Receipt & Payment Account / Income & Expenditure Account (Strike out which is not applicable) read together with the Accounting Policies and Notes thereon, and subject / due to the significant matters stated above and other matters mentioned in the Separate Audit Report annexed herewith, give / do not give (Strike out which is not applicable) a true and fair view.

(a) In so far as it relates to the Balance Sheet of the state of affairs of the Corporation / Board as at 31st March .... (year) ; and

(b) In so far as it relates to the Profit and Loss Account / Receipt and Payment Account / Income and Expenditure Account (Strike out which is not applicable) of the profit / loss / surplus / deficit for the year ended on that date.

2.01.14 AUDIT OF PROFORMA ACCOUNTS OF DEPARTMENTAL UNDERTAKING- STANDARAIZATION OF THE FORMAT OF AUDIT CERTIFICATE. (Given in Annexure- F)

2.01.15 REOPENING OF ACCOUNTS ADOPTED BY COMPANIES

Normally companies which had already adopted their Balance Sheet in their Annual General Meeting in terms of Section 210 of the Companies Act, should not be allowed to amend the same at a subsequent date. However, there should be no objection to such a recourse where there are special circumstance to reopen the accounts like wrong calculations and the resultant inaccurate provisions of Development Rebate Reserves which if not rectified would result in loss to the concerned companies. It should however, be ensured that such amendments in the accounts should be adopted by the companies only in the Annual general Meeting held pursuant to the provisions of Section 210 read with Section 166 of the Act and not in the Extra-ordinary General meetings. The amendments to adopted accounts by a company may be reported to CAG and not to the Company Law Board.

(Letter No. 8/33/75 CLB dated 23.9.1975 communicated in CAG's Letter CAIV/Tech-4/79 No. 500-CA IV/39-75 dated 19.6.1979).

2.01.16 AUDIT UNDER SECTION 619(4) OF THE ACT, - INSTRUCTIONS

The members of commercial audit parties shall have a clear idea of the responsibilities and powers of the Statutory Auditors as well as principles governing their audit and the details of their techniques. They are described in standard books on the subject which should be studied. It would not be necessary for Government audit to do the routine checks carried out by the Statutory Auditors in respect of receipts and payments to ensure that no money has been misused or embezzled.

(A) General Instructions on Accounting

The following instructions / clarifications may be kept in view while conducting the audit of Government companies under section 619(4) of the Act.

1. *Maintenance of Accounts on Cash Basis*

   Maintenance of accounts on cash basis is against the mandatory provisions of Section 209 of the Act. When a Government company switches over to a cash system of accounting wholly or substantially, comment under section 619(4) of the Act should be made about the infringement of provisions of Section 209 of the Act.

   (CAG Letter No. T53-CAIV/104-78, No. CA IV / Tech / 10-80 dated 28.6.1980).

2. *Review of Cost Audit Reports*

   It has been decided that while conducting the supplementary audit under section 619(3) (b) and (4) of the Act, the requirement of the Cost Audit Rules as notified by the Department of Company Affairs should be kept in view and suitably commented upon or taken up with management wherever necessary. The review of Cost Audit Reports arise only in cases where the Government of India have issued directions to the companies which are required to maintain cost accounts in terms of section 209 (1) (d) of the Act.

   (CAG's Letter No. 465-CA 11/ 108-71 dated 23.8.1972).

3. *Non-Production of records.*

   While conducting the audit required under sections 619(3) and 619(4) of the Act, the relevant books and papers should be called for. Particular care should be taken to see that papers and documents are not called for unnecessarily and that they are restricted to the requirements of audit. In case, there is any difficulty in getting the papers, the matter should be brought specifically to the notice of CAG when the comments under section 619(4) are forwarded.

   (No. 798-CA/87-BCA / 63 dated 2.7.1964 from CAG)

4. *Computation of current profits for declaration of dividend.*

   (1) Section 205(2A) of the Act provides that on and from the commencement of the Companies (Amendment) Act, 1974, no dividend shall be declared or paid by a company for any financial year except out of the profits of the company for that year arrived at after providing for depreciation in accordance with the provisions of sub-section (2) and except after the transfer to the reserves of the company of such percentage of its profits for that year, as prescribed in Companies (Transfer of Profits to reserves) Rule 1975.

   The distinction made between 'current profit' and profits of that year' is significant.

   (2) The Company Law Board (in their letter No. 6/13/75-CL-XIV dated 7.2.1976) has clarified that for the purpose of declaration or payment by a company of a dividend only after providing for depreciation and after the transfer to the reserves of a percentage of its profits, the profits available for dividend for distribution as such can only be construed as profit after tax and not before tax. The expression 'Current Profits' used in the above mentioned rules accordingly refers to the profits after tax, Further, items like 'Development rebate Reserve' written back, or adjustment relating to the previous years, etc. would also have to be taken into account before arriving at the current profits for the purpose of the said rules.

5. *Hiring of accommodation for a director*

The provisions of Section 297 of the Act do not cover contracts relating to immovable property and in the circumstances hiring of accommodation by a company for the Director does not require approval under 297 of the Act.

(CA III / Central / Commercial Audit / 3 / 79 date).

6. *Applicability of Section 619 of the Companies Act, in respect of Companies under liquidation.*

The applicability or Section 619 of the Act, in respect of accounts of Companies which have gone into liquidation either after holding the annual General Meeting under Section 166 of the Act, or without holding the Annual General Meeting is set out below :

(a) Audit under Section 619(4) of the Act:

Where a company goes into liquidation before the Annual General Meeting is held or where the meeting has already been held but the comments of the CAG under Section 619(4) of the Act were not placed before the General Meeting, the audit under this section must be conducted, if no such audit was conducted for the period prior to the date of liquidation. In this case as well as where the audit was conducted but the comments were not placed before the General Meeting of the Company, the comments of the CAG should be communicated to the Administrative Ministry as also to the Liquidator for placing them before the next available meeting of the company called, by him under Section 460(3) (a) and (4), 496 (1) or 508 (1) (a) of the Companies Act as the case may be.

(b) Audit under Section 619(3) (b) of the Act:-

The provision of Section 619 of the Act, are applicable to a Government company till the date it goes into liquidation. Accordingly, the test or supplementary audit under section 619(3) (b) *ibid* may be conducted in respect of the company upto the date of passing the winding up resolution and the comments may be issued to Administrative Ministry concerned as also to the Liquidator for placing them before the General Meeting of the shareholders, though the latter cannot be held responsible.

7. ***Holding Companies-Compliance of provisions of Section 212.***

The issue regarding compliance of various provisions under Section 212 of the Companies Act is dealt with below :-

Issue	Clarification
(i) Whether it is mandatory for a holding company to lay down the accounts of its subsidiaries before its Board of Directors at the time of obtaining the authentication of its annual accounts under section 215(3) of the Act.	No
(ii) At what point of time the documents referred to in clause (a) to (d) of sub section (1) of Section 212 of the Act will be attached to the Balance Sheet of the holding company.	The documents referred to in clause (a) to (d) of sub section (1) of Section 212 of the Act will be attached to the Balance Sheet of the holding company at the time of compliance of Section 219 of the Act.
(iii) Whether the Balance Sheet and Profit and Loss Account etc. of the Subsidiary / subsidiaries are required to be placed before the holding company at the time of annual general meeting.	Yes
(iv) Whether the documents referred to in clause (c) to (g) of sub section (1) of Section 212 of the Act are required to be submitted to the Auditors at the time of submission of accounts of the holding company for certification.	Yes, These relate to the accounts of the holding company.
(v) Whether the Directors of a holding company are responsible for non-compliance of provisions of clauses (a) to (d) of subsection (1) of Section 212 of the Act.	No. They are however, required to watch the compliance of other provisions of section 212 of the Act.
	It has been clarified by Department of Company Affairs that it is desirable for the holding company to place the accounts of its subsidiary companies before its Board of Directors for perusal and information for the compliance of sub section (1), (3), (4) and (5) as and when received.

(Letter No. 717-CA IV / 52-80, No. CA IV / Tech-6-81 dated 10.8.1981 of CAG.)

8. ***Accounting treatment of land acquired for leasing out after development etc., and of premium receipts by the companies***

The following accounting procedure should be followed in connection with the land, premium/salami and other realisations.

(i) Though the Memorandum of Association of the Company authorizes it to deal in land, in view of the specific prohibition by the State Government regarding the disposal of the land by way of sale, such land constitutes the fixed asset of the company, as the ultimate ownership of the land vests with the company. Accordingly, the land whether leased out or not has to be exhibited in the Fixed Assets Section of the Balance Sheet. The cost of the land leased out including the development expenditure should be segregated from the cost of the land not leased out including the development expenditure incurred thereon, if any, so that both the items can be distinctly and separately exhibited in the Balance Sheet.

(ii) Since the land developed and leased out is not in physical possession of the company, it will be necessary to indicate by way of a footnote in the Balance sheet that "................................ acres of land developed had been leased out for a period of .... years" so that none could get an impression that the company is in physical possession of such fixed asset.

(iii) The premium / salami receipt in respect of land leased out constitutes the income of the company for the entire period of lease and should be distributed over the period of the lease equally, initially accounting for the premium as and when received to a 'Rental Suspense' or "Premium Suspense" Account and then transferring the proportionate share income to the Profit and Loss Account of each year.

(iv) Depreciation allowable on assets at the cost of lease will qualify as an admissible expenditure against such income depending upon the conditions of lease, nature of expenditure incurred on development etc. At the same time, it should be kept in view that no depreciation is allowable on land, roads, etc.

(v) The value of the developed land leased out or that of the undeveloped land should in no way be disturbed by the premium receipts including forfeiture of premium moneys, forfeiture of earnest moneys, etc. which constitute income of the company.

The accounting treatment suggested above is based on the particular case where the lease is for a period of 90 years. If the lease is for a longer period in the nature of perpetual lease e.g. for 999 years, it would not be correct to accord the same treatment, as in such a case it would be logical to conclude that the lease virtually amounts to sale. Where there no prohibition for sale of land or the land so developed is sold out, the accounting treatment has obviously to be different as the ownership of land will not continue to vest in the company. In doubtful cases, reference may be made to the Office of the CAG.

(Letter No. 430-CA II / 122-69 dated 14.10.1970 from the CAG.)

9. Expenditure on entertainment-Its accountal and exhibition in accounts by the companies

Where the expenditure on entertainment is shown partly under distinct head of "Entertainment Expenditure" and partly under other heads, audit cannot ignore it while certifying the accounts. The Audit Officers may utilise their discretion on the spot and request the management of the undertakings to insert a note in the final accounts disclosing that apart from the Entertainment Expenses" shown under the separate head of account in the Profit and Loss Accounts Miscellaneous Expenditure also includes Expenditure in the nature of entertainment amounting to Rs.......................... In the event of their disagreement the certification on the accounts of the company may be qualified stating that the expenditure in the nature of entertainment amounting to Rs. .... has also been included under the head 'Miscellaneous Expenditure".

(CAG's Letter No. 65-CA IV /5-72 dated 15.1.72).

B. Auditors Report 619 (4) Comments etc.

(1) *Negative report of Statutory Auditors*

It has been decided that, in cases where the results of supplementary audit conducted under Section 619(4) of the companies Act do not bring out any substantive comment which would affect or supplement the position stated in the Auditors Report or our comment do not substantially alter the Profit or loss or the various items of assets and liabilities materially, a NIL comment certificate in the prescribed form may be issued.

It has further been decided that the areas of major deficiencies in accounts mentioned in the Auditors Report may be brought to the notice of Govt. for appropriate remedial action. If necessary, these may also be discussed with the Secretary of the Administrative Department controlling the Govt. Company. In case remedial action is not taken or action taken is inadequate, these may be developed into draft paragraphs for inclusion in the conventional Audit Report.

(CAG's letter No. 542-CA IV / 44-79 No. CA IV / Tech. 12-798 dated 16.8.79)

(2) *Manufacturing Company in construction stage*

According to Company Law Board letter No. 15/0/79-IGC dated 24.9.82, a company in construction stage erects plants or constructs buildings or alter facilities for its own use and is therefore, engaged in a manufacturing process and hence it would be a Manufacturing Company to which the provisions of Manufacturing and other companies (Auditors Report) order 1975 shall apply (No. 912-CA IV / 90-76 and No. CA IV / Tech. 17/82 dated 2.12.1982).

(3) *Violation of Section 619(5) of the Act*

In pursuance of the provisions contained in section 10, 227(2) and 619(5) of the Companies Act, 1956 the annual accounts of Govt. Companies together with the Auditors report thereon, the comments of the CAG there upon or supplement to the Auditors report are required to be placed before the Annual General Meeting in terms of section 168 of the Act. Certain Govt. Companies hold their Annual General Meeting to adopt the Annual Accounts together with Auditor's report thereon without placing the CAG's comments under section 619(4) of the Act, before such meeting. Adoption of annual accounts in such situations is tantamount to violation of section 619(5) of the Act and the accounts so adopted cannot be considered to have been adopted validly.

The non selection / NIL comments certificates should be treated on a par with the comments under 619 (4) of the Act, and are required to be placed before the Annual General Meeting in terms of section 166 of the Act, and the adoption of the accounts without considering such non-selection/NIL comments certificates is tantamount to violation of section 619 (5) of the Act.

The following course of action has been prescribed in cases where the annual accounts are adopted by Govt. Companies without the comments of the CAG.

(i) The violation of the provisions of section 619(5) of the Act need not be commented under section 619(4) of the Act.

(ii) When cases of violation of section 619(5) are noticed the matter may be reported to the State Govt. the Department of Company Affairs and the Registrar of Companies simultaneously. CAG should also be informed of the case.

(iii) A consolidated record of all such violations should be kept and a comment on the violation of the provisions of section 619 (5) of the Act may be made in Audit Report (Commercial).

(CAG DO No. 973/CA IV /61-80 dated. 30.9.81)

(4) *Reports submitted by Statutory Auditors under Section 619 (3) (a)*

Defects / shortcomings have been appearing year after year in the supplementary report submitted by the Company Auditors in pursuance of the directions issued by CAG under section 619(3) of the Act and in certain cases these have persisted since the inception of the Companies.

It is possible, that the Companies may have certain inherent difficulties in introducing the system or removing the short comings or it might be that the introduction of requisite systems are not commensurate with the advantage to be gained. Such cases are to be examined with a view to see whether it is really necessary to follow certain procedures or the systems as commented upon by the Company Auditors in their reports and if so what are the consequences of the failure of the company to do so.

(CAG circular No. 344 CA III/574-74 dated 8.3.79)

(5) *Matters pertaining to Annual Accounts Manufacturing, Trading, Profit and Loss Account and Profit and Loss Appropriation Account.*

(i) The Provisions of the Act and Schedule VI thereto do not specifically require the preparation of any revenue account other than the profit and loss account. There is nothing in the Act, which prevents the Company from subdividing the statutory Profit and Loss Account into distinct categories so as to show the cost of production, gross or trading profit, the net profit and appropriation separately by preparing Manufacturing, Trading, Profit and Loss Account and Profit and Loss Appropriation Account. This practice should be encouraged being in conformity with the best accounting practices in this regard.

(ii) Preparation of Separate Profit and Loss Account for units / Branches.

It is necessary to prepare a Profit and Loss Account for the Company as a whole even if it has got branches for the reasons mentioned below :-

(a) Section 210 and 211 of the Companies Act refer to the accounts of the company and not of Head office or branches. Thus, disclosure of various items of income and expenditure under the heads prescribed in schedule VI part II is required to be given for the company as a whole.

(b) Clause 3 (x) of Schedule VI provides that any item under which the expenses exceeds one percent of the total revenue of the Company or Rs. 5000, whichever is higher, shall be shown as distinct item against appropriate accounting head in the Profit and Loss Account and shall not be combined with any other items to be shown under 'Miscellaneous Expenses', By incorporating only the Profit and Loss of the Branches in accounts of the Company, the chances of violation of this requirement cannot be ruled out.

If a Company desires to prepare separate / Profit and Loss Account for units / Branches etc, the same can be done in one of the following ways;

(a) A consolidated Profit and Loss account of the Company can be prepared and separate Profit and Loss Account of each branch unit or head office may be given additionally.

(b) A profit and loss Account in a columnar form may be prepared so as to indicate the transactions of a company as a whole as well as branches at one and the same place. If the requirements of section 210 and 211 and clause 3 (x) of schedule VI Part I of the Act are not complied with a comment may be raised under 619 (4) of the Act.

(CAG's letter No. CA IV / Tech / 80, No. 163-CA IV / 8-80 dated 12.2.80)

(6) *Income from Investments*

Income from investments and income by way of interest have to be shown separately in the profit and loss account and the amount of income tax deducted from such income (if taken gross) is to be disclosed (i.e. either by way of a foot note or under the item concerned) in accordance with clause 3 (xi) of schedule VI Part II.

(CAG's letter NO. 1530 CA III/184-70 dated 29.10.70 and circular No. 1135 CA IV / 74-80, No. CA IV / Tech/ 15-80 at 16.10.1980)

(7) Depreciation

As the ownership of the machinery sold passes, on the payment of the last installment by hirers, the more appropriate basis would be to relate the profit to the proportion of sale price realised rather than the time basis.

(Letter No. 509 CA II / 124-69 dated 16.12.1970 from CAG to All AG's).

No comments for charging full depreciation on assets acquired during the year need be made provided:

(i) The method followed by the company is on a consistent basis, and (ii) the requirement of section 205(2) and 350 of the Companies Act for writing off the asset to its residual value at the end of the specified useful life met.

(CAG's letter No. 527-CA IV / 39-79 & No. CA IV / Tech 3/81 dated 12.6.81)

In respect of additions made during the year, no comment under Section 619(4) of the Act need be proposed if full depreciation has been charged for such assets. It should, however be ensured that:-

(i) the method followed by the company is on a consistent basis, and

(ii) the requirement of section 205 (2) and 350 of the Act in writing off the asset to its residual value at the end of the specified useful life is met.

(CAG letter No. 527 CA IV/39/79 and No. CA IV / Tech./3-81 dt. 12.6.1981)

1. The rate of depreciation prescribed by the CERC in 2004 and accepted by the Forum of Regulators will be applicable to determine the revenue requirement for fixation of tariff.
2. Wherever any other rate of depreciation has been followed by the Power Companies, including the rate prescribed by CERC for accounts [purposes] and the same has not been disclosed by the Company / Statutory Auditor, we may issue a comment.

(C&AC's Letter No. 849-CA II / RAJ / A / CS / RRVPNL / 2006-07 / 92-2007 dt. 7.05.2008)

(8) Disclosure of quantitative details of stocks and purchases as required in Part II Schedule VI of the Act.

Clause 9 (ii) of Part II Schedule VI of the Act specifies disclosure of certain quantitative or other information in the Profit and Loss Account by different classes of companies and by companies carrying out a combination of function. A question arose as to whether in case of company which combines manufacturing (coming under clause 3 (ii) (a) with rendering of supplies and services, coming under clause 3 (ii) (c), the particulars to be disclosed under clause 3 (ii) (d) would include, information relating to quantities and value of purchases, consumption, closing stock etc, relating its service activity.

The requirement of showing the total amounts with quantitative breakup of purchases and opening and closing stock thereof mentioned in clause 3 (ii) (d) is applicable to a company which falls under the categories of 'Manufacturing' and 'trading' in terms of clauses 3 (ii) (a) and 3 (ii) (b) respectively and not for a company which is engaged in manufacturing and also rendering or supplying services under clauses 3 (ii) (a) and 3 (ii) (c). In such a case only the gross income for rendering or supplying services is required to be shown in addition to the information required to be disclosed under clause 3 (ii) (a) so as to comply with requirement of the Act.

(CAG letter No. 448 CA IV / 87-80 CA IV / Tech-2-81 dt. 8.5.81).

(9) Provision for gratuity liability

The company may provide for gratuity liability in accordance with the Accounting Standard 15 of the Institute of Chartered Accountants of India.

Clause 4 of Part II Schedule VI of the Act specifically states that the payments provided for or made during the year to directors etc. in respect of gratuity shall require separate disclosure in the Profit and Loss Account. In order that these statutory requirements are complied with, it is essential that provision made in respect of gratuity for directors etc., is disclosed in Profit and Loss Account. The lump sum provision for gratuity made in the accounts of companies shall be analyzed to see whether the provision includes any amounts payable to the General Manager, Managing Director, Chairman or other Directors and if so the required disclosure has been made.

(CAG letter No. 1221 / CA IV / 55-76)

(10) Prior period adjustment

Normally, under the commercial accounting principle, all ascertained liabilities should be provided for and contingent liability should be mentioned in the form of a note on the face of the balance sheet. Adjustment of substantial, expenditure in subsequent years may look prima-facie incongruous in view of unqualified certification of accounts of earlier years. In all cases, where substantial expenditure is charged to subsequent year's accounts, the reasons for which the booking of such expenditure in the relevant-accounting year was not possible may be indicated while forwarding the comments on the accounts under section 619(4) for approval of CAG.

(CAG letter No. 290-CA IV / 52-60 dt. 18.7.69)

(11) Cost of capital jobs executed and inter unit transfers

In some of the manufacturing concerns, the Profit and Loss accounts contain credit in respect of capital jobs executed and inter unit transfers. Normally credit in respect of the inter unit transfers should not appear in the Profit and Loss account, as the expenditure and the receipts of different units should be squared while consolidating the accounts of all the units into a single one. Apart from inflation of both the income and expenditure, such exhibition may be motivated by a desire to take credit for a larger amount than the expenditure charged to the accounts. During the audit of the accounts of such undertakings under Section 619(4), it should be ensured that the credits are not in any way inflated. In respect of capital jobs care should first be taken to ascertain that the jobs are not valued above the cost. As most of these undertakings are setting their products at less than the cost price, the valuation of the capital jobs executed by the undertaking itself at cost may, in effect, mean inflation of capital expenditure by credit to revenue. Attempts should, therefore, be made to co-relate cost of such jobs done with the tenders, if any, or the market rates, if available. In cases where there are significant variation between these two *i.e.* cost is more than the market price, factual comments may have to be made.

(CAG letter No. 290-CA IV / 52-60 dt. 18.6.69)

(12) Separate classification of rent

The Act specifically requires separate exhibition of rent from Rates and Taxes. While there may be genuine difficulties for exhibition of Rent separately from Rates and Taxes in individual cases, normally the accounts should be drawn up in conformity with the requirements of the Act, as far as possible. While forwarding the accounts and the comments under Section 619(4), the reasons as to why separate exhibition has not been possible may be indicated to CAG.

(CAG letter No. 290 CA IV / 52-60 dated 18.6.69)

(13) Perquisites

Perquisites referred to in clause 4 of Part II of Schedule VI of the Act have the same meaning as defined in the Income Tax Act. Non compliance of the requirement to disclose the perquisite should be commented upon under section 619 (4).

(CAG's letter No. CA IV / Tech / 10-81 dt 14.9.81)

Evaluation of perquisite in respect of use of Company's Car by officials of Companies.

The use of Company's Car by the Officers of companies otherwise than wholly or exclusively for the performance of their duties is one of the items of perquisites which requires disclosure in terms of clause 4 (VII) of Part II of schedule of the Act. The following guidelines are issued in this connection:-

(i) The use of a car by an employee from residence to office and back will not be regarded as use of the car in the performance of his duties.

(ii) Where a company has not disclosed the value of perquisites to the Directors (including Managing Director) etc. on this account in the Profit and Loss Account, a comment is to be issued on the inadequacy of the valuation of the perquisites and disclosure thereof in the accounts.

The form of comment will depend upon the nature of disclosure made or not made by the company. This can be in any of the forms mentioned below.

(a) Cases where neither the fact of provision of car nor the value of perquisite has been disclosed.

The company has provided a car to .... not wholly and exclusively for the performance of official duties. This fact together with the value of the perquisite for the private use of the car has not been disclosed in terms of clause 4 (VII) of Part VI of Schedule VI of the companies Act. The value of perquisite in terms of Rule 3(c) of the Income Tax rules works out to Rs. ....

(b) Cases where the fact regarding provision of car has been disclosed but value of the perquisite has not been quantified.

The monetary value of the perquisite for the use of car provided to .... works out to Rs. .... and should have been disclosed in terms of clause (4) (vii) of Part II of schedule VI of the Companies Act.

(c) Cases where the value of perquisite has not been worked out correctly.

The value of perquisite works out to Rs. .... as against Rs. .... computed by the Company.

Some Govt. Companies have raised a point that the provision of a car to the Chief Executive subject to recovery of prescribed amount in accordance with the terms and conditions of the appointment could not be viewed as a perquisite.

As the law stands at present, the use of a car otherwise than wholly and exclusively in the performance of duties is a perquisite within the meaning of explanation given below section 198 of the Company's Act. This requirement cannot be abridged by any understanding or agreement with the officials by a company. So far as computation of the value of the perquisite is concerned, different provisions have been made under Rule 3 (c) of the Income Tax Rules.

The monetary value of the perquisite will be evaluated as per Rule 3 of the Income Tax Rules 1962. Not more than one car will be allowed to a Managing / whole time Director / Manager for both official and personal use.

As the companies Act requires that Profit and Loss Account should disclose the perquisite in cash or in kind (Stating the approximate money value, where practicable) and as determination of value is practicable in this case, it is necessary that non-compliance with this statutory provisions is invariably taken notice of and commented upon.

Audit need not be influenced by the fact that the Income Tax Officer had not treated this facility as a perquisite in any particular case. Such cases may be reported to CAG for being examined by the Director of Receipt Audit.

(CAG's letter No. 1160-CA IV / 56-77, No. CA IV / Tech 14-80 dt. 16.10.80 and No. 1402 CA III / 311-76 dt. 18.10.76).

(14) Work-in-progress in Civil Works

Under the mercantile system of accounting, the work in progress should represent the actual expenditure on a contract and credit for centage charges should appropriately be taken on the cost attributable to the contract actually executed *i.e.* to the extent materials are actually consumed on the works. Therefore it may not be appropriate for the Companies to take credit for centage charges on the value of material lying at site as on the last day of accounting year. Comments in such cases should be raised under Section 619(4) of the Act.

(No. 1192-CA II / 156-79, Circular No. 3-CA II / State Commercial Audit-II / 82 dated 7.7.1982 from CAG of India).

(15) Non-maintenance of Statutory Records

In case where non-maintenance of minute book as per provisions of Section 193 of the Act has not been communicated by the Statutory Auditors in their report under section 227 of the Act, a comment will have to be included under section 619 (4) of the Act.

(No. 606-CA-IV / 48-82 dated 21.8.82 from CAG of India).

(16) Extract from the Guidance Note on Accounting Treatment for Excise Duties

(a) Excise duty should normally be considered as a manufacturing expense and like other manufacturing expenses be considered as on element of cost for inventory valuation.

(b) Where excise duty contributes directly to bringing inventory to its present location and condition and is a direct cost, it must be included as an element of cost in the valuation of inventories, irrespective of whether the direct costing or the' absorption method of costing is used. Excise duty would normally be so considered when it is a specific or *ad valorem* duty.

(c) Where excise duty contributes directly to bringing inventory to its present location and condition but is in the nature of a manufacturing overhead, it need not be included as an element of cost when the 'direct costing system is used but must be included when the' absorption costing system' is used. Such a situation will normally arise when excise duty is levied on a compounded basis.

(d) Where excise duty is not considered as a manufacturing expense on the basis that the liability arises only after manufacture is completed and the inventory is valued at direct manufacturing cost, it may be charged out as an expense of the period in which the expenditure it incurred, provided (i) the accounting treatment is consistent from period to period and (ii) the full liability is provided in respect of all excisable goods manufactured during the period irrespective of whether such goods have been removed from the factory or stored in bond. It is also advisable in such circumstances to disclose the accounting treatment followed.

(e) Where excise duty is paid on excisable goods and such goods are subsequently utilised in the manufacturing process the duty paid on such goods becomes a manufacturing cost and must be included in the valuation of work-in-progress or finished goods arising from the subsequent processing of such goods.

(f) Where the liability for excise duty has been incurred but its collection is deferred, provision for the unpaid liability should be made. If provision is not made, fact must be disclosed by a note on the accounts.

(g) Where the excise duty is not expensed out, excise duty applicable to items in inventory cannot be considered a prepaid expense. It is less objectionable to treat it as a deferred charge but the preferable treatment is to include it as an element of cost in the valuation of inventories.

(CAG's letter NO. CA-IV/Tech/7-81 dated 10.8.81)

ANNEXURE-I (1)

(Format for Comments)

Para 2.01.12

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619(4) OF THE COMPANIES' ACT, 1956 ON THE ACCOUNTS OF (NAME OF THE COMPANY) FOR THE YEAR ENDED 31 MARCH (YEAR)

The preparation of financial statements of (Name of the company) for the year ended (year) in accordance with the financial reporting framework prescribed under the Companies Act, 1956 is the responsibility of the management of the company. The Statutory Auditor /Auditors appointed by the Comptroller and Auditor General of India under Section 619(2) of the Companies Act, 1956 is/are responsible for expressing opinion on these financial statements under section 227 of the Companies Act, 1956 based on independent audit in accordance with the auditing and assurance standards prescribed by their professional body, the Institute of Chartered Accountants of India. This is stated to have been done by them vide their Audit Report dated (date of the report).

I on behalf of the Comptroller and Auditor General of India have conducted a supplementary audit under section 619 (3) (b) of the Companies Act, 1956 of the financial statements of (Name of the company) for the year ended (year). This supplementary audit has been carried out independently without access to the working papers (in case of non-review of working papers) of the Statutory Auditors and is limited primarily to inquiries of the Statutory Auditors and company personnel and a selective examination of some of the accounting records. Based on my supplementary audit, I would like to highlight the following significant matters under section 619(4) of the Companies Act, 1956 which have come to my attention and which in my view are necessary for enabling a better understanding of the financial statements and the related audit Report:

A Comments on Profitability

B Comments on Financial Position

C Comments on Disclosure

D Comments on Auditors' Report

E Other comments

(May be arranged in order of decreasing importance)

For and on the behalf of the
Comptroller & Auditor General of India

Place: **Signature**
Date: **Name of the PAG/AG**

ANNEXURE -I (2)

(Format for Nil Comments)

Para 2.01.12

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF (Name of the company) FOR THE YEAR ENDED 31 MARCH (Year)

The preparation of financial statements of (Name of the company) for the year ended (year) in accordance with the financial reporting framework prescribed under the Companies Act, 1956 is the responsibility of the management of the company. The Statutory Auditor /Auditors appointed by the Comptroller and Auditor General of India under Section 619(2) of the Companies Act, 1956 is/are responsible for expressing opinion on these financial statements under section 227 of the Companies Act, 1956 based on independent audit in accordance with the auditing and assurance standards prescribed by their professional body the Institute of Chartered Accountants of India. This is stated to have been done by them vide their Audit Report dated (date of the report).

I on the behalf of the Comptroller and Auditor General of India have conducted a supplementary audit under section 619 (3) (b) of the Companies Act, 1956 of the financial statements of (Name of the company) for the year ended (year). This supplementary audit has been carried out independently without access to the working papers (in case of non-review of working papers) of the Statutory Auditors and limited primarily to inquiries of the Statutory Auditors and company personnel and a selective examination of some of the accounting records. On the basis of my audit nothing significant has come to my knowledge which would give rise to any comment upon or supplement to Statutory Auditor's report under section 619 (4) of the Companies Act, 1956.

For and on the behalf of the
Comptroller & Auditor General of India

Place: **Signature**
Date: **Name of the PAG/AG**

ANNEXURE-I (3)

(Format for Non review certificate)

Para 2.01.12

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF (Name of the company) FOR THE YEAR ENDED 31 MARCH (Year)

The preparation of financial statements of (Name of the company) for the year ended (year) in accordance with the financial reporting framework prescribed under the Companies Act, 1956 is the responsibility of the management of the company. The Statutory Auditor /Auditors appointed by the Comptroller and Auditor General of India under Section 619(2) of the Companies Act, 1956 is/are responsible for expressing opinion on these financial statements under section 227 of the Companies Act, 1956 based on independent audit in accordance with the auditing and assurance standards prescribed by their professional body the Institute of Chartered Accountants of India. This is stated to have been done by them vide their Audit Report dated (date of the report).

I on the behalf of the Comptroller and Auditor General of India have decided not to review the report of the Statutory Auditors' on the accounts of (name of the Company) for the year ended 31 March (year) and as such have no comments to make under Section 619 (4) of the Companies Act, 1956.

For and on the behalf of the
Comptroller & Auditor General of India

Place : **Signature**
Date : **Name of the PAG/AG**

ANNEXURE-I (4)

(Format for Revision of Accounts and consequent Nil Comments)

Para 2.01.12

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF (Name of the company) FOR THE YEAR ENDED 31 MARCH (Year)

The preparation of financial statements of (Name of the company) for the year ended (year) in accordance with the financial reporting framework prescribed under the Companies Act, 1956 is the responsibility of the management of the company. The Statutory Auditor /Auditors appointed by the Comptroller and Auditor General of India under Section 619(2) of the Companies Act, 1956 is/are responsible for expressing opinion on these financial statements under section 227 of the Companies Act, 1956 based on independent audit in accordance with the auditing and assurance standards prescribed by their professional body the Institute of Chartered Accountants of India. This is stated to have been done by them vide their Audit Report dated (date of the report).

I on the behalf of the Comptroller and Auditor General of India have conducted a supplementary audit under section 619 (3) (b) of the Companies Act, 1956 of the financial statements of (Name of the company) for the year ended (year). This supplementary audit has been carried out independently without access to the working papers (in case of non-review of working papers) of the Statutory Auditors and is limited primarily to inquiries of the Statutory Auditors and company personnel and a selective examination of some of the accounting records. In view of the revisions made in the financial statements by the management, as a result of my audit observations highlighted during supplementary audit as indicated in the Note No. of the Notes forming part of Accounts (Schedule No.), I have no further comments to offer upon or supplement to the Statutory Auditors' Report, under Section 619 (4) of the Companies Act, 1956.

For and on the behalf of the
Comptroller & Auditor General of India

Place : **Signature**
Date : **Name of the PAG/AG**

ANNEXURE-I (5)

(Format for Revision and Comments)

Para 2.01.12

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF (Name of the company) FOR THE YEAR ENDED 31 MARCH (Year)

The preparation of financial statements of (Name of the company) for the year ended (year) in accordance with the financial reporting framework prescribed under the Companies Act, 1956 is the responsibility of the management of the company. The Statutory Auditor/Auditors appointed by the Comptroller and Auditor General of India under Section 619(2) of the Companies Act, 1956 is/are responsible for expressing opinion on these financial statements under section 227 of the Companies Act, 1956 based on independent audit in accordance with the auditing and assurance standards prescribed by their professional body the Institute of Chartered Accountants of India. This is stated to have been done by them vide their Audit Report dated (date of the report).

I on the behalf of the Comptroller and Auditor General of India have conducted a supplementary audit under section 619 (3) (b) of the Companies Act, 1956 of the financial statements of (Name of the company) for the year ended (year). This supplementary audit has been carried out independently without access to the working papers (in case of non-review of working papers) of the Statutory Auditors and is limited primarily to inquiries of the Statutory Auditors and company personnel and a selective examination of some of the accounting records. The financial statements of the Company have been revised by the management to give effect to some of my audit observations highlighted during supplementary audit as indicated in the Note No.   of the Notes forming part of Accounts (Schedule No.   ). In addition, I would like to highlight the following significant matters under section 619(4) of the Companies Act, 1956 which have come to my attention and which in my view are necessary for enabling a better understanding of the financial statements and the related Audit Report:

A Comments on Profitability

B Comments on Financial Position

C Comments on Disclosure

D Comments on Auditors' Report

E Other comments

(May be arranged in order of decreasing importance)

For and on the behalf of the
Comptroller & Auditor General of India

Place : **Signature**
Date : **Name of the PAG/AG**

ANNEXURE-I (6)

Para 2.01.12

Compliance Certificate

(To be given on the letterhead)

We have conducted the audit of accounts of ***(Name of the company / Branch / Unit audited)*** for the year ended .... in accordance with the directions / sub-directions issued by the C&AG of India under Section 619(3) (a) of the Companies Act, 1956 and certify that we have complied with all the directions / sub-directions issued to us.

For (name of CA firm)

Auditors' Signature
(Name and membership No.)

Date :

Para 2.01.12 **ANNEXURE-I (7)**

Title sheet for comments on accounts

Part–A		
1.	Name of the Company	
2.	Name of the Party Personnel with dates of attendance	
	i. Supervisory Officer	
	ii. Assistant Audit Officer	
	iii. Auditors	
3.	Year of accounts	
4.	i. Date when the financial statements were approved by the Board of Directors.	
	ii. Date of the Audit Report (Applicable where a separate Statutory Auditors is appointed)	
	iii. Date of receipt of certified accounts along with Auditor's Report, (To be filled by PAG/AG's HQ Office)	
	iv. Period of Audit	
	v. Details of extension sought for, if any, and the no. of days for which extension granted beyond six weeks.	
5.	**Provisional Comments** (To be filled by PAG / AG HQ's office)	
5 (i)	Date of issue of provisional comments to	
	i. Statutory Auditors	
	ii. Company	
5 (ii)	Date of receipts of replies to the provisional comments from :	
	(i) Statutory Auditors	
	(ii) Company	
5 (iii)	Date of sending draft comments to Hqrs	
6.	Date of the AGM in which the accounts for the previous year were adopted.	
7.	Did the Audit Committee have a discussion with Auditor and review the financial statements before their submission to the Board of Directors	
8.	Whether Statutory Auditors attended the meetings convened for planning and finalization of audit of accounts. If not, details of the meetings not attended. (To be filled by 'PAG/AG's HQ. Office)	
9.	Whether all the Audit Enquiries have been replied to by the Management/Statutory Auditors? If not, whether it has been brought to the personal attention of Chief Executive?	
10.	Whether all records / information required by Audit Team were made available. If not, the details of records not produced to Audit.	

Part–B		
I	**Review of Statutory Auditors' Report**	
1	Whether all the statutory assertions as specified in Sections 227(2) and (3) of the Companies Act 1956 have been stated in the Report.	
2	Whether the requirements of AAS 28 have been fulfilled as regards the form and content of the Report. *(A Check list is enclosed as Annexure-I(8))*	
3	Whether the Report includes the required statements on all matters specified in CARO 2003. Whether the following requirements of CARO 2003 have been complied with.	
	i. If the auditor is unable to report on any of the matters, whether that fact has been indicated along with reasons.	
	ii. Whether the assessment made by statutory auditors on the adequacy of internal control system is consistent with other observation of the Auditors.	
	iii. Whether the report of auditor on maintenance of proper books of accounts under law is correct and verified[2].	
4.	**Qualifications in Auditor's Report** Whether the requirements of Section 227 (4) and Statement on Qualifications in Auditor's Report as indicated below have been complied with.	
	i. Has the auditor stated the full information about the subject matter of qualification?	
	ii. Has the auditor stated the reasons for the qualifications?	
	iii. Has the auditor stated all the qualifications in their report itself and also without referring to a report made in earlier years?	
	iv. If any note to accounts is a subject matter of qualification, whether the auditor has stated the full subject matter of the note in his qualification, instead of making a reference to the note.	
	v. Whether the auditor has stated, wherever possible, the effect of individual qualification and total effect of all the qualifications on profit or loss or state of affairs.	
	vi. If it is not possible to quantify the effect of qualifications accurately, whether the auditor has stated the effect on the basis of estimates made by the management, after indicating the fact that the figures were based on management estimates.	
5	Whether the auditor has furnished the report u/s 619(3) (a) along with Auditor's Report u/s 227. If not the date of receipt of report.	
6	Has the auditor complied with all directions issued u/s 619(3) (a) and sub-directions issued?	
7	Whether Statutory Auditor has shared his working papers with the Audit Team as and when asked for.	

[2] The purpose of this item is to verify the audit observations relating to non-maintenance of proper books of record required by the Companies Act and / or any other relevant Act with reference to records of the company. There is no need to examine all the records of the company but where the statutory auditor has made audit observations on this aspect, only those observations need to be examined and not all the records.

8	Whether the opinions expressed by the auditor on the financial statements is fair keeping in view their qualifications.	
9	If the auditor has revised his Audit Report, whether the same is in accordance with *'Guidance Note on Revisions of Auditor's Report'*.	
10	Whether Statutory Auditor has issued any communication to those charged with Governance under AAS 27? If yes, whether the same has been reviewed[3].	
11	Is there any material evidence regarding non-compliance with any Auditing and Assurance Standards by the Auditor[4]	
II	**Review of Financial Statements**	
	Whether the following have been verified?	
1	Whether the Balance Sheet and Profit and Loss Account have been prepared in the forms set out in Schedule VI-Part I and Part II of the Companies Act 1956 respectively.	
2	Whether the Balance Sheet abstract and company's general business profile have been stated in prescribed format as required in Part IV, Schedule VI of the Act.	
3	Whether financial Statements have been approved by Board of Directors as required under Sections 215 (3) of the Companies Act 1956 and authenticated as required under Section 215 (1) of the Act.	
4	Whether all significant Accounting policies have been disclosed[5]	
5	Whether the Accounting Policies form Part of the financial statements.	
6	Whether any accounting policy is vague leaving scope for mis-interpretation or is against the provisions of Accounting Standards / relevant laws.	
7	If there is a change in accounting policy, whether such change has approval of the competent authority.	
8	Whether auditors have signed their report only after adoption of previous year’s accounts in AGM as required in Companies Act 1956 and letter of appointment of auditor.	
9	Whether unusual transactions have been dealt within accounts properly. If no, has the Auditor given sufficient comments on it?	
10	Whether test checks revealed that AAS21 regarding due consideration of laws & regulations has been followed by the Auditor is adequately reported?	
III	**Compliance with Accounting Standards (AS)**	
1	Whether the financial statements complied with the AS as	

[3] Communication under AAs 27 can be reviewed either before taking up or during the supplementary audit to review the observations of statutory audit contained therein which may be helpful in deciding the scope and extent of supplementary audit

[4] To be reported only on exception basis if some convincing evidence indicating material non-compliance of AAS are noticed during the normal course of supplementary audit

[5] List of the areas where the entity should frame accounting policy as given in AS-1, can be considered as significant areas. In addition to this, based on the experience, MAB office may be aware of the major significant areas where the company should have an accounting policy. Such examination is not necessary during supplementary audit, it can be done before the start of audit or any part of the year as change in Accounting Policies is not a routine feature of a company and most of the accounting polices remain the same.

	required in Section 211 (3A) of Companies Act 1956?	
2	Cases of non compliance, if any, noticed during test check.	
3	(i) Whether the company has made disclosures as required in Sec. 211 (3B) of Companies Act 1956 and	
4	(ii) If not, whether the Statutory Auditors have stated the non compliance in their report.	
IV	**Compliance with Assurances :**	
	Whether the company has complied with all the assurances given to audit in the previous year (s).	
V	**Compliance with requirements of Regulatory Authorities relating to preparation and presentation of financial statement/accounts**	
	Whether the requirements of any, regulatory authorities viz SEBI, IRDA, RBI, BPE, NHB and Administrative Ministry, etc. with regard to financial reporting have been complied with by the Company? If not, indicate whether specific non compliance has been pointed out.	
VI	**Recommendations of Supervisory Officer**	
1	Whether any change in time allotted is necessary for future audit?	
2	What are the areas to be focused on in transaction audit?	
3	Other recommendations / remarks	

Part-C **(The matters included in this part are not exhaustive. PAG/AG office may include other matter according to their requirement)**		
1	Whether all the points indicated in the register of important points marked for verification in the accounts audit by the OAD section have been reviewed and action taken.	
2	Whether list of audit points which may have some audit value for other RAPs been attached.	
3	Whether the Statutory Auditors' report and the audited accounts of units not selected for audit been reviewed	
4	Whether contribution statement with money value and the name of the RAP/LAP official been attached.	
5	A list indicating allocation of duty amongst the party members to be attached along with a certificate signed by all the members of the audit party that duty assigned to him or her was completed.	

Submitted to S. DAG / DAG [Director / Dy. Director] (HQ)

Signature of Sr. A.O. / A.O.
Camp : I/C of Party

Date :

D. Assessment

1.		Penalty point if reply is in affirmative	Points Scored
(i)	Has the Auditor failed to report non-compliance of any Accounting Standard by the Company management?	5	-
(ii)	Has the Statutory Auditor failed to report any assertions as specified in Section 227(2) and (3) of the Companies Act, 1956?	5	-
(iii)	Whether the Auditor failed to report on any matter specified in CARO 2003?	5	-
(iv)	Whether the Auditor failed to report non-compliance of any of the provisions of Part I and Part II of Schedule VI of the Companies Act, 1956 regarding preparation of Balance Sheet and Profit and Loss Account?	5	-
(v)	Whether the Auditor failed to report non-compliance of any of the requirements prescribed by any regulatory authority *viz.* SEBI, IRDA, RBI, BPE, NHB and Administrative Ministry / Department *etc.* regarding preparation of financial statements?	5	-
(vi)	Has the Auditor revised the Audit Report at the instance of DG/MAB/PAG/AG to correct inaccuracies in the Audit Report for which only the Auditor was responsible?	5	-
(vii)	Whether the Auditor failed to offer his comments on the provisional comments issued by the DG/PAG/AG/MAB office within time stipulated by the DG/PAG/AG/MAB?	5	-
(viii)	Whether the Auditor failed to submit Report under section 619(3)(a) of the Companies Act, 1956 simultaneously with the Statutory Auditor's report ?	5	-
(ix)	Whether the Auditor failed to attend the meetings convened by the DG/MAB/PAG/AG as and when convened by the DG/MAB/PAG/AG?	5	-
(x)	Whether the auditor delayed the audit and submission of Audit Report without proper justification?	5	-
(xi)	Has the Auditor failed to state the full information about the subject matter of qualifications alongwith reasons?	2	-
(xii)	Has the auditor failed to state all the qualifications in their report itself and also without referring to a report made in earlier years?	2	-
(xiii)	Whether the auditor failed to state the full subject matter of the note which is a subject matter of qualification, instead of making a reference to the note ?	2	-
(xiv)	Whether the auditor failed to state (wherever possible) the effect of individual qualification and total effect of all qualifications on profit or loss or state of affairs?	2	-
(xv)	Is there any material evidence regarding non-compliance with any Auditing and Assurance Standards by the Auditor noticed during Test Check?	2	-
	Total	**60**	

2. As penalty point is zero [less than 15] Statutory / Branch Auditor may be graded as 'A' – Very Good.

Accountant General

ANNEXURE-I (8)

Para 2.01.12

Check list to ensure compliance with the Auditing Standards

Whether the audit report contains the following basic elements :

- Title
- Addressee
- Opening Paragraph
- Scope Paragraph
- Opinion Paragraph
- Date of Report
- Place of Signature
- Auditor's Signature

Whether the type of report to be issued based on audit has been decided, if yes, whether it is properly drafted considering the type of report -

- Qualified
- Disclaimer
- Adverse

Whether the membership number is mentioned of the member signing the report.

CHECKLIST FOR COMPLIANCE WITH THE ACCOUNTING STANDARDS

1. Disclosure of accounting policies (AS-1)

S.N.	*Check List*	*Yes*	*No*	*N/A*	*Remark*
1.	Whether accounting policies are disclosed				
2.	All these policies should be disclosed in one place in the form of Annexure / Schedule to accounts				
3.	Is there any change in accounting policies				
4.	Effect of change should be disclosed through accounting notes				
5.	Auditor to refer this change in his report if material and its effect on profit / loss and assets / liabilities.				
6.	If fundamental accounting assumptions are not followed, the disclosure should be made				
7.	Auditor to refer the non-compliance of fundamental accounting assumptions				
8.	Paras-11 and 12 of Form 3CD should be verified with the requirements of AS-1.				

2. Valuation of inventories (AS-2)

S.N.	*Check List*	*Yes*	*No*	*N/A*	*Remark*
1.	Check classification of inventories in raw material, WIP finished goods				
2.	Valuation of inventories - least of cost or realizable value				
3.	Cost formula used - FIFO, Weighted				
4.	Any change in cost formula				
5.	Borrowing cost is not cost of conversion or other direct cost				
6.	For the purpose of Form 3CD of Income-tax, the excise duty or any tax incurred whether refundable / adjustable is cost				
7.	Disclosure of policy and cost formula				
8.	Physical verification of inventory				
9.	Third party confirmation				

3. Cash flow statement (AS-3)

S.N.	Check List	Yes	No	N/A	Remark
1.	If the reporting enterprise falls under the Level-II and Level-III, the accounting standard is not applicable				
2.	If company is a listed company "indirect method" is to be followed				
3.	Verify the cash flow from operating, investing, and financing activities as per AS-3.				
4.	If reporting enterprises are bank, share broker, Investment Company, report cash flow on net basis for operating activities.				
5.	Disclosure of non-cash transaction by way of note.				
6.	Disclose cash or cash equivalents which are not freely remissible to the company or there is restriction on using those.				
7.	Reconciliation of cash and cash equivalent.				

4. Contingencies and events occurring after the balance sheet date (As-4)

S.N.	Check List	Yes	No	N/A	Remark
1.	Refer AAS-19 "subsequent events".				
2.	Read minutes of Board of Directors, Executive Committee for events occurring after balance sheet date, up-to the date of finalization of audit.				
3.	Go through all legal cases and their position up-to the date.				
4.	Go through interim financial statement				
5.	Check if event has bearing on going concern.				

5. Net profit or loss for the period, prior period items and change in accounting policies (AS-5)

S.N.	Check List	Yes	No	N/A	Remark
1.	Ensure that prior period term represent only the items due to errors or omission not and change of estimate.				
2.	Make list of prior period items detailing their nature.				
3.	Verify clause 22(b) of Form 3CD of Income-tax Act, 1961.				
4.	Disclose them separately in Profit and Loss Account.				
5.	Make a list of extraordinary items and disclose separately.				
6.	Is there any change in accounting policy?				
7.	If yes, calculate its impact on current year profit and if material, on subsequent year’s profit.				
8.	Refer these changes in Audit Report, if material.				

6. Depreciation accounting (AS-6)

S.N.	Check List	Yes	No	N/A	Remark
1.	Check the cost of asset.				
2.	Check the rate of depreciation based on useful life				
3.	In case of companies check whether the depreciation rate is more than Schedule XIV rate.				
4.	If yes, see the disclosure in accounting notes and mention it in audit report also.				
5.	If assets are revalued, check whether depreciation is on revalued value.				
6.	In case of tax audit, verify clause 14 of Form 3CD of Income-tax Act.				
7.	Check whether the calculation of managerial remuneration is based on the depreciation rate of Schedule XIV to Companies Act, 1956.				

7. Construction contract (Revised) (AS-7)

S.N.	Check List	Yes	No	N/A	Remark
1.	Check that only the percentage of completion method is followed for recognizing the revenue of construction contract.				
2.	Check the method of making reliable estimate of cost to completion.				
3.	Check the method of calculation of contract revenue.				
4.	Check the disclosure requirement as set out in As-7.				
5.	Check the accounting policies regarding revenue recognition.				
6.	Is provision for expected loss required				

8. Revenue recognition (AS-9)

S.N.	Check List	Yes	No	N/A	Remark
1.	Check in case of sales whether the seller has transferred all significant risks and rewards of ownership to the buyer and no effective control on the goods transferred in retained by the seller				
2.	No significant uncertainty regarding the collection of sale amount exists				
3.	Check whether interest and royalties are recognized on accrual basis with no significant uncertainty in collection of the interest and royalties.				
4.	Due provisions for un-expired warranty if sales is warranty sales.				
5.	Accounting policies as regards revenue recognition are disclosed.				

9. Accounting for fixed assets (AS-10)

S.N.	***Check List***	***Yes***	***No***	***N/A***	***Remark***
1.	Check fixed asset register and details as per Schedule-VI, Part-I.				
2.	Check the addition and deletion.				
3.	Is there any revaluation or restructuring, if yes, verify.				
4.	Check disclosure of revaluation or reduction in balance sheet.				
5.	Asset held for disposal to be separately shown at realizable value or book value whichever is less.				
6.	Check the result of physical verification.				
7.	Any CENVAT credit availed on fixed assets and reduced from the fixed assets.				
8.	In case of Tax Audit verify point-14 of Form 3CD of Income-tax Act.				
9.	Is any subsidy or grant received for fixed asset, if yes, see treatment as per AS-10 and AS-12.				
10.	Exchange fluctuation properly dealt or not.				
11.	Are fixed assets subject to impairment, if yes, whether AS-28 has been followed wherever applicable.				

10. The effects of changes in foreign exchange rates (AS-11) (Revised-2003)

S.N.	***Check List***	***Yes***	***No***	***N/A***	***Remark***
1.	Check whether foreign currency transaction was entered before 1.4.2004				
2.	If yes, AS-11 (pre-revised) shall continue to apply				
3.	If foreign currency transactions are entered on or after 1.4.2004, AS-11 (revised 2003) applies				
4.	If there are foreign operations				
5.	Whether classified as integral or non-integral.				
6.	Exchange difference on integral operation and foreign currency transactions to be expensed or recognized as income.				
7.	Exchange difference in translation of non-integral operation to be transferred to foreign exchange translation reserve.				
8.	Is there partial or full disposal of net investment in integral foreign operations				
9.	If yes, transfer proportionately or full amount to income or expense as the case may be Check if there is re-classification of foreign operation.				
10.	If yes, apply the re-classification provision				
11.	Whether reporting enterprises entered into exchange forward contract.				
12.	If yes, classify whether it is for risk management/hedging or for trading or speculation.				

13.	If for hedging / risk management apply the relevant provisions of accounting standards.				
14.	If for speculation apply the relevant provisions of accounting standard by marking to market price, the outstanding forward contract.				
15.	Check all disclosures have been made as per accounting standards.				

11. Accounting for Government grants (AS-12)

S.N.	***Check List***	***Yes***	***No***	***N/A***	***Remark***
1.	Check whether asset specific grant has been treated as per AS-12.				
2.	Check allocation of deferred income.				
3.	Un-apportioned deferred income is disclosed in balance sheet.				
4.	Grant in nature of promoter contribution credited to capital reserve.				
5.	Refund of grant if debited in profit and loss as extra ordinary items.				
6.	Accounting policy relating to Government grant is disclosed with accounts.				
7.	In case of tax audit verify point 14 (d) (iii) of Form 3CD.				
8.	Whether Government grant receivable as compensation for expenses or losses incurred in the previous years is credited to profit.				

12. Accounting for investments (AS-13)

S.N.	***Check List***	***Yes***	***No***	***N/A***	***Remark***
1.	Check initial recording of investment at cost.				
2.	Check investment classified in current and long-term.				
3.	Check valuation as per AS-13.				
4.	Check disclosure of accounting policy as regard investment.				
5.	Check the requirements of Schedule VI of Companies Act, 1956.				
6.	Auditor report if required covers point u/s 227 (1A) in case of company.				
7.	In case of bank check RBI Guidelines.				
8.	In case of mutual fund check SEBI guidelines				

13. Accounting for amalgamation (AS-14)

S.N.	Check List	Yes	No	N/A	Remark
1.	Go through the scheme sanctioned under section 394 of Companies Act, 1956 by the court/tribunal.				
2.	Whether it is merger or purchase.				
3.	If merger - pooling interest method of accounting, if purchase - the purchase method of accounting is applied.				
4.	Check the disclosure requirements as per AS-14.				
5.	Check whether the scheme sanctioned prescribes a different treatment to be given to reserves of the transferor company as compared to AS-14.				
6.	If yes, see whether deviation has been reported.				
7.	Check whether the notes to accounts give the notes regarding the previous year figure not comparable.				

14. Employee benefits (AS-15) (Revised 2005)

S.N.	Check List	Yes	No	N/A	Remark
1.	Check type of enterprise - Level I or more than 50 employees or less than 50 employee.				
2.	Check short-term employee benefits are expensed at the time of rendering of services by the employees.				
3.	Check whether for post-employment benefits - defined contribution plans or defined benefit plans.				
4.	If defined benefits plans - go through the actuary reports.				
5.	Examine the assumptions made by the actuary are in compliance with AS-15.				
6.	Check whether projected unit credit method to measure the obligation is followed.				
7.	Examine the policy for employee benefits with reference to AS-15.				
8.	Check whether all disclosure requirements are complied with AS-15.				
9.	Check whether termination benefits (VRS) is expensed or if incurred up to 31-3-2009 is accordance with accounting policy.				

15. Borrowing costs (AS-16)

S.N.	Check List	Yes	No	N/A	Remark
1.	Check whether enterprise has purchased or constructed any qualifying asset during the period.				
2.	If yes, whether borrowing cost is incurred.				
3.	Check amount of borrowing cost as per AS-16.				
4.	Whether borrowing cost is capitalized.				
5.	Whether capitalization of borrowing cost is as per AS-16.				
6.	Whether accounting policy as regard borrowing cost is disclosed.				
7.	Whether borrowing cost capitalized is disclosed as per accounting note.				

16. Segment reporting (AS-17)

S.N.	*Check List*	*Yes*	*No*	*N/A*	*Remark*
1.	Check whether AS-17 is applicable.				
2.	If yes, ask enterprise to make segment reporting.				
3.	Check whether segments are truly based on risk and reward.				
4.	Tally the segments revenue to total revenue in Profit and Loss Account.				
5.	Tally the segment assets, segments liabilities with consolidated figure in Balance Sheet.				
6.	Check secondary segment reporting as per AS-17.				
7.	Check - same accounting policies followed for segment reporting as followed for preparation of financial statements.				
8.	If the reporting enterprise falls under the level-2 and level-3, the accounting standard is not applicable.				

17. Related party disclosure (AS-18)

S.N.	*Check List*	*Yes*	*No*	*N/A*	*Remark*
1.	See whether AS-18 is applicable.				
2.	If yes, follow the audit procedure prescribed in AAS-23.				
3.	Classify the related parties into two categories - control and significant influence.				
4.	Whether disclosure is done as per AS-18.				
5.	If required, get representation from management.				
6.	In case of tax audit verify clause 18 of Form 3CD.				
7.	If the reporting enterprise falls under the level-II and level-III the accounting standard is not applicable.				

18. Accounting for leases (AS-19)

S.N.	*Check List*	*Yes*	*No*	*N/A*	*Remark*
1.	Check lease agreement.				
2.	Verify the Accounting policy as regards lease.				
3.	Classify the lease to be financial or operating.				
4.	If operating-check the accounting as per AS-19 for lessor and lessee.				
5.	If financial lease-check the accounting as per AS-19.				
6.	In case of finance lease, verify the implicit rate of interest / discounting factor.				
7.	If assets are acquired under H.P. system, the same should be accounted for as per finance lease.				
8.	In case of sale of lease back, classify the lease.				
9.	Check whether accounting is done as per AS-19.				
10.	Check the detailed disclosure requirements of AS-19.				
11.	Check whether there is difference in accounting income and taxable income due to lease, if yes create deferred tax as per AS-22.				
12.	Few disclosure requirements are not applicable to level-II and level-III enterprises.				

19. Earnings per share (AS-20)

S.N.	Check List	Yes	No	N/A	Remark
1.	Check EPS as mentioned in part IV of schedule VI of the Companies Act, 1956 is the basic EPS and has been calculated as per AS-20				
2.	If it is listed company –				
	- The basic and diluted EPS must be disclosed on the face of profit and loss statement.				
	- Reconciliation of weighted number of shares and profit available for equity shareholders is disclosed through notes to accounts.				
	- Check whether basic or diluted EPS has been disclosed with and without extra-ordinary income/expense.				
3.	Level-II and Level-III enterprises are not required to disclose diluted earnings per share.				

20. Consolidated financial statements (AS-21)

S.N.	Check List	Yes	No	N/A	Remark
1.	If company under audit is holding and is listed, AS-21 applies.				
2.	Check whether the company is covered by exceptions prescribed in AS-21.				
3.	Consolidation required as per clause 32 of listing agreement.				
4.	Consolidation procedure shall be as per AS-21.				
5.	Check disclosure requirements as per AS-21 and General Clarification (GC-5) issued by ICAI.				
6.	Check the particulars under section 212 of the Companies Act, 1956.				

21. Accounting for taxes on income (As-22)

S.N.	Check List	Yes	No	N/A	Remark
1.	Check whether AS-22 is applicable for enterprise under reporting.				
2.	Check whether accounting income and taxable income differ				
3.	If yes, is it due to permanent or timing difference				
4.	Ignore, if due to permanent difference, Create deferred tax for timing difference.				
5.	Apply prudence for recognizing deferred tax asset.				
6.	Verify virtual certainty while creating deferred tax asset for unabsorbed depreciation and carry forward losses.				
7.	Review deferred tax assets.				
8.	Apply transitional provision if applicable.				
9.	Present deferred asset and deferred tax liability in balance sheet after investment and unsecured loan respectively.				
10.	Disclose break up of deferred tax asset and liabilities.				
11.	Verify accounting policy as per AS-22				
12.	Verify other disclosure requirements as per AS-22				

22. Accounting for investments in associates in consolidated financial statements (AS-23)

S.N.	Check List	Yes	No	N/A	Remark
1.	Is company under audit a listed company?				
2.	If yes, whether it has subsidiary.				
3.	If yes, whether it has made investment in associate.				
4.	If yes, AS-23 is applicable.				
5.	Investment in associate in consolidated financial statement shall be accounted as per equity method.				
6.	Is it first occasion AS-23 applicable? Apply transitional provisions.				
7.	AS is not applicable for Level-II and Level-III enterprises.				

23. Discontinuing operations (AS-24)

S.N.	Check List	Yes	No	N/A	Remark
1.	Whether the enterprise has entered into agreement or approval / announced to sell the substantially in its entirety or in piecemeal the assets and liabilities.				
2.	If yes, AS-24 applies.				
3.	Disclosure of "discontinuing operation" separately than "continuing operation" required.				
4.	Check manner of disclosure as per AS-24.				
5.	Disclosure is also required in quarterly results.				
6.	Disclosure through notes to accounts is required.				
7.	AS is not applicable for Level-II and Level-III enterprises.				

24. Interim financial reporting (IFR) (AS-25)

S.N.	Check List	Yes	No	N/A	Remark
1.	AS-25 is mandatory in case of listed company and banks.				
2.	SEBI guidelines to be considered.				
3.	Minimum components of an interim financial report to be disclosed.				
4.	Accounting policy should be the same as followed for annual accounts.				
5.	Generally discrete view is followed in AS-25 except for tax.				
6.	Selected explanatory statements to be enclosed.				
7.	Format given under AS-25 is suggestive not compulsory, generally listed company has to follow the format prescribed by SEBI.				
8.	AS is not applicable for Level-II and Level-III enterprises.				

25. Intangible assets (AS-26)

S.N.	*Check List*	*Yes*	*No*	*N/A*	*Remark*
1.	Whether asset is intangible asset as per AS-26.				
2.	Whether recognition criteria as per AS-26 are fulfilled.				
3.	Useful life is presumed to be 10 years if contrary is not proved.				
4.	Residual value taken as NIL.				
5.	Amortization is on straight line method if pattern of benefit not established.				
6.	Goodwill as per AS-14 and 21 excluded.				
7.	Addition/subsequent expenditure to intangible assets..........................				
8.	Intangible asset to be recognized on disposal or when not further benefits is expected.				
9.	If standard being applicable first time adjustment to any intangible asset as required by AS-26 to be made with opening reserve "Transitional Provision".				
10.	Impairment losses to be recognized.				
11.	Disclosure as per AS-26.				

26. Financial reporting of interest in joint venture (AS-27)

S.N.	*Check List*	*Yes*	*No*	*N/A*	*Remark*
1.	Check joint venture agreement				
2.	Classify type of joint venture into jointly controlled operation, jointly controlled assets or jointly controlled entity.				
3.	Check accounting in separate financial statements for jointly controlled operation and jointly controlled assets as per AS-27.				
4.	Check accounting for jointly controlled entity in separate financial statement and if consolidated statement are prepared in consolidated financial statement.				
5.	Check transaction between a venturer and a joint venture.				
6.	Verify disclosure requirement as per AS-27.				
7.	AS is not applicable to the extent of requirements relating to consolidated financial statements of Level-II and Level-III enterprises.				

27. Impairment of assets (AS-28)

S.N.	Check List	Yes	No	N/A	Remark
1.	Has management reviewed/assessed the asset for impairment?				
2.	Consider the indications.				
3.	Verify the future cash inflow.				
4.	Assess the net selling price.				
5.	Verify the impairment loss.				
6.	Where net selling price or value in use for individual asset is not determinable, check the cash flow of Cash Generating Unit (CGU).				
7.	Also consider goodwill, corporate asset and their allocation.				
8.	Verify the impairment loss for Cash Generating Unit (CGU).				
9.	Verify allocation of impairment loss in case of Cash Generating Unit (CGU).				
10.	Check the disclosure requirements.				
11.	Accounting standard is applicable w.e.f. 1-4-2004 for Level-I, 1-4-2006 for Level-II and 1-4-2008 for Level-III enterprises.				

28. Provisions, contingent liabilities and contingent assets (AS-29)

S.N.	Check List	Yes	No	N/A	Remark
1.	Check whether there is present obligation as a result of past event not recorded in books.				
2.	If yes, is it probable.				
3.	Can the amount be estimated reliably.				
4.	If yes, recognise the provision.				
5.	If there is possible obligation or amount cannot be estimated reliably-disclose the contingent liability.				
6.	Ensure that happening of event should not be remote for contingent liability.				
7.	Ensure the disclosure requirement is met for provisions and contingent liability.				
8.	Contingent asset is neither recognize nor disclosed.				
9.	Few disclosure requirements are not applicable for Level-II and Level-III enterprises.				

ANNEXURE–E

LIST OF GOVERNMENT COMPANIES

Para. 2.02

Sl. No.	*Sector & Name of the Company / Corporation*
A.	**Working Government Companies**
	Agriculture and allied
1.	Uttarakhand Seed and Tarai Development Corporation Limited
	Infrastructure
2	Uttarakhand State Infrastructural Development Corporation Limited
3	State Industrial Development Corporation of Uttarakhand Limited
4	Uttarakhand Project Development and Construction Corporation
	Manufacturing
5	Trans cables Limited (subsidiary of Kumaon Mandal Vikas Nigam Limited)
6	Uttar Pradesh Digitals Limited (subsidiary of Kumaon Mandal Vikas Nigam Limited)
7	Uttar Pradesh Hill Electronics Corporation Limited
8	Kichha Sugar Company Limited
9	Doiwala Sugar Company Limited
.	**Power**
10	Uttarakhand Power Corporation Limited
11	Uttarakhand Jal Vidyut Nigam Limited
12	Power Transmission Corporation of Uttarakhand Limited
	Services
13	Kumaon Mandal Vikas Nigam (KMVN)
14	Garhwal Mandal Vikas Nigam (GMVN)
	Finance
15	Garhwal Anusuchit Janjati Vikas Nigam Limited (subsidiary of Garhwal Mandal Vikas Nigam Limited)
16	Kumaon Anusuchit Janjati Vikas Nigam Limited (subsidiary of Kumaon Mandal Vikas Nigam Limited)
17	Uttarakhand Bahudeshia Vitta Evam Vikas Nigam Limited
	Miscellaneous
18	Uttarakhand Purva Sainik Kalyan Nigam Limited
	Working Statutory Corporations
	Infrastructure
19	Uttarakhand Pey Jal SansthanVikas Evam Nirman Nigam
	Service
20	Uttarakhand Parivahan Nigam
	Agriculture &Allied
21	Uttarakhand Van Vikas Nigam

	Non-working Government Companies
	Agriculture & Allied
22.	UPAI Limited
	Manufacture
23	Kumtron Limited (subsidiary of Uttar Pradesh Hill Electronics Corporation Limited)
24	Uttar Pradesh Hill Phones Limited (subsidiary of Uttar Pradesh Hill Electronics Corporation Limited)
25	Uttar Pradesh Hill Quartz Limited (subsidiary of Uttar Pradesh Hill Electronics Corporation Limited)

Annexure-F

Para 2.01.14

Audit Report of the Comptroller & Auditor General of India on the proforma Accounts of (name of the Departmental Undertaking) for the year ended 31 March 2XXX

We have audited the Proforma Accounts of -------------(indicate name of the Departmental Undertaking) consisting of Balance sheet as at 31 March 2XXX and Manufacturing Account/Trading Account/Profit and Loss Account (strike out which is not applicable) for the year ended on that date under Section 13 (c) of the Comptroller & Auditor Generals (Duties, Powers & Conditions of Service) Act, 1971 read with orders (if applicable). These Proforma Accounts are the responsibility of the Departmental Undertaking. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We have conducted our audit in accordance with auditing standards generally accepted in India. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of financial statements. We believe that our audit provides a reasonable basis for our opinion.

3. Based on our audit, we report that:

i. We have obtained all the information and explanations, except as stated here under, (strike out if not applicable) which to the best of our knowledge and belief were necessary for the purpose of our audit;

ii. The Balance Sheet and Manufacturing Account/Trading Account/Profit and Loss Account have been drawn up in the format approved by the (mention the name of the authority approving the format of the Proforma Accounts) under Section/Rules (mention the relevant Section of the Undertaking).

iii. In our opinion, proper books of accounts and other relevant records have been maintained by the ----------- [Name of Departmental undertaking] as required under section (mention the relevant Section of the Undertaking) in so far as it appears from our examination of such books.

iv. We further report that:

A. Balance Sheet

B. Manufacturing Account/Trading Account/Profit and Loss Account

C. Accounting Policies

D. General

{Note: Significant audit observations on the financial statements may be classified into the above categories}.

v. Subject to our observation in the preceding paragraph, we report that the Balance sheet and Manufacturing Account/Trading Account/Profit and Loss Account dealt with by this report are in agreement with the books of accounts.

vi. In our opinion and to the best of our information and according to the explanations given to us, the said Proforma Accounts read together with the Accounting Policies and Notes on Accounts, and subject to the significant matters stated above give a true and fair view in conformity with accounting principles generally accepted in India:

a. In the case of the Balance Sheet, of the state of affairs of the------------(Name of Departmental Undertaking) as at 31 March 2XXX; and

b. In the case of the Profit and Loss Account, of the profit/loss for the year ended on that date.

For and on behalf of the C&AG of India

Principal Accountant General/Accountant General/
Director General of Audit/Principal Director of Audit

Place:

Date:

(C&AG letter no.III/S/19/81-PPG(AB)/26-2007/Vol.II Dated: July 11, 2012)

CHAPTER II B

PROVISIONS RELATING TO ACCOUNTS AND AUDIT OF GOVERNMENT COMPANIES UNDER NEW COMPANIES' ACT, 2013

2.02 The Government has notified the new Companies Act, 2013 on 29 August 2013. The provisions of the new Companies Act, 2013 and Rules made there-under relating to accounts and audit shall apply to financial statements of the accounting period commencing on or after 01-04-2014. Provisions relating to accounts and audit of a Government Company according to the new Companies Act, 2013 are enumerated below:

2.02.01 DEFINITION

A Government Company means any company in which not less than 51% of the paid up share capital is held by the Central Government or by any State Government or Governments or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company (Section 2(45) of the Companies Act, 2013).

2.02.02 Procedure for appointment of Auditors (Section 139 (5)) and directing the Auditor in the manner in which the accounts of the Company are required to be audited and thereupon the Auditor so appointed shall submit a copy of the audit report to the CAG which, among other things, includes the directions, if any, issued by the CAG, the action taken there upon and its impact on the accounts and financial statements of the company. Thus the Audit Report submitted by the auditor shall also show the impact of the directions issued by the CAG.

2.02.03 BOOKS OF ACCOUNT AND STATUTORY BOOKS

Section 128 (1) of the Act requires every company to keep at its registered office and its branches or at such other place in India as the Board of Directors may decide and maintain proper books of account and other relevant books and papers.

As per Section 2 (12) “book and paper” and “book or paper” include books of account, deeds, vouchers, writings, documents, minutes and registers maintained on papers or in electronic mode in such manner as may be prescribed.

As per Section 2 (13) “books of account” includes records maintained in respect of-

(i) all sums of money received and expended by it and the matters in respect of which the receipt and expenditure take place.

(ii) all sales and purchases of goods and services by the Company.

(iii) the assets and liabilities of the Company; and

(iv) such particulars relating to utilization of material or labor or to other items of cost as may be prescribed by the Central Government in the case of Company pertaining to any class of companies engaged in production processing, manufacturing or mining activities.

Section 128 should be read along with the provisions of Section 338 dealing with the liability in case of winding up of a company. Section 338 provides that it shall be deemed that proper books of account have not been kept in the case of any company unless it has maintained;

(i) such books of accounts as are necessary to exhibit and explain the transactions and financial position of the business of the company, including books containing entries made from day to day in sufficient detail of all cash received and all cash paid; and

(ii) where the business of the company involved dealings in goods, statements of the annual stock takings and (except in the case of goods sold by way of ordinary retail trade) of all goods sold and purchased, showing the goods and the buyers and sellers thereof in sufficient detail to enable those goods and those buyers and sellers to be identified.

It is also to be noted that where a company has a branch office, whether in or outside India, books of account relating to the transactions at the branch may be kept at the branch, but proper summarized returns must be sent by the branch of the company to its registered office periodically (Section 128(2)).

The Act also requires that the books of account and the relevant vouchers must be preserved for a minimum of eight years in good order [Section 128 (5)].

Statutory Books

In addition to the books of account mentioned earlier, the Companies' Act, 2013 specifically requires certain other books to be kept by a Company for maintaining a record of its different activities in order to safeguard the interests of the shareholders. These books are known as Statutory Books.

According to the Act, the following books must be maintained by a Company:

(1) Register of investments made by the Company but not held by it in its own name Section 187(3).

(2) Register of Charges under Section 85(1).

(3) Register of Members. Section 88(1) (a).

(4) Register of Debenture-holders. Section 88(1) (b).

(5) Register of any other security holders. Section 88 (1) (c).

(6) Books for recording minutes of proceedings of general meetings and of Board meetings. Section 118(1).

(7) Register of Contracts or arrangements in which Directors are interested. Section189(1).

(8) Register of directors and key managerial personnel and their shareholding, Section 170(1).

2.02.04 SCOPE OF AUDIT

The audit of a Government company is conducted by the CAG under Section 143 (6) and 143 (7) of the Companies Act, 2013.

Under Section 143(6) (a) of the Act, the CAG has the right to conduct supplementary audit of the financial statements of the company by such persons as he may authorize and under Section 143(6) (b) comment upon or supplement the audit report submitted by the auditor appointed (under Section 139 (5) and (7)) . Under Section 143 (7), the CAG of India, if he considers necessary, by an order, cause test audit of the accounts of government companies. Provisions of Section 19 A of DPC Act, 1971 are applicable to the results of such a test audit. Section 143 (6)) confers an independent right on the CAG to comment upon or supplement the Company Auditor's report.

2.02.05 APPOINTMENT OF AUDITORS

The Auditor of a Government company shall be appointed or reappointed by the Central Government on the advice of the CAG within a period of 180 days from commencement of financial year, who shall hold the office till the conclusion of the annual general meeting (Section 139 (5)).

In case of appointment of first Auditor of a Government company, the Auditor shall be appointed by the CAG within 60 days (Section 139 (7)) from the date of registration of the company. In case the CAG does not appoint such auditor within the said period, the Board of Directors of the company shall appoint such auditor within the next 30 days; and in the case of failure of the Board to appoint such auditor within the next 30 days, it shall inform the members of the company who shall appoint such auditor the within the 60 days at an extra ordinary general meeting, who shall hold the office till the conclusion of the first annual general meeting.

2.02.06 POWER TO ISSUE DIRECTIVES

CAG, under Section 143 (5) of the Act, is empowered to direct the Auditor in the manner in which the accounts of the Company are required to be audited and thereupon the Auditor so appointed shall submit a copy of the audit report to the CAG which, among other things, includes the directions, if any, issued by the CAG, the action taken there upon and its impact on the accounts and financial statements of the company. Thus, the Audit Report submitted by the auditor shall also show the impact of the directions issued by the CAG.

2.02.07 POWER TO AUDIT

The CAG has the power to conduct the supplementary audit (Section 143 (6)(a)) within 60 days from the date of receipt of the report submitted under Section 143 (5) . Further, the CAG has power to comment upon or supplement such audit report under Section 143 (6) (b).

2.02.08 FINANCIAL STATEMENTS

As defined in Section 2 (40) 'financial statements' in relation to a company include-

(i) A balance sheet as at the end of financial year;

(ii) A profit and loss account, or in the case of a company carrying on any activity not for profit , an income and expenditure account for the financial year;

(iii) Cash flow statement for the financial year;

(iv) a statement of changes in equity, if applicable; and

(v) Any explanatory note annexed to, or forthcoming part of, any document referred to in sub-clause (iv).

At every Annual General Meeting of the company held in pursuance of section 96, the Board of Directors of the Company shall lay before the Company Financial Statements for the financial year specified in sub section (2) of the Section 129 of the Companies Act.

A company should file a copy of Financial Statements duly adopted at the Annual General Meeting (AGM) of the Company, with the Registrar within thirty days of the date of the holding of the Annual General Meeting (Section 137(1) of the Act). Further, where the AGM for any year has not been held, the Financial Statements duly signed along with the statement of facts and reasons for not holding the AGM with the Registrar should be filed within 30 days of the last date before the AGM should have been held, (Section 137(2)).

Part I of the Schedule III of the Companies Act, 2013 provides the form in which the balance sheet should be drawn out and the details that are required to be disclosed under various categories of assets and liabilities. Notes to Part

I of Schedule III contain general instructions for preparation of balance sheet. The information required to be given under any of the items of the balance sheet may be given in separate notes to be annexed to and forming part of the balance sheet.

Part II of Schedule III of the Companies Act, 2013 provides the form in which statement of Profit and Loss should be drawn out and the details that are required to be disclosed in notes.

2.02.09 STATUTORY AUDITORS' REPORT

Section 143(3) of the Act prescribes the matters on which the Company Auditor has to report. Accordingly, Company Auditor has to give certain facts and comments in his audit report. While making his report, the Auditor should also consider various matters required to be enquired into under Section 143 (1) of the Act.

Under Section 143 (11) of the Act, the Central Government may, in consultation with the National Financial Reporting Authority, by way of general or special order, direct, in respect of such class or description of company, as may be specified in the order, that the Auditor's report shall also include a statement on such matters as may be specified therein.

2.02.10 FORM FOR COMMUNICATION OF COMMENTS UNDER SECTION 143 (6) (b) OF THE COMPANIES ACT

(i) Format of certificate for conducting supplementary audit of financial statements and issue of Comments. (Annexure II- (1))

(ii) Format of certificate for conducting supplementary audit of financial statements and issue of Nil Comments. (Annexure II- (2))

(iii) Format of certificate for not conducting supplementary audit of financial statements. (Annexure II- (3))

(iv) Format of certificate for conducting supplementary audit of financial statements, revision of financial statements and consequent issue of 'Nil' Comments. (Annexure II- (4))

(v) Format of certificate for conducting supplementary audit of financial statements, revision of financial statements and subsequent issue of Comments. (Annexure II- (5))

(vi) Format of certificate for conducting supplementary audit of consolidated financial statements and issue of Comments. (Annexure II- (6))

(vii) Format of certificate for conducting supplementary audit of consolidated financial statements and issue of "Nil" comments. (Annexure II- (7))

(viii) Format of certificate for not conducting supplementary audit of consolidated financial statements. (Annexure II- (8))

(ix) Format of certificate for conducting supplementary audit of consolidated financial statement, revision of consolidated financial statements and consequent issue of Nil Comments. (Annexure II- (9))

(x) Format of certificate for conducting supplementary audit of consolidated financial statements, revision of consolidated financial statements and subsequent issue of comments. (Annexure II- (10))

(C & AG Letter No. CA-II /07-2014 /97 dated 27.05.2014)

ANNEXURE-II (1) (As referred to in **Para 2.02.10)**

(FORMAT OF CERTIFICATE FOR CONDUCTING SUPPLEMENTARY AUDIT OF FINANCIAL STATEMENTS AND ISSUE OF COMMENTS)

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 143(6)(b) OF THE COMPANIES ACT, 2013 ON THE FINANCIAL STATEMENTS OF (Name of the Company) FOR THE YEAR ENDED 31 MARCH (Year)

The preparation of financial statements of (Name of the Company) for the year ended 31 March (year) in accordance with financial reporting framework prescribed under the Companies Act, 2013 is the responsibility of the management of the Company. The Statutory Auditor/Auditors appointed by the Comptroller and Auditor General of India under Section 139(5) or 139(7)[6] of the Act is/are responsible for expressing opinion on these financial statements under Section 143 of the Act based on independent audit in accordance with the standards on auditing prescribed under section 143(10) of the Act. This is stated to have been done by them vide their Audit Report dated (Date of the report).

I, on the behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit under Section 143(6)(a) of the Act of the financial statements of (Name of the Company) for the year ended 31 March (year). This supplementary audit has been carried out independently without access to the working papers of the Statutory Auditors and is limited primarily to inquiries of the Statutory Auditors and company personnel and a selective examination of some of the accounting records. Based on my supplementary audit, I would like to highlight the following significant matters under Section 143(6)(b) of the Act which have come to my attention and which in my view are necessary for enabling a better understanding of the financial statements and the related Audit Report.

A. Comments on Profitability
B. Comments on Financial Position
C. Comments on Cash Flow
D. Comments on Disclosure
E. Comments on Auditors' Report
F. Other comments.

(May be arranged in order of decreasing importance)

For and on the behalf of the
Comptroller & Auditor General of India

Date:
Place:

(Name of the PAG/AG)
Principal Accountant General/Accountant General
(Audit)

[6] In the case of first auditor appointed by the CAG.

ANNEXURE-II (2)

(Format of certificate for conducting supplementary audit of financial statements and issue of Nil Comments) Para 2.02.10

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 143(6)(b) OF THE COMPANIES ACT, 2013 ON THE FINANCIAL STATEMENTS OF (Name of the Company) FOR THE YEAR ENDED 31 MARCH (Year)

The preparation of financial statements of (Name of the Company) for the year ended 31 March (year) in accordance with financial reporting framework prescribed under the Companies Act, 2013 is the responsibility of the management of the Company. The Statutory Auditor/Auditors appointed by the Comptroller and Auditor General of India under Section 139(5) or 139(7)[7] of the Act is/are responsible for expressing opinion on these financial statements under Section 143 of the Act based on independent audit in accordance with standards on auditing prescribed under section 143(10) of the Act. This is stated to have been done by them vide their Audit Report dated (Date of the report).

I, on the behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit under Section 143(6)(a) of the Act of the financial statements of (Name of the Company) for the year ended 31 March (year). This supplementary audit has been carried out independently without access to the working papers of the Statutory Auditors and is limited primarily to inquiries of the Statutory Auditors and company personnel and a selective examination of some of the accounting records. On the basis of audit nothing significant has come to my knowledge which would give rise to any comment upon or supplement to Statutory Auditors' Report.

For and on the behalf of the
Comptroller & Auditor General of India

Date:
Place:

(Name of the PAG/AG)
Principal Accountant General/Accountant General
(Audit)

[7] In the case of first auditor appointed by the CAG.

ANNEXURE-II (3)

(Format of certificate for not conducting supplementary audit of financial statements)

Para 2.02.10

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 143(6)(b) OF THE COMPANIES ACT, 2013 ON THE FINANCIAL STATEMENTS OF (Name of the Company) FOR THE YEAR ENDED 31 MARCH (Year)

The preparation of financial statements of (Name of the Company) for the year ended 31 March (year) in accordance with financial reporting framework prescribed under the Companies Act, 2013 is the responsibility of the management of the Company. The Statutory Auditor/Auditors appointed by the Comptroller and Auditor General of India under Section 139 (5) or 139 (7)[8] of the Act is/are responsible for expressing opinion on the financial statements under Section 143 of the Act based on independent audit in accordance with the standards on auditing prescribed under section 143(10) of the Act. This is stated to have been done by them vide their Audit Report dated (Date of the report).

I, on the behalf of the Comptroller and Auditor General of India, have decided not to conduct the supplementary audit of the financial statements of (Name of the Company) for the year ended 31 March (year) and as such has no comments to make under section 143 (6) (b) of the Act.

For and on the behalf of the
Comptroller & Auditor General of India

Date:
Place:

(Name of the PAG/AG)
Principal Accountant General/Accountant General
(Audit)

[8] In the case of first auditor appointed by the CAG.

ANNEXURE-II (4)

(Format of certificate for conducting supplementary audit of financial statements revision of financial statements and consequent issue of Nil Comments)

Para 2.02.10

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 143(6)(b) OF THE COMPANIES ACT, 2013 ON THE FINANCIAL STATEMENTS OF (Name of the Company) FOR THE YEAR ENDED 31 MARCH (Year)

The preparation of financial statements of (Name of the Company) for the year ended 31 March (year) in accordance with financial reporting framework prescribed under the Companies Act, 2013 is the responsibility of the management of the Company. The Statutory Auditor/ Auditors appointed by the Comptroller and Auditor General of India under Section 139(5) or 139(7)[9] of the Act is/are responsible for expressing opinion on these financial statements under Section 143 of the Act based on independent audit in accordance with the standards on auditing prescribed under section 143(10) of the Act. This is stated to have been done by them vide their Audit Report dated (Date of the report).

I, on the behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit under Section 143(6) (a) of the Act of the financial statements of (Name of the Company) for the year ended 31 March (year). This supplementary audit has been carried out independently without access to the working papers of the Statutory Auditors and is limited primarily to inquiries of the Statutory Auditors and company personnel and a selective examination of some of the accounting records. In view of the revisions made in the financial statements by the management, as a result of my observations highlighted during my supplementary audit as indicated in the Note No.--- of the financial statements, I have no further comments to offer upon or supplement to the statutory auditors' report, under section 143 (6) (b) of the Act.

For and on the behalf of the
Comptroller & Auditor General of India

Date:
Place:

(Name of the PAG/AG)
Principal Accountant General/Accountant General
(Audit)

[9] In the case of first auditor appointed by the CAG.

ANNEXURE-II (5)

(Format of certificate for conducting supplementary audit of financial statements, review of financial statements and subsequent issue of Comments)

Para 2.02.10

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 143 (6) (b) OF THE COMPANIES ACT, 2013 ON THE FINANCIAL STATEMENTS OF (Name of the Company) FOR THE YEAR ENDED 31 MARCH (Year)

The preparation of financial statements of (Name of the Company) for the year ended 31 March (year) in accordance with financial reporting framework prescribed under the Companies Act, 2013 is the responsibility of the management of the Company. The Statutory Auditor/ Auditors appointed by the Comptroller and Auditor General of India under Section 139(5) or 139(7)[10] of the Act is/are responsible for expressing opinion on these financial statements under Section 143 of the Act based on independent audit in accordance with the standards on auditing prescribed under section 143 (10) of the Act. This is stated to have been done by them vide their Audit Report dated (Date of the report).

I, on the behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit under Section 143 (6) (a) of the Act of the financial statements of (Name of the Company) for the year ended 31 March (year). This supplementary audit has been carried out independently without access to the working papers of the Statutory Auditors and is limited primarily to inquiries of the Statutory Auditors and company personnel and a selective examination of some of the accounting records. The financial statements of the company have been revised by the management to give effect to some of my audit observation highlighted during supplementary audit as indicated in the Note No.--- of the financial statements. In addition I would like to highlight the following significant matters under section 143 (6) (b) of the Act which have come to my attention and which in my view are necessary for enabling a better understanding of the financial statements and the related audit report:

A. Comments on Profitability
B. Comments on Financial Position
C. Comments on Cash Flow
D. Comments on Disclosure
E. Comments on Auditors' Report
F. Other comments.

(May be arranged in order of decreasing importance)

For and on the behalf of the
Comptroller & Auditor General of India

Date:
Place:

(Name of the PAG/AG)
Principal Accountant General/Accountant General
(Audit)

[10] In the case of first auditor appointed by the CAG.

ANNEXURE-II (6)

(Format of certificate for conducting supplementary audit of consolidated financial statements and issue of comments)

Para 2.02.10

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 143(6)(b) READ WITH SECTION 129 (4) OF THE COMPANIES ACT, 2013 ON THE CONSOLIDATED FINANCIAL STATEMENTS OF (Name of the Company) FOR THE YEAR ENDED 31 MARCH (Year)

The preparation of consolidated financial statements of (Name of the Company) for the year ended 31 March (year) in accordance with the financial reporting framework prescribed under the Companies Act, 2013 is the responsibility of the management of the Company. The Statutory Auditor/Auditors appointed by the Comptroller and Auditor General of India under Section 139(5) or 139(7)[11] read with section 129(4) of the Act is/are responsible for expressing opinion on the financial statements under section 143 read with section 129(4) of the Act based on independent audit in accordance with the standards on auditing prescribed under section 143(10) of the Act. This is stated to have been done by them vide their Audit Report dated (Date of the report).

I, on the behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit under Section 143(6)(a) read with section 129(4) of the Act of the consolidated financial statements of (Name of the Company) for the year ended 31 March (year). We conducted a supplementary audit of the financial statements of (name of the Company, subsidiary --), but did not conduct supplementary audit of the financial statements of (name of subsidiaries, associate companies and jointly controlled entities)[12] for the year ended on that date. This supplementary audit has been carried out independently without access to the working papers of the Statutory Auditors and is limited primarily to inquiries of the Statutory Auditors and company personnel and a selective examination of some of the accounting records.

Based on my supplementary audit, I would like to highlight the following significant matters under Section 143 (6) (b) read with section 129 (4) of the Act which have come to my attention and which in my view are necessary for enabling a better understanding of the consolidated financial statements and the related Audit Report.

A. Comments on Consolidated Profitability
B. Comments on Consolidated Financial Position
C. Comments on Consolidated Cash Flow
D. Comments on Disclosure
E. Comments on Auditors' Report on Consolidated Financial Statements
F. Other comments.

(May be arranged in order of decreasing importance)

For and on the behalf of the
Comptroller & Auditor General of India

Date:
Place:

(Name of the PAG/AG)
Principal Accountant General/Accountant General
(Audit)

[11] In the case of first auditor appointed by the CAG.

[12] If the number exceeds three the same may be listed in as annexure.

ANNEXURE-II (7)

(Format of certificate for conducting supplementary audit of consolidated financial statements and issue of Nil Comments)

Para 2.02.10

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 143(6)(b) READ WITH SECTION 129(4) OF THE COMPANIES ACT, 2013 ON THE CONSOLIDATED FINANCIAL STATEMENTS OF (Name of the Company) FOR THE YEAR ENDED 31 MARCH (Year).

The preparation of consolidated financial statements of (Name of the Company) for the year ended 31 March (year) in accordance with financial reporting framework prescribed under the Companies Act, 2013 is the responsibility of the management of the company. The Statutory Auditor/Auditors appointed by the Comptroller and Auditor General of India under Section 139 (5) or 139 (7)[13] read with section 129 (4) of the Act is/are responsible for expressing opinion on the financial statements under Section 143 read with section 129 (4) of the Act based on independent audit in accordance with the standards on auditing prescribed under section 143 (10) of the Act. This is stated to have been done by them vide their Audit Report dated (date of the report).

I, on the behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit under section 143 (6) (a) read with section 129 (4) of the Act of the consolidated financial statements of (Name of the Company) for the year ended 31 March (year). We conducted a supplementary audit of the financial statements of (name of the Company, subsidiary --), but did not conduct supplementary audit of the financial statements of (name of subsidiaries, associate companies and jointly controlled entities)[14] for the year ended on that date. This supplementary audit has been carried out independently without access to the working papers of the Statutory Auditors and is limited primarily to inquiries of the Statutory Auditors and company personnel and a selective examination of some of the accounting records.

On the basis of my audit nothing significant has come to my knowledge which would give rise to any comment upon or supplement to Statutory Auditors' Report.

For and on the behalf of the
Comptroller & Auditor General of India

Date:
Place:

(Name of the PAG/AG)
Principal Accountant General/Accountant General
(Audit)

[13] In the case of first auditor appointed by the CAG.

[14] If the number exceeds three the same may be listed in as annexure.

ANNEXURE-II (8)

(Format of certificate for not conducting supplementary audit of consolidated financial statements)

Para 2.02,10

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 143 (6) (b) READ WITH SECTION 129 (4) OF THE COMPANIES ACT, 2013 ON THE CONSOLIDATED FINANCIAL STATEMENTS OF (Name of the Company) FOR THE YEAR ENDED 31 MARCH (Year)

The preparation of consolidated financial statements of (Name of the Company) for the year ended 31 March (year) in accordance with financial reporting framework prescribed under the Companies Act, 2013 is the responsibility of the management of the company. The Statutory Auditor/Auditors appointed by the Comptroller and Auditor General of India under Section 139 (5) or 139 (7)[15] read with section 129 (4) of the Act is/are responsible for expressing opinion on the financial statements under section 143 read with section 129 (4) of the Act based on independent audit in accordance with the standards on auditing prescribed under section 143 (10) of the Act. This is stated to have been done by them vide their Audit Report dated (Date of the report).

I, on the behalf of the Comptroller and Auditor General of India, have decided not to conduct the supplementary audit of the consolidated financial statements of (Name of the Company) for the year ended 31 March (year) and as such have no comments to make under section 143 (6) (b) read with section 129 (4) of the Act.

For and on the behalf of the
Comptroller & Auditor General of India

Date:
Place:

(Name of the PAG/AG)
Principal Accountant General/Accountant General
(Audit)

[15] In the case of first auditor appointed by the CAG.

ANNEXURE-II (9)

(Format of certificate for conducting supplementary audit of consolidated financial statements, Revision of consolidated financial statements and consequent issue of Nil Comments)

Para 2.02.10

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 143 (6) (b) READ WITH SECTION 129 (4) OF THE COMPANIES ACT, 2013 ON THE CONSOLIDATED FINANCIAL STATEMENTS OF (Name of the Company) FOR THE YEAR ENDED 31 MARCH (Year)

The preparation of consolidated financial statements of (Name of the Company) for the year ended 31 March (year) in accordance with financial reporting framework prescribed under the Companies Act, 2013 is the responsibility of the management of the Company. The Statutory Auditor/Auditors appointed by the Comptroller and Auditor General of India under Section 139(5) or 139 (7)[16] read with section 129 (4) of the Act is/are responsible for expressing opinion on the financial statements under section 143 read with section 129 (4) of the Act based on independent audit in accordance with the standards on auditing prescribed under section 143 (10) of the Act. This is stated to have been done by them vide their Audit Report dated (Date of the report).

I, on the behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit under Section 143 (6) (a) read with section 129 (4) of the Act of the consolidated financial statements of (Name of the Company) for the year ended 31 March (year). We conducted a supplementary audit of the financial statements of (name of the Company, subsidiary --), but did not conduct supplementary audit of the financial statements of (name of subsidiaries, associate companies and jointly controlled entities)[17] for the year ended on that date. This supplementary audit has been carried out independently without access to the working papers of the Statutory Auditors and is limited primarily to inquiries of the Statutory Auditors and company personnel and a selective examination of some of the accounting records.

In view of the revisions made in the consolidated financial statements by the management, as a result of my observations highlighted during my supplementary audit as indicated in the Note No.---of consolidated financial statements, I have no further comments to offer upon or supplement to the statutory auditors' report, under section 143 (6) (b) read with section 129 (4) of the Act.

For and on the behalf of the
Comptroller & Auditor General of India

Date:
Place:

(Name of the PAG/AG)
Principal Accountant General/Accountant General
(Audit)

[16] In the case of first auditor appointed by the CAG.
[17] If the number exceeds three the same may be listed in as annexure.

ANNEXURE-II (10)

(Format of certificate for conducting supplementary audit of consolidated financial statements, revision of consolidated financial statements and subsequent issue of Comments)

Para 2.02.10

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 143 (6) (b) READ WITH SECTION 129 (4) OF THE COMPANIES ACT, 2013 ON THE CONSOLIDATED FINANCIAL STATEMENTS OF (Name of the Company) FOR THE YEAR ENDED 31 MARCH (Year)

The preparation of consolidated financial statements of (Name of the Company) for the year ended 31 March (year) in accordance with financial reporting framework prescribed under the Companies Act, 2013 is the responsibility of the management of the Company. The Statutory Auditor/Auditors appointed by the Comptroller and Auditor General of India under Section 139 (5) or 139 (7)[18] read with section 129 (4) of the Act is/are responsible for expressing opinion on the financial statements under section 143 read with section 129 (4) of the Act based on independent audit in accordance with the standards on auditing prescribed under section 143 (10) of the Act. This is stated to have been done by them vide their Audit Report dated (Date of the report).

I, on the behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit under Section 143 (6) (a) read with section 129 (4) of the Act of the consolidated financial statements of (Name of the Company) for the year ended 31 March (year). We conducted a supplementary audit of the financial statements of (name of the Company, subsidiary --), but did not conduct supplementary audit of the financial statements of (name of subsidiaries, associate companies and jointly controlled entities)[19] for the year ended on that date. This supplementary audit has been carried out independently without access to the working papers of the Statutory Auditors and is limited primarily to inquiries of the Statutory Auditors and company personnel and a selective examination of some of the accounting records.

The consolidated financial statements of the company have been revised by the management to give effect to some of my audit observation highlighted during supplementary audit as indicated in the Note No.--- of the consolidated financial statements. In addition, I would like to highlight the following significant matters under section 143 (6) (b) read with section 129 (4) of the Act which have come to my attention and which in my view are necessary for enabling a better understanding of the consolidated financial statements and the related audit report:

A. Comments on Consolidated Profitability
B. Comments on Consolidated Financial Position
C. Comments on Consolidated Cash Flow
D. Comments on Disclosure
E. Comments on Auditors' Report on Consolidated Financial Statements
F. Other comments.

(May be arranged in order of decreasing importance)

For and on the behalf of the
Comptroller & Auditor General of India

Date:
Place:

(Name of the PAG/AG)
Principal Accountant General/Accountant General
(Audit)

[18] In the case of first auditor appointed by the CAG.
[19] If the number exceeds three the same may be listed in as annexure.

2.03 Audit of Consolidated Financial Statements

2.03.01 Introduction

Corporate financial reporting and disclosures play a crucial role in bringing transparency in the functioning of an enterprise thereby improving its functional efficiency besides being one of the important constituents of corporate governance structure. One of the major instruments in improved financial reporting is the preparation of Consolidated Financial Statements (CSF). Consolidated Financial Statements are the financial statements of a group, presented by a parent/holding company, in which the assets, liabilities, equity, income, expenses and cash flows of the holding company and its subsidiary companies are presented as those of s single economic entity.

The purpose of CFS is to highlight the financial position and operational performance of the group which would not have been apparent from the standalone financial statements.

2.03.02 A) Regulatory Framework (prior to Companies Act, 2013)

Financial reporting in India has been governed by the Companies Act, 1956, the Indian Accounting Standards formulated and issued by the Instituted of Chartered Accountants of India and by the listing agreements. The preparation and presentation of the CFS in India has been regulated as under:

- Section 212 of the Companies Act, 1956 required holding Companies to attach the financial statements of each of its subsidiaries along with the holding Company's interest therein with its own standalone financial statements.
- Clause 41 of the listing agreement also requires submission of annual audited consolidated financial results for listed companies while submitting annual audited financial results prepared on stand- alone basis to the stock exchange within sixty days from the end of the financial year.
- Preparation of CFS is required to comply with the requirements of Accounting Standard-21 (Consolidated Financial Statements), Accounting Standard- 23 (Accounting for investments in Associated in consolidated Financial Statements) and Accounting Standard-27 (Financial Reporting of Interests in Joint Ventures) issued and specified by the institute of Chartered Accountants of India (ICAI) under Section 211 of the Companies Act, 1956.

1. B) Regulatory framework (Post Companies Act, 2013)

The Companies Act, 2013 focuses on corporate reporting framework and some of the significant changes relating to CFS are as under:

2.03.03 Mandatory Preparation of Consolidated Financial Statements.

Section 129(3) of the Companies Act 2013 mandates preparation of CFS for all parent/holding company companies having one or more subsidiaries in addition to the separate financial statements and the same are required to be prepared in the same from and manner as the separate financial statements. For the purpose of this section, *the word subsidiary would include associate companies and joint ventures.* The requirements of Schedule-III of the Companies Act, 2013, which lays down the format for preparation of financial statements, apply *mutatis mutandis* on the preparation of CFS by a company. Under section 129 (3), the requirements concerning preparation, adoption and audit of financial statements of a holding company shall, *mutatis mutandis*, apply to CFS. Other requirements for CFS, if any, are stated in the Act at appropriate places.

2.03.04 Definitions of Subsidiary, Associate and Joint Venture.

The definitions of the terms 'subsidiary' and 'associates' have been modified under the Companies Act, 2013 and the term 'joint venture' under the AS-23 only. The definitions are discussed below:

2.03.04.01 Subsidiary

The Companies Act, 1956 did not define the term "control". It explains the meaning of terms "holding company", and "subsidiary" as a company will be deemed to be a subsidiary of another company if, and only if, the other company controls the composition of the its board of directors, or controls more than one-half of the voting power of an enterprise.

Companies Act, 2013 defines 'subsidiary' as a company of which the 'holding' company controls more than one-half of the total share capital (either directly or indirectly) or controls composition of the board of directors. Control includes right to appoint majority of the directors.

The definition of a subsidiary under the Companies Act 2013 is based on ownership of the total share capital which includes convertible preference share capital (only convertible preference share capital, as per Rules 2(r) (b)) of Companies (Specification of definitions details) Rules, 2014).

In contrast, AS 21 on CFS defines a subsidiary as an enterprise that is controlled by another enterprise. Control is defined as the ownership, directly or indirectly through subsidiary (ies), of more than one-half of the voting power of an enterprise; and/or (b) control of composition of the board of directors.

The definition of a subsidiary under the 2013 is based on ownership of the total share capital which includes convertible preference share capital. This will have a significant impact on several companies which have issued preference shares.

Also this definition does not consider the concept of control over voting power covered in Companies Act 1956 and AS-21.

While the definition of the term 'subsidiary' is confined to a company registered under the Companies Act 2013, the same extends to non-company under para 10 of AS-21

2.03.04.02 <u>Associate</u>

The Companies Act, 1956 did not define the term "associate" or "associate company". Notified Accounting Standard-23 (Accounting for Investments in Associates in Consolidated Financial Statements) defines the term "associate" as "an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor". Accounting Standard-23 defines the term "significant influence" as "the power to participate in the financial/ operating policy decisions of the investee but not control over those policies".

Companies Act, 2013 defines an 'associate' as a company in which that other company has a 'significant influence', but which is not a subsidiary company of the company having such influence and includes a joint venture company. 'Significant influence' means control of at least 20% of total share capital, or of business decisions under an agreement.

The subsidiary and associate company as defined in the Companies Act, 2013 are as under:

HOLDING COMPANY	Subsidiary Company	Owns/Controls more than 50% of the share capital or exercises control over the Board of Directors
	Associate Company	Owns/Controls 20% or more of the share capital, or business decisions under an agreement

2.03.04.03 <u>Joint Ventures:-</u>

The term 'joint venture' has not been defined under the Companies Act, but it has been defined under AS-27. Under AS-27 (i) a joint venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control; (ii) Joint control is the contractually agreed sharing of control over an economic activity, (iii) control is the power to govern the financial and operating policies of an economic activity so as to obtain benefits from it, (iv) a venturer is a party to a joint venture and has joint control over that joint venture.

2.03.05 Additional disclosure requirements

- Section 129 of the Companies Act, 2013 requires the company to attach along with its financial statements, a separate statement containing the salient features of the financial statement of its subsidiary or subsidiaries in such form as may be prescribed. Such statement has been prescribed under Rule-5 of the Company (Accounts) Rule, 2014. However, Rule-6 states that for a company u/s 129(3), which is not required to prepare consolidated financial statements under the Accounting Standards, it shall be sufficient that the company complies with the provisions of CFS provided in schedule-III of the Act.
- Schedule- III of the Companies Act, 2013 containing the general instructions of the preparation of CFS requires the companies to disclose by way of a statement, the share in profit/loss and net assets of each subsidiary, associate and joint ventures as additional information. It also requires the companies to cover all subsidiaries, associates and joint ventures (whether Indian or foreign) under CFS and disclose the list of subsidiaries or associates or joint ventures which have not been consolidated in the CFS along with the reasons of not consolidating.

2.03.06 Preparation of Consolidated Financial Statements and their format.

Consolidated Financial Statements are presented for a group of entities under the control of a parent. A 'parent' is an entity that has one or more subsidiaries. A group comprises a parent and its subsidiaries. Thus, CFS are the financial statements of a group presented by parent/holding Company.

As per section 129 of the Companies Act 1956, CFS are required to be presented, to the extent possible, in the same format as adopted by the parent for its separate standalone financial statements *i.e.* Schedule-III, and additional information are to be disclosed as required under Accounting Standards and Rules prescribed under section 129 (3) of the Act.

MCA has amended this position through the Company (Accounts) Amendment Rules, 2014 notified in October 2014. The rule 6 of Companies (Accounts) Rules, 2014 has been amended to provide two sets of exemptions from preparing CFS.

- Companies which do not have any subsidiary company but have one of more associate companies or JVs or both, are exempted from preparing CFS for the financial year 2014-15.

- Intermediate wholly owned subsidiary companies, whose immediate parent is a company incorporated in India, do not need to prepare CFS.

The preparation of CFS broadly involves:

- Identifying components (subsidiaries/associates/joint ventures);
- Obtaining accurate and complete financial information from components;
- Including the financial information of the components in the CFS;
- Identifying reportable segments for segmental reporting;
- Identifying related parties and related party transactions for reporting;
- Making appropriate consolidation adjustments.

For this purpose, the parent company generally issues instructions to the Management of components for supplying the required financial information of the components for inclusion in the CFS within a pre-defined reporting time table. The information required relates to the accounting policies to be applied, statutory and other disclosure requirements, identification of and reporting on reportable segments, related parties and related party transaction.

2.03.07 Consolidation Procedures and Principles: AS-21

The Accounting Standard-21 (Consolidated Financial Statements) issued by ICAI lays down the following procedures/ principles to be applied in the preparation of CFS;

- The financial statements of the parent and its subsidiaries should be combined on a *line by line basis* by adding together like items of assets, liabilities, income and expenses.
- The cost to the parent of its investment in each subsidiary and the parent's portion of equity of each subsidiary, at the date on which investment in each subsidiary is made, should be eliminated. Any excess of the cost to the parent of its investment in a subsidiary over the parent's portion of equity of the subsidiary, at the date on which investment in the subsidiary is made, should be described as *goodwill* to be recognized as an asset in the CFS. When the cost to the parent of its investment in a subsidiary is less than the parent's portion of equity of the subsidiary, at the date on which investment in the subsidiary is made, the difference should be treated as a *capital reserve* in the CFS.
- Minority interests in the net income of consolidated subsidiaries for the reporting period should be identified and adjusted against the income of the group in order to arrive at the net income attributable to the owners of the parent; and minority interests in the net assets of consolidated subsidiaries should be indentified and presented in the consolidated balance sheet separately from liabilities and the equity of the parent's shareholders. Minority interest in the income of the group should also be separately presented.
- Intra-group balances and intra-group transactions and resulting un-realised profits should be eliminated in full. Un-realised losses resulting from intra-group transactions should also be eliminated unless cost cannot be recovered.
- The financial statements used in the consolidation should be drawn up to the same reporting date. If it is not practicable to draw up the financial statements of one or more subsidiaries to such date and, accordingly, those financial statements are drawn up to different reporting dates, adjustments should be made for the effects of significant transactions or other events that occur between those dates and the date of parent's financial statements. In any case, the difference between reporting dates should not be more than six months.
- Consolidated Financial Statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is not practicable to use uniform accounting policies in preparing CFS, that fact should be disclosed together with the proportions of the items in the CFS to which the different accounting policies have been applied.
- An investment in an enterprise should be accounted for in accordance with Accounting Standard – 13 (Accounting for Investments), from the date that the enterprise ceases to be a subsidiary and does not become and associate.
- The consolidation process would include the following steps generally:
  - Collection of information from the subsidiaries, associates, JVs
  - Line by the consolidation of the financial statements of the Company and its subsidiaries and JVs
  - Elimination of inter unit transaction/ balance
  - Valuation of goodwill/capital reserve arising from the difference between the cost of investment in a subsidiary/ associate and its net assets (equity) at the time of acquisition.
  - Valuation of minority interest.
  - Valuation of investment in associates

- Consolidation of accounting policies and notes

2.03.08 Audit of Consolidated Financial Statements.

The Audit of the CFS is carried out to express an opinion on the true and fair view presented by the CFS. The auditor has to ensure that the CFS have been prepared to the extent possible, in the same format as adopted by the parent for its separate standalone financial statements and that the CFS have been prepared in accordance with the requirements of Accounting Standard-21 (Consolidated Financial Statements), Accounting Standard- 23 (Accounting for Investments in Associates in Consolidated Financial Statements) and Accounting Standard-27 (Financial Reporting of interest in Joint Venture). Broadly, the audit of CFS would involve:

- Reviewing the information relating to the identification and addition/ deletion of the subsidiaries, associates and JVs of the Group Company for the purpose of consolidation.
- Understanding the accounting policies of the parent, subsidiaries, associates and joint ventures; assessing the deviations/ variations and reviewing the appropriateness of adjustments relating to harmonizing variations and the disclosures made in that regard.
- Examining whether the notes which are necessary and material for presenting a true and fair view of the CFS have been included in the CFS as an integral part thereof and whether the additional statutory information disclosed in separate financial statements of the subsidiary and/ or a parent having bearing on the true and fair view of the CFS have been disclosed in the CFS.
- Reviewing the calculation and disclosure of the minority interest to be in accordance with the Accounting Standard-21 (Consolidated Financial Statements).
- Reviewing that the calculation and disclosure of valuation of investment in associates are in accordance with the Accounting Standard-23 (Accounting for Investments in Associates in Consolidated Financial Statements).
- Review the proportionate consolidation of interest in a jointly controlled entity in accordance with the proportionate consolidation method provided in Accounting Standard-27 (Financial Reporting of Interest in Joint Ventures).
- Review the compliance of CFS with the requirements of various Accounting Standards as all the Accounting Standards apply in the same manner to the CFS as the apply to any standalone financial statements.
- Review the additional disclosure requirements of Schedule-III and Rule 5 of Companies (Accounts) Rules 2014 as may be applicable of CFS.

A detailed checklist for Audit is provided in Annexure III.

Para 2.04 **<u>Amendment to Schedule – II of the new Companies Act, 2013 regarding depreciation</u>**

i. If a company adopts useful life of asset different from what is indicated in the Schedule, the same should be disclosed with justification **thereof duly supported by technical advice.**

ii. Para 4 of Part- C of Schedule-II required that where cost of a component of an asset is significant and useful life thereof is different from the main asset, the depreciation on the component shall be determined separately.

<u>Annexure III</u>

Para 2.03.08

Checklist for audit of Consolidated Financial Statements

Sr. No.	**Audit Area**	**Yes/No/NA**	**Remarks**
Component Identification			
1.	Whether all the components of the group viz., subsidiaries, associates and joint ventures (only jointly controlled entities) have been properly identified in accordance with the laid down definition for the purpose of preparation of consolidated financial statement. (Note: As per explanation given under section 129(3) of Cos Act 2013, subsidiary includes associates company and joint venture also *(only for the purposes of Section 129(3)). Thus, a holding company, if such a holding company is a Government Company, has to consolidate the financial statements of its subsidiaries, associates company (ies) and joint venture(s). Though Subsidiary of a Government company supposed to be a Government Company or a company falling in the category of companies 'owned or controlled, directly or indirectly, by the Central Government, or any State Government or Governments, or partly by the Central Government and partly by the Central Government and partly by one or more State Governments', the associate company or a joint venture of such a holding company or that of its subsidiary may be private entities. Hence, our supplementary audit would not cover the annual financial audit of such entities and will be reflected by way of suitable disclaimer to that effect)*		
Requirements of AS-21			
2.	Whether and Consolidated Financial Statements have been prepared by consolidating all the subsidiaries, domestic as well as foreign? If the identification of subsidiary has to be with reference to AS-21, the following subsidiaries referred to in Para 11 of Accounting Standard -21 (Consolidated Financial Statements) are exempted from consolidation- • Where control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in near future; or • Where it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parents. (Para No.9 & 11 of AS-21)		
3.	Whether any subsidiary has been wrongly excluded from the consolidation on the ground of business activities being dissimilar from those of the other enterprises within the group? (Para 12 of AS-21)		
4.	Whether the results of operations of a subsidiary are included in the consolidated financial statements only as from the date on which parent-subsidiary relationship came in to existence? (Para of AS-21)		
5.	Whether the results of operations of subsidiary with which parent-subsidiary relationship ceases to exist are included in the consolidated statements of profit and loss only until the date of cessation of the relationship? (Para 22 of AS-21)		
6.	Whether the reasons for not consolidating a subsidiary have been disclosed in the consolidated financial statements? (Para 11 of AS-21)		
7.	Whether a list of all subsidiaries, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held has been disclosed in consolidated financial statements?		
8.	Whether the nature of the relationship between the parent and subsidiary, if the parent does not own, directly or indirectly through subsidiaries, more than one-half of the voting power of the subsidiary has been disclosed in the consolidated financial statements? (Para 29 (b) (i) of AS-21)		

9.	Whether the effect of the acquisition and disposal of subsidiaries on the financial position at the reporting date, the results for the reporting period and on the corresponding amounts for the preceding period have been disclosed in consolidated financial statements? (Para 29 (b) (ii) of AS-21)		
10.	Whether the investments in such subsidiaries which have not been consolidated in the consolidated Financial Statements in accordance with Para 11 of Accounting Standard- 21 (Consolidated Financial Statements), have been accounted for in accordance with Accounting Standard-13 (Accounting for Investments) in the standalone financial statements? (Para 29 (b) (iii) of AS-21)		
11.	Whether the investment in an enterprise has been accounted for in accordance with AS- 13, from the date that the enterprise ceases to be a subsidiary and does not become and associate? (Para 23 of AS-21)		
Format and Contents			
12.	Whether the Consolidated Financial Statements include- • Consolidated Balance Sheet • Consolidated Statement of Profit and Loss • Consolidated Cash Flow Statement • Statement of change in Equity • Notes, Statements and Other Explanatory Material (Para 6 of AS-21 and Section 2(40) of Companies Act, 2013)		
13.	Whether consolidated financial statements are being presented, to the extent possible, in the same format as that adopted by the parent for its separate financial statements? (Para 6 of AS-21)		
14.	Whether the full comparative figures for the previous period have been presented in the consolidated financial statements except in case of first time preparation of consolidated financial statements? (Para 30 of AS-21)		
15.	Whether identification of reportable segments for the purpose of segment reporting across all consolidating entities is appropriate?		
16.	Whether the identification of effects and reporting of related party transactions by all the consolidating entities is appropriate?		
17.	In case of consolidating entities having subsidiaries/ associates/ joint ventures, whether the consolidated financial statements thereof have been used for preparing the group consolidated financial statements.		
Reporting Period			
18.	Whether the financial statements used in the consolidation have been drawn up to the same reporting date? (Para 18 of AS-21)		
19.	In case it is not practicable to draw up the financial statements of one or more subsidiaries/ jointly controlled entities to same date and, accordingly, those financial statements are drawn up to different reporting dates, whether proper adjustments have been made for the effects of significant transactions or other events that occur between those dates and the date of the parent's financial statements. *In any case, the difference between reporting dates should not be more than six months(* para 18 of AS-21*)*		
20.	Whether the names of the subsidiaries/ jointly controlled entities/ associated of which reporting dates are different from that of the parent and the difference in reporting dates have been disclosed in consolidated financial statement? (Para 29 (iii) of AS- 21)		
21.	Whether the length of the reporting periods, and any difference in the reporting dates, are consistent from period to period? (Para 19 of AS- 21)		
Accounting Policies and Notes			
22.	Whether the consolidated financial statements have been prepared using		

	uniform accounting policies for like transactions and other events in similar circumstances? Whether adjustments have been made to harmonise the different accounting policies? (Para 20 of AS-21)		
23.	In case it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, whether the fact has been disclosed together with the proportion of the terms in the consolidated financial statements to which the different accounting policies have been applied. (Para 20 of AS-21)		
24.	Whether all the notes involving items which are material and which are considered necessary for presenting a true and fair view of the consolidated financial statements are included in the consolidated financial statements. (Para 6 of AS-21, Explanation-1)		
Line by line Consolidation			
25.	Whether the consolidated financial statements have been prepared by combining on a line by line basis by adding together like items of assets, liabilities, income and expenses of the parent and its subsidiaries so that the consolidated financial statements present financial information about the group as that of a single enterprise? (Para 13 of AS-21)		
26.	Whether 100 per cent line by line consolidation has been carried out in respect of subsidiaries? (Para 13 of AS-21)		
27.	Whether proportionate line by line consolidation has been carried out in respect of joint ventures (Jointly Controlled Entities) in accordance with the 'participating interest' held by the parent? (AS-27)		
Elimination of inter unit transactions/balances			
28.	Whether all the intra-group balances and intra-group transactions and resulting unrealised profits have been eliminated in full? (Para 16 of AS-21)		
29.	Whether unrealised losses resulting from intra-group transactions have also been eliminated unless cost cannot be recovered? (Para 16 of AS-21)		
30.	Whether the details of transactions/balances in the books of accounts of respective companies have been properly reconciled to arrive at final figures before these eliminations? (Para17 of AS-21)		
31.	Whether all the intra-group transactions/balances relating to purchase/sale, loans given/received, receipts/payments of interest/dividend, debtors/creditors, investment/equity etc. and any other have been covered in the elimination? (Para 17 of AS-21)		
Investments			
32.	Whether the cost to the parent of its investment in each subsidiary and the parent's portion of equity of each subsidiary, at the date on which investment in each subsidiary is made, has been properly eliminated? (Para 13(a) of AS-21)		
33.	Whether any excess of the cost to the parent of its investment in a subsidiary/associate/jointly controlled entity over the parent's portion of equity of the subsidiary/associate/jointly controlled entity, at the date on which investment in the subsidiary/ associate/jointly controlled entity is made, has been properly recognised as goodwill (assets) in the consolidated financial statements? (Para 23(b) of AS-21)		
34.	Whether any excess of the parent's portion of equity of the subsidiary over the cost to the parent of its investment in a subsidiary, at the date on which investment in the subsidiary is made, has been properly recognised as capital reserve (liabilities) in the consolidated financial statements? (Para 13(c) of AS-21)		
Minority Interest			

35.	Whether the minority interests in the net income of consolidated subsidiaries (where the share of parent is less than 100%) for the reporting period has been properly identified and adjusted against the income of the group in order to arrive at the net income attributable to the owners of the parent? (Para 13(d) of AS-21)		
36.	Whether the minority interests in the net assets of consolidated subsidiaries have been properly identified and presented in the consolidated balance sheet separately from liabilities and the equity of the parent's shareholders? (Para 13(e) of AS-21)		
37.	Whether the minority interests in the net assets of consolidated subsidiaries properly accounts for- • the amount of equity attributable to minorities at the date on which investment in a subsidiary is made; and • the minorities' share of movements in equity since the date the parent-subsidiary relationship came in existence. (Para 13(e)-(i)&(ii) of AS-21)		
Requirements of AS-23: Accounting for Investment in Associates			
38.	Whether the investment in an associate has been accounted for in consolidated financial statements under the equity method except when- • the investment is acquired and held exclusively with a view to its subsequent disposal in the near future; or • the associate operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor. (Para 7 of AS-23)		
39.	Whether the reasons for not applying the equity method in accounting for investments in an associate have been disclosed in the consolidated financial statements? (Para 7 of AS-23)		
40.	Whether the use of the equity method has been discontinued from the date the Company ceases to have significant influence in an associate but retains, either in whole or in part, its investment? (Para 9(a) of AS-23)		
41.	Whether the carrying amount of the investment at the date of discontinuation of use of equity method has been regarded as cost thereafter? (Para 9 of AS-23)		
42.	Whether the investments in associates accounted for using the equity method have been classified as long term investments and disclosed separately in the consolidated balance sheet? *{Para 23 of AS- 23}*		
43.	Whether the unrealized profits and losses resulting from transactions between the investor or its consolidated subsidiaries and the associate have been eliminated to the extent of the investor's interest in the associate? *{Para 13 of AS- 23}*		
44.	In case of a provision for proposed dividend having been made by an associate in its financial statements, whether the investor's share of the results of operations of the associate has been computed without taking into consideration the proposed dividend? *{Para 6 (b) of AS- 23}*		
45.	In case of an associate having outstanding cumulative preference shares held outside the group, whether the share of profits or losses is computed after adjusting for the preference dividends, irrespective of declaration of dividends. *{Para 17 of AS- 23}*		
46.	In case, an investor's share of losses of an associate equals or exceeds the carrying amount of the investment under the equity method; whether recognition of the share of further losses is disconnected and investment is reported at nil value. *{Para 18 of AS- 23}*		

47.	In case the recognition of the shares of further losses is not disconnected. Whether the additional losses are provided for only to the extent that the investor has incurred obligations or made payments on behalf of the associate to satisfy obligations of the associate that the investor has guaranteed or to which the investor is otherwise committed. *In such case, if the associate subsequently reports profits, the investor resumes including its share of those profits only after its share of the profits equals the share of net losses that have not been recognised. {Para 18 of AS- 23}*		
48.	In case of an associate preparing consolidated financial statements as well, whether the results and net assets to be taken into account by investor are those reported in that associate's consolidated financial statements. *{Para 19 of AS- 23}*		
49.	Whether the consolidated financial statements disclose- • Investor's share of the contingencies and capital commitments of an associate for which it is also contingently liable; and • Those contingencies that arise because the investor is severally liable for the liabilities of the associate. *{Para 21 of AS- 23}*		
50.	Whether an appropriate listing and description of associates including the proportion of ownership interest and, if different, the proportion of voting power held has been disclosed in the consolidated financial statements. *{Para 22 of AS- 23}*		
Requirements of AS -23; Financial Reporting of interests in Joint Ventures			
51.	Whether the interest of an enterprise in jointly controlled entity has been reported in the consolidated financial statements by using proportionate consolidation except- • an interest in a jointly controlled entity which is acquired and held exclusively with a view to its subsequent disposal in the near future, and • an interest in a jointly controlled entity which operates under severe long-term restrictions that significantly impair its ability to transfer funds to the venture. *{Para 28 of AS- 27}*		
52.	Whether separate line items for proportionate share of the assets, liabilities, income and expenses of the jointly controlled entity are included in the consolidated financial statements? *{Para 32 of AS- 27}*		
53.	Whether any offsetting of assets or liabilities by the deduction of other liabilities or assets or any income or expenses by the deduction of other expenses or income has been wrongly done while effecting proportionate consolidation, unless a legal right of set-off exists and the off-setting represents the expectation as to the realization of the asset or the settlement of the liability? *{Para 35 of AS- 27}*		
54.	Whether in case of contribution or sale of assets to a joint venture, where the assets are retained by the joint venture and risks and rewards of ownership have been transferred to the joint venture, only portion of the gain or loss attributable to the interest of the other ventures had been recognised? *{Para 40 of AS- 27}*		
55.	Whether in case of purchase of assets to a joint venture, its share of the profits of the joints venture has not been recognised until release of the assets to an independent party? *{Para 41 of AS- 27}*		

56.	Whether all the interests in joint ventures, which do not have joint control, have been reported in consolidated financial statements in accordance with AS- 13, AS-21 or AS- 23, as appropriate? *{Para 45 of AS- 27}*		
57.	Whether the aggregate amount of the following contingents liabilities, unless the probability of loss is remote has been disclosed separately from the amount of other contingent liabilities- • Any contingent liabilities that the venture has incurred in relation to its interest in joint ventures and its share in each of the contingent liabilities which have been incurred jointly with other venture; • its share of the contingents liabilities of the joint ventures themselves for which it is contingently liable; and • those contingent liabilities that arise because the venture is contingently liable for the liabilities of the other venturers of a joint venture. *{Para 50 of AS- 27}*		
58.	Whether the aggregate amount of the following commitments in respect of its interests in joint ventures has been disclosed separately from other commitments: • Any capital commitments of the ventures in relation to its interest in joint ventures and its share in the capital commitments that have been incurred jointly with other ventures; and • Its share of the capital commitments of the joint ventures themselves. *{Para 51 of AS- 27}*		
59.	Whether a list of all joint ventures and description of interests in significant joint ventures has been disclosed? *{Para 52 of AS- 27}*		

References-

- Companies' Act, 1956.
- Companies' Act, 2013 and Companies' (Specification of Definitions Details) Rules, 2014.
- Accounting Standard 21 (Consolidated Financial Statements) issued by the Institute of Chartered Accountants of India.
- Accounting Standard 23 (Accounting for Investments in Associates in Consolidated Financial Statements) issued by the Institute of Chartered Accountants of India.
- Accounting Standard 27 (Financial Reporting of Interest in Joint Ventures) issued by the Institute of Chartered Accountants of India.
- Guidance Note on Audit of Consolidated Financial Statements issued by the Institute of Chartered Accountants of India.

Checklist on Company Accounts Received in an office of IA & AD for Audit

1. We have to ensure that the accounts with audit certificate are duly signed by a Chartered Accountant who is a sole practitioner/partner/member of the firm/LLP with his membership number.
2. If there are joint auditors, we have to ensure that CAs from both concerns/firms/LLPs have signed the above certificate and accounts with membership number.
3. We have to ensure that the supplementary report on directions issued by CAG is kept as an integral part of the audit report.
4. We have to ensure that all the following personnel of the Company management have signed the accounts.

   -Chairperson (where authorized by the Board) or MD and one more director

   AND

   - CEO (if he is a director)
   - CFO
   - Company Secretary

   (For One Person Company- one director has to sign)

5. We have to ensure that the date of signature on the accounts by Company management and auditor, date of Audit Committee (AC) and Board meeting approving the accounts and adopting the audited accounts and certificate by auditor are all the same. If not, to ensure that Board approval of accounts is not after auditor's date of signing audit certificate/accounts.
6. We have to ensure that the agenda and the minutes/copy of resolution of AC and Board on approval and adoption of accounts are available.
7. We have to ensure that the CARO report is attached to audit report and CARO 2015 format (from accounts of 2014-15) is followed- except for banking, insurance, Section 8 (not for profit), OPC, small company, Private limited company with Paid up capital + reserves<=Rs.50 lakh/Loan outstanding from bank/FI<=Rs. 25 lakh/Turnover<=Rs.5 crore at any time during financial year.
8. We have to ensure that the Auditor(s) report contains views and comments on the following points as per Section 143 (3) and Rule 11 of Companies (Audit and Auditors Rules) 2014:

   I. Whether he has sought and obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit and if not, the details thereof and the effect of such information on the financial statements;

   II. Whether, in his opinion, proper books of account as required by law have been kept by the company so far as appears from his examination of those books and proper returns adequate for the proposes of his audit have been received from branches not visited by him;

   III. Whether the report on the accounts of any branch office of the company audited by a person other than the company's auditor (i.e. :- branch audit report) has been sent to him under the proviso to that sub-section and the manner in which he has dealt with it in preparing his repot;

   IV. Whether the company's balance sheet and profit and loss account dealt with in the report are in agreement with books of account and returns;

   V. Whether, in his opinion, the financial statements comply with the accounting standards;

   VI. The observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company;

   (This was added by Companies Act, 2013)

VII. Whether any director is disqualified from being appointed as a director;

VIII. Any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith;

IX. Whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls (from 2015-16);

X. (a) whether the company has disclosed the impact, if any, of pending litigations on its financial position in its financial statement;

(b) Whether the company has made provision as required under any law or accounting standards, for material foreseeable losses, if any, on long term contracts including derivative contracts;

(c) Whether there has been any delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the company;

9. We have to ensure that the format of accounts is as per Schedule III of the Companies Act, 2013; except for banking/insurance/electricity/other companies regulated by other laws, in which case format given by regulator/Act concerned to apply.

10. We have to ensure that audited AOC-1 is attached to financial statements in case of companies with subsidiaries, associates and JVs.

11. We have to ensure that audited AOC-3 is attached to financial statements in case of listed companies.

12. We have to ensure that audited cash flow statement is also included in financial statements (except for 'small' company-not yet defined, OPC and dormant company)

13. We have to ensure that audited statement of changes in equity is included in financial statements in companies (once Ind AS applies)

14. We have to ensure that audited consolidated financial statements are included in financial statements in case of companies with subsidiaries, associates and JVs, except in case of unlisted companies, or where disclosure is given that it is not being prepared.

15. We have to ensure that at least formats as per Schedule III are included even where consolidation is not done in case of companies with subsidiaries, associates and JVs and list of subsidiaries, associates and JVs and reasons for non-consolidation are given.

CHAPTER–III

UTTARAKHAND PARIVAHAN NIGAM

3.01 INTRODUCTION

The Uttarakhand Parivahan Nigam was incorporated on 31 October 2003 by the State Government under Section-3 of the Road Transport Corporation Act, 1950. The Nigam is under the administrative control of the Transport Department of the Government of Uttarakhand.

3.02 ORGANISATIONAL STRUCTURE

The Management of the Nigam is vested with a Board of Directors (constituted under Section 5 of the Road Transport Corporations (Amendment) Act, 1982) comprising the Chairman, the Managing Director and Directors appointed by the Government of Uttarakhand. The day to day operations are carried out by the Managing Director, who is the Chief Executive of the Nigam, with the assistance of Finance Controller, General Managers, Divisional Managers and Assistant Divisional Mangers. The Nigam has three Divisional Offices (Dehradun, Nainital and Tanakpur), seventeen Depots and three Divisional Workshops.

3.03 ACT, RULES AND REGULATIONS

1. The Road Transport Corporation Act, 1950.
2. The Road Transport Corporation (Amendment) Act, 1982.

3.04 SYSTEM OF ACCOUNTING

The Regional Offices are generally treated as independent accounting units. The revenue collected in the regions are deposited in “Collection Accounts” at banks and after remitting a certain portion (specified by headquarter for each region separately) to head office two times a week, the balance amount is transferred to ‘Operating Account’ of the region for meeting its day to day expenditure. The regional office prepares monthly profit and loss account together with a copy of trial balance which is submitted to Headquarters. On the basis of annual trial balance, the field units prepare profit and loss accounts and balance sheet which in turn forms the basis for preparation of annual accounts of the Corporation (Annexure G).

3.05 SCOPE OF AUDIT

The various transactions and accounts of the Nigam are audited in accordance with the quantum of checks prescribed by the Comptroller and Auditor General of India under provisions of Section 33 of the Road Transport Corporation Act, 1950. The quantum of such audit checks prescribed by the C. & A.G. of India from time to time is given in Annexure H.

The audit comments on the accounts of the Nigam are included in a separate audit report which is forwarded to the State Government for being placed before the State Legislature in accordance with the provisions of section 33(4) of the Road Transport Corporation Act, 1950. Points of financial irregularities noticed during the course of propriety audit of the transactions of the Nigam and the reviews on various aspects of the Nigam are incorporated in the yearly State Audit Reports to be placed before the State Legislature for discussion by the COPU.

The audit of the transactions of the Nigam broadly consists of:

(a) Audit of Headquarters.

(b) Audit of Regional Offices, Regional Workshop.

(c) Audit of Proforma Accounts at regional levels.

(d) Audit of consolidated Annual Accounts at headquarters office.

3.06 AUDIT OF HEAD QUARTERS OFFICE.

The Headquarters is mainly an administrative office responsible for controlling and coordinating the activities of divisional offices, divisional workshop, etc. However, the main functions of headquarters are cash and financial management of the Nigam as well as of the field units, centralised purchases of spare parts and new chassis, formulation and revision of the fare structure and evaluation of performance of divisions and other administrative matters. The following guidelines may be followed for the audit of Headquarters.

3.07 AGENDA AND MINUTES

The first step should be to study the agenda and minutes of the Board’s meetings. A note of all the important decisions taken and matters discussed should be prepared for a detailed examination of records relating thereto.

3.08 AUDIT OF PURCHASE CONTRACTS

Normally bulk purchases of spare parts accessories and miscellaneous store are made by the Managing Director at headquarters office of the Nigam for use in the Divisional Workshop as well as in the division. Bulk purchases mean the purchase of spare parts; accessories and miscellaneous stores made during the year against annual estimated requirements normally based on the past year's consumption and anticipated future requirements of the regions and the regional workshops.

The following guidelines are made for the audit of purchase contracts:-

(i) Check that the requirements have been properly assessed and are based on the trend of consumption pattern in the regions/workshops, etc.

(ii) Check that the quantity proposed for orders is not more than the actual requirement.

(iii) To examine that wide publicity of the tender was given in the leading news papers and reasonable margin of time had been given in the dates of tender publication and opening.

(iv) To examine that the tender was opened on the appointed date and a comparative statement of offers had been correctly drawn by giving due weightage to the terms and conditions of supply offered by each tenders and loading of various costs is done to make the tender comparable.

(v) To ensure that proper justification/explanation had been recorded in the minutes of purchase committee meetings for the offers recommended by it, especially in cases where the lowest offers were passed over by the committee.

(vi) Check that the orders were finalised with in the validity period of the offer.

(vii) Check that purchase orders were placed on ex-works rates and not F.O.R. destination rates where the element of freight becomes liable to taxation.

(viii) To ensure that as far as possible the orders were finalised on the basis of rate contract entered into by the Association of State Road Transport undertakings (ASRTU) and Director General Supplies and Disposal (D.G.S. and D.)

If there are cases where the purchase order was placed at higher rates when a lower rate contract was available, full circumstances should be examined before commenting on the purchases.

3.09 ADVANCES TO SUPPLIER AND THEIR FINAL PAYMENTS

(i) Check the advance payments, with supporting vouchers, proforma bills and entries in suppliers ledgers/advances payments register.

(ii) Check that the advances to suppliers were in accordance with the provisions in purchase order/tender.

(iii) Check the adjustment of advance with reference to goods received notes and ensure whether due consideration was given to qualified remarks if any, on the goods received note.

(iv) Check that the inspection report of the material was received and proper action had been taken in case of short/defective/delayed supplies.

(v) Review the action taken on advances pending adjustments.

3.10 AUDIT OF VOUCHERS

In order to carry out the checks referred in para 3.05. The selection of vouchers for audit and review is required to be made. The Vouchers of such month should be selected for this purpose, where the monthly expenditure on works and supplies was maximum during the period of audit which may be ascertained from Cash Book and Cheque Issue register. The general principles of audit outlined in M.S.O. (T) Vol. I and the rules and regulations framed by the Corporation from time to time should be taken into account for the purpose of audit of vouchers. The vouchers should invariably be checked with reference to the entries in Cash Book and it should be ensured that each payments/receipts were supported by proper vouchers. The following guidelines may be kept in mind for audit of vouchers.

(i) Establishment vouchers should be checked with reference to the Service book, leave account payable, register, increment certificates, etc.

(ii) Payments of bonus ex-gratia should be checked with reference to the emoluments of the incumbents for the year.

(iii) Pension and gratuity vouchers should be verified with reference to sanctions of competent authority noted in Pension Payment Register.

(iv) Check pay and allowances of officers on the basis of Pay Slips issued to them.

(v) The audit of vouchers for purchases, works advance and contingencies should be carried out with reference to purchase orders/agreements and sanctions.

(vi) It should be seen that each voucher has been passed by a competent authority.

(vii) The contingent vouchers after having been passed for payment were cancelled to avoid their misuse.

(viii) The vouchers for overtime payments should be verified with reference to the sanction of competent authority and initial records of time office.

3.11 CASH BOOK

The following guidelines may be observed:

i. The receipts appearing in the Cash Book should be checked with reference to the office copy of receipts issued for them. The receipts against cheques drawn on "Self" should be checked with reference to Bank scroll.

ii. The payment side of the Cash book should be checked with reference to counter foil of cheques and cheque issue register, bank scrolls and Vouchers, etc.

iii. Examine that cash payments were not made beyond the limit specified by the Corporation from time to time.

iv. Check the day to day totaling and balancing of the Cash Book.

v. It should be ensured that the Cash was actually counted on the last day of the month for which a Cash count certificate is required to be endorsed on the Cash Book is terms of the para 164 F H.B. (Vol.VI)

vi. To examine whether any surprise check of physical balance of cash had been conducted at any time, and it so whether any discrepancy had been noticed.

vii. Check whether the rules and instructions regarding handling of Cash were being complied with.

viii. Check that the Bank reconciliation statement was being regularly and correctly prepared and discrepancies reconciled.

ix. The entries for cancellation of cheques should be carefully checked with reference to non-payment certificate obtained from the Bank and corresponding Contra entry in the Cash Book.

x. The action taken in regard cheques deposited by the Corporation but not credited by the Bank should be examined at length.

xi. As per instructions of the Corporation, the Regional Offices are required to the transfer a certain portion of their revenue to head office account. The transfer is to be made two times in a week. It should be verified in audit that the transfer of revenue from bank accounts of the Regional Offices were promptly credited to the Bank account of the Corporation.

3.12 REGISTER OF CHEQUE BOOKS

i. The receipt entries should be verified with reference to the bank scroll from Bank.

ii. The counter foils of cheques and cheque books in stock should be checked with reference to the entries in the register.

iii. It should be ensured that two cheque books relating to one bank were not in use simultaneously.

3.13 TICKETS AND STATIONERY

The following checks are prescribed for audit of tickets and stationery:-

i. To examine whether the tickets and stationery that were got printed were based on proper evaluation of requirements from field units.

ii. To check that the receipts, the printed tickets and stationery had been properly accounted for in the stock register as per challan/covering letters bills of the Press and the paid Vouchers.

iii. The issue of tickets and forms shown in stock registers should be verified with references to the indents/invoices.

iv. Whether any physical verification of the stocks of the tickets and stationery had been carried out. If so whether any discrepancy was noticed.

v. Check whether the defective tickets received from units are entered in the register of defective tickets and tickets which cannot be rectified are destroyed under proper supervision.

3.14. DISCIPLINARY AND SUSPENSION CASES

It should be seen that suspension and disciplinary cases were decided within six months time to avoid payment of idle wages in the shape of subsistence allowance. Cases lingering on for pretty long time should be investigated to highlight unproductive payment of wages in the form of subsistence allowance. The following checks should generally be exercised:-

i. Examine the circumstances under which the particular employee was suspended.

ii. If it involves embezzlement of cash, stores etc., whether the departmental investigation had been made and F.I.R. lodged.

iii. The modus operandi by which the embezzlement of cash, stores etc. was made should be studied and the action taken by the Corporation to plug the loopholes in the system, rules procedures etc. should be checked.

iv. The reasons for too much prolonging of the cases should be examined.

3.15 REVISION OF FARES

In order to meet the increase in cost of operation due to increased cost of fuel, oil, lubricants, bus chassis fabrications charges, stores, salaries and wages of employee, etc. the revision of fare becomes necessary. The fare is revised as per policy decision of the Nigam after approval by the State Govt. The revision of fare should be checked in audit with reference to the approval of State Govt. and agenda minutes of the decisions taken by the Board of the Corporation. It should be carefully seen that the revision of fare is intimated to field units well in time so that the revision of fare is ultimately effected right from the date it was intended to and there was no delay in implementation thereof.

3.16 ADVERTISEMENT AND POSTAL SERVICE CONTRACTS

As per policy of the Nigam the contracts for advertisements by display of 'KIOSKS' at the Bus stations, as well as on the Corporation's Buses are finalised at the Head quarters level. It should be seen that a copy of the terms and conditions of such contracts are forwarded to the respective Regional Offices so that proper check on the size, length and period of the advertisement 'KIOSKS' are exercised. It should be seen that advertisement charges as per contract were realised in advance and properly accounted for. The contracts which are not renewed subsequently may be examined to ensure that necessary instructions for withdrawals/removal of the advertisement posters were timely issued to field units.

The Nigam also undertakes the transportation of Mail Bags on behalf of Posts and Telegraphs Department at specified rates. The Nigam sends invoices to posts and telegraph authorities every month for this service. The following checks should generally be exercised in the regard.

(i) Check whether the charges for the post Mail services are worked out on the basis of Joint Verification statements of services rendered.

(ii) Check whether the correct rates were billed.

(iii) Check that bills were issued in time and payment thereof were also not delayed by the posts and telegraph authorities.

3.17 AUDIT OF PENSION CASES

The pension paper with service books are sent by the field units to Head quarters office where the admissibility of pension is scrutinized and authorised by the Chief Accounts Officer. It should be seen in audit that the pension had been correctly calculated as per provisions of the Acts/rules.

3.18 SERVICE BOOK/SERVICE ROLLS

It should be seen that:

(i) Every entry was attested at the time of the event.

(ii) The entries in the service book are attested by the incumbent once in every five years.

(iii) No alteration is made in the dates of birth without the orders of the competent authority.

(iv) All spells of leave availed were verified with pay bill etc. in January of each year and a certificate to that effect was recorded over the signature of the head of the office.

(v) Service book of a dismissed employee is retained for a period of 5 years or when the employee is deceased whichever is earlier.

(vi) The increments granted were in order and had been checked with reference to the order of the competent authority.

(vii) The period of leave encashment had been properly recorded in the leave account as well as in service book and had also been attested by the competent authority.

3.19 AUDIT OF DIVISIONAL UNITS

The operation of entire transport services of the Nigam is governed through three divisional offices headed by a Divisional Manager who is assisted by a Service Manager for exercising control over workshops and repairs and maintenance of vehicles and Assistant General Manager (F) for exercising control over traffic side activities. For the sake of exercising better control over the operation and providing efficient service to passengers, the regions unit is divided into 17 depots headed by Depot-in-Charge. The depot offices control a number of stations generally controlled by Junior Station incharge or Booking Clerks. The depots are also attached with a depot workshop which is looked after by a Foreman. The following guidelines are advised for audit of regional offices on functional basis.

3.19.01 CASH SECTION

The working of this section mainly consists of maintenance of main cash book, imprest Cash Book, subsidiary Cash Book (Pay and T.A.) cheque inward/outward register, undisbursed claims register, etc. The checks prescribed for audit of Cash Book, Voucher and cheque register in para 3.10 to 3.12 *ibid* shall apply mutatis mutandis here also. The following additional checks should also be exercised.

PETTY CASH BOOK

(i) Sanction of petty Cash should be examined.

(ii) Cash balance as on the date of recoupment is certified.

(iii) The entries in the main Cash book relating to reimbursements conform to the entries in petty Cash Book.

(iv) Vouchers relating to purchase of Store bear a certificate of non-availability of stock.

(v) Test check should be carried out to ensure that the rates of purchases were reasonable with references to the rates at which the store was purchased under Regional Manager's order or supplied by the Central Stores.

(vi) The expenditure actually relates to such items for which expenditure can be met out of petty Cash.

(vii) Value of individual Vouchers does not exceed the specified financial limits.

(viii) The purchase made out of petty Cash was consumed within a reasonable period.

(ix) Arithmetical accuracy is ensured.

SUBSIDIARY CASH BOOK (PAY AND T.A.)

(i) The entries in the main Cash book for transfer of money to subsidiary Cash Book conforms to the entries in the latter.

(ii) Dated signatures of payees were obtained.

(iii) Adjustment of T.A. advances had been made in cases of T.A. claims

(iv) T.A. bills had been prepared and passed for payment as per rules.

(v) Totaling and balancing of the Cash Book was correct.

3.19.02 REVENUE SECTION

The revenue section keeps records of daily income of depots and stations attached to them. In addition this section also deals with passenger tax, surcharge, insurance, etc. The following aspects should be examined in audit of this section.

(i) Check the income register to ensure whether the monthly revenue of individual stations were enough to justify the monthly expenditure on the maintenance (pay T.A. rent etc.) of that stations.

(ii) Whether the revenue of any stations/depot was continuously declining, if so, the reasons should be investigated.

(iii) Whether there were delays in payments of passenger tax, surcharge insurance premium L.I.C. Check that no penalty was imposed.

(iv) Whether the computation of passenger tax for payment to Government had been correctly worked out at the rate prescribed by the Govt. from time to time.

(v) Similarly check that the amount of passengers insurance premium paid to L.I.C. is fully realised from passengers on the rates prescribed from time to time.

3.19.03 STORES SECTION

The stores section mainly deals with maintenance of stores accounts, ledgers, purchases by Divisional Manager, auction, tender agreements, advances to suppliers and physical verification reports, etc. The following checks should be applied for the audit of this section.

(i) The quantitative balances in stores ledger tallies with the balances shown in divisional stores ledger/bin cards maintained in divisional/depot workshop.

(ii) Reconciliation of the ledgers maintained in accounts section and workshop has been done and action taken for the discrepancies noticed.

(iii) Annual physical verification had been done and excesses accounted for while action for recovery of shortages taken.

(iv) The checks prescribed in para 3.08. *ibid* may be applied for examining purchases by Divisional Manager.

(v) Check that the auction was held after wide publicity through leading news papers.

(vi) Check that the vehicles put to auction had rendered the prescribed life and their book value was nominal as fixed by the Corporation.

(vii) In cases where the book value of the Vehicle put to auction was considerable (*e.g.* accidental Vehicles) whether the vehicle was beyond economical repairs and also whether actual loss on such Vehicle has been written off under orders of competent authority.

(viii) Bid register should be examined to see that sale was made to highest bidder.

(ix) Whether the earnest money had been forfeited where the successful bidder failed to turn up for lifting the vehicle/lot of stores within the stipulated time.

(x) Whether balance amount of bid together with sales tax, ground rent etc. was recovered before lifting of Vehicle/lot.

(xi) As regards losses and thefts of stores whether F.I.R. had been lodged in time and departmental investigations made to fix up responsibility.

(xii) In cases of purchases see that the monthly ceiling limit (as prescribed) had not been exceeded.

(xiii) Check that values of individual purchase orders do not exceed prescribed limit per order (Rs. 5,000) and the purchases were approved by the purchase committee (consisting of Regional Manager, Service Manager, Regional Accounts Officer and Assistant Stores Officer).

(xiv) Cases of substantial value of demurrage/wharfage should be examined to find out the points of lapse in system or otherwise.

(xv) Check the cases of short/defective supplies and whether claims had been lodged/pursued thereto.

(xvi) Check that advances to local suppliers were not given and the advance payments were adjusted from final bills.

3.19.04 REGIONAL ACCOUNTS SECTION

This section is responsible for compilation of monthly profit and loss account, income and expenditure account and finalisation of annual accounts. This section also keeps records of contingent expenditure in the Division. This section generally maintains the following records:

(i) Salary Payable Register depot-wise.

(ii) T.A. Advance and T.A. Register.

(iii) Bonus and Ex-gratia Register.

(iv) G.P.F. and Group Insurance Ledgers/register.

(v) Other staff advances register e.g. motor cycle/cycle advances, G.P.F. Advance, House Building advances etc.

(vi) Fixed Assets Register.

(vii) Staff Security Deposit Register.

The following checks should be exercised for the audit of this section.

(i) The monthly profit and loss account has been correctly compiled by accounting for the all the income and expenditure for the month.

(ii) The number of the officials whose salary was drawn conforms to the number of posts sanctioned

(iii) The leave salary had been correctly worked out and proper sanction had been recorded in the leave accounts as well as in service book.

(iv) The deduction made from the salary bills were correctly classified and accounted for.

(v) The T.A. claims were as per sanction of journey by competent authority and T.A. Advances had been adjusted in the T.A. bills.

(vi) Proper entries of the passed T.A. bills have been made in the T.A. bill register to ensure that there was no double drawal for any journey.

(vii) T.A. advances remaining not adjusted within three months from the date of drawal had been refunded in cash.

(viii) The claims for bonus and ex-gratia have been correctly worked out as per orders of the Corporation.

(ix) Deduction on account of G.P.F. and Group Insurance of the employees had been made as per rules and credited to incumbent accounts.

(x) Other staff advances, *i.e.* cycle advance, scooter advance, House building advances etc. had been sanctioned by appropriate authority and prescribed installments of recoveries were being affected. It should also be examined that the recoveries were also being properly posted in the advance register.

(xi) Check that the fixed assets whenever purchased had been entered into register of fixed assets and depreciation in the prescribed rates was being charged on a consistent basis.

(xii) Check that receipt of new and renovated buses, cars, trucks and jeeps had been noted in the register for it and depreciation at the prescribed rates are charged consistently.

(xiii) Check that the cost of the building owned by the Corporation had been noted in the register of fixed assets at cost certified by Civil Wing of the Corporation. Similarly, all the additions, modernization and renovation cost had also been posted and depreciation at the appropriate rates were charged from year to year.

(xiv) Where staff quarters had been constructed by the Corporation and allotted to the employees, it should be seen that proper allotment register had been maintained and recoveries of standard rent or 10 per cent of the basic pay of the employee whichever was less, was being effected as rent and posted in the rent recovery register.

(xv) Check the security deposit register for ensuring that security money had been realised as per rules of the Corporation from the Officials dealing with Cash and Stores etc.

3.19.05 BANKING SECTION

This section is mainly responsible for maintenance of Bank wise ledger for head quarters (D.M. Office) and depots. The following checks should be exercised for the audit of this section.

(i) Check that the entries made in the bank ledgers conformed to the entries made in the main Cash Book.

(ii) Check that the credit for deposits into the Bank had been given by the Bank on the same date.

(iii) Check that the transfer of revenue from depots bank to regional office account were actually and correctly credited.

(iv) Check the arithmetical accuracy of the posting in the ledger.

3.19.06 DUES SECTION

The dues section is responsible for adjustment of inter unit transactions and raising bills to outside parties for chartering of buses and sale of diesel, petrol and spare parts, etc. the following checks are prescribed for audit of this section.

(i) Check that prompt billing had been made immediately after rendering of services in respect of chartered buses/taxies and sale of diesel/petrol.

(ii) As per orders of Corporation stores may be sold to other state transport undertaking and Govt. departments at book rates or last purchase rates whichever is higher plus 20 per cent Centage-Charges, compliance of these orders should be checked.

(iii) Check that cases of heavy outstanding dues are being vigorously pursued.

(iv) Check that adequate advances were realised in case of chartered buses for avoiding accumulation of dues.

(v) Check the sanction of competent authority for writing off irrecoverable dues if any.

3.19.07 TICKET SECTION

The tickets are normally issued by conductors through ticket issuing machines or online booking through website of Corporation. The following checks should generally be exercised for the audit of this section for charging of fare:

(i) Check that the revision of fare as advised by the head quarters offices was implemented right from the date it was ordered to.

(ii) In case some new routes were started, check that routes survey had been made and fare for that route was finalised at approved rates.

(iii) In case of change of route due to construction/closure of bridges, bandhs, etc. check whether route was resurveyed and fare recomputed at the revised mileage.

(iv) In case of Mela operations, check that Mela fares as prescribed by the Corporation from time to time had been charged right from the date of start of the Mela.

3.19.08 CENTRAL CHECKING CELL

The central checking cell has been formed in each Division under the orders of the Corporation for post checking of the used way bills. Check that the shortage/under charge, if any pointed out had been recovered from the conductor concerned.

3.19.09 STATISTICAL SECTION

This section is responsible for compilation of statistics on various subjects, *e.g.*, income per kilometer, cost per kilometer, route wise income, fleet position, total kilometers, operated, dead mileage, trip mileage curtailment etc.

An examination of the various statistics compiled in the section shall enable to comment on the overall performance of the Region and also give an idea of the weaker areas for special comments, in audit.

3.19.10 ESTABLISHMENT SECTION

This Section is responsible for the maintenance of service books/personal files of the staffs besides, dealing with cases, of leave encashment, appointment, transfer posting etc. The checks, prescribed under para 3.18 ibid should be exercised here also for audit of service books/personal records.

3.19.11 DEAD STOCKS, FURNITURES AND FIXTURE

The Regional office is required to maintain a comprehensive record showing the items of the dead stock, furniture and fixture in use. The following checks should be exercised in this regard.

(i) Check that purchase of such item had been recorded in a register meant for the purpose showing the place where it has been put to use.

(ii) In case of unserviceable items beyond economical repair, check that whether any survey of such items had been done and action for writing them off had been taken.

(iii) Check that the periodical physical verification at least once in a year had been done and the shortage, if any, were investigated for fixing up responsibility.

3.20 MISC. ACTIVITIES

In addition to the works of various sections discussed above, there are certain additional activities which may be dealt in any of these sections as per orders of Regional Manager. The audit checks for these activities are discussed as under:

(A) HIRING OF PRIVATE BUSES

In order to meet the deficiency in the fleet of buses in the Corporation and providing better passenger services the Corporation resorted to hiring of private buses. The requirement for hiring is compiled by the Divisional Manager of the concerned division who sends the consolidated requirement of his division to Corporation's headquarters office for approval. On approval of the headquarters of the Corporation, the Divisional Manager allocates the number of buses to be hired in each depot under his division and also invites tenders for operations of private buses on different routes. After finalisation of tender, the Divisional Managers are informed about the name of private parties and registration numbers of their buses for execution of agreements and development of services thereof. The following checks are advised in connection with audit of operation of private buses:

(i) Check that agreement on the prescribed terms and conditions of the Corporation had been entered into.

(ii) Check that no operator had deployed his buses beyond the validity of the agreement.

(iii) Check that the private buses were engaged on such routes where the income per kilometer was very poor.

(iv) Check that the maximum kilometerage sum per day allowed to private operator was not more than the ceiling limit fixed by the Corporation.

(v) Check that adequate provision had been made in the agreement for unauthorised absence and that recoveries thereof were being regularly made.

(vi) Check that income per kilometer obtained on such operation was more than the payment per kilometer to the operator-in order to give a little margin of profit to the Corporation.

(vii) Check that no P.O.L. was issued or other maintenance was carried out on the private bus during operation by the Region. In case, however this was done, whether recoveries for that together with 20% extra for centage was recovered from the bills of the operator.

(viii) Check that the payment of the bills of the private operator was being made on proper verification of the services rendered on irrespective depots.

(ix) Check that 2% recovery towards income tax was being regularly made from bills of the operator.

(x) Check that in case the actual Income per kilometer (I.P.K.) of any private bus fell short of the specified I.P.K. (as per agreement), whether any recovery for the amount that fell short had been recovered as per terms of agreement.

(B) ISSUE OF PRIVILEGED PASSES, DUTY PASSES AND CONCESSIONS

The facility of privileged passes has been given by the Corporation to its staff including retired staff also and freedom fighters. Duty passes are given to the employee for performing official duties. Similarly the concessions in fare are also given to press reporters, students and orthopedically handicapped persons. In addition free travelling is allowed to the Members of Parliament, Legislative Assembly and female student. The following checks are to be exercised in the audit of these passes and concessions.

(i) The staff is entitled for two free passes and 3 Nos. P.T.O's (Privilege ticket orders) in a year. Check that the free passes and P.T.O.'s in excess of prescribed limit had not been issued.

(ii) In case of free passes all Government taxes are to be paid while in case of P.T.O.'s 1/3 of fare and full taxes are chargeable. Check that proper recoveries had been made in respect of free passes and P.T.O.'s issued to the employees.

(iii) Check that proper entry, in respect of the free passes and P.T.Os issued to the employees had been made in the Register of Privilege passes.

(iv) Check that that a record had invariably been kept for each duty pass issued to prevent its misuse.

(v) In case of concessions of students and handicapped persons and press reporters only fare is free but other taxes are chargeable at full rates. Check that the taxes had been realised in each case and a proper records of such concessions given had been maintained.

(vi) Check that Privilege passes were issued to freedom fighters on proper certification/verification and records thereof had been kept. They are required to pay all taxes in full.

(vii) Check that stock register of concession/pass book had been maintained.

(C) CONTRACT SERVICES

In addition to normal services the buses of the Corporation are also hired to public and other Government departments, companies, etc. on specified hiring rates. The following checks should generally be exercised for the audit of such contract services.

(i) Where the hiring is a continuous process, check that proper agreement had been entered into with the department/Company concerned.

(ii) Check that advance payments were recovered subject to adjustments against monthly bills.

(iii) Where the hiring is for the part of the day or for limited number of trips, check that the idle time of the buses is utilised for the purpose of the Corporation.

(iv) Check that the action had been taken to recover the amount due from party who has not paid advance and also other parties whose amount deposited was lesser than the total amount due from them.

(D) CANTEEN CONTRACTS

The booking stations and depots of the Corporation also provide facilities for canteen and magazine and pan shop, etc. which are let out to private persons for better and comfortable services to passengers. The following checks should be exercised in this regard.

(i) Check that the letting out of the canteen and shops was made on open tender basis or by auction after giving wide publicity.

(ii) Check that the Canteen or shops were let out to the highest tenderer/bidder.

(iii) Check that the auction was made in the presence of a responsible officer.

(iv) Check that that proper agreement was executed and at least 3 months' rent was recovered in advance.

(v) Check that provision for penalty/interest was made in the agreements for ensuring regularity in payment of monthly rent.

(vi) Check that a rent register showing the month wise realisation of rent of each shop/canteen together with allied charges, e.g., water charges, electricity charges, etc. had been maintained.

(vii) Check that the canteen and shops did not remain vacant on terminations of one contract. See that action for re-auction/re-tendering had been taken well in advance to avoid this situation.

3.21 AUDIT OF DEPOTS

The overall operation of the Division is governed through Depots headed by an Assistant Divisional Manager who is assisted by a Traffic Superintendent, Senior Station Incharge, and Foreman etc. Generally a Depot controls a number of stations where sale of tickets are also made to passengers. The basic function of the Depot is to run the fleet of buses allotted to it on prescribed routes and carry out the requisite maintenance of its fleet in Depot's workshop. The following are the main records maintained at the Depot's

1. Main Cash Book.
2. Petty Cash Book
3. Collection Register.
4. Bag issue Register.
5. Way bill issue register.
6. Ticket stock register
7. Forms stock register
8. Duty allotment registers for conductors
9. In and out register
10. Daily sale Account
11. Daily Vehicle Return
12. Trip wise register
13. Daily checking Report
14. Shortage/Excess Register
15. Rent Register for Canteen and shops

16. Register of hired buildings.
17. Dead stock Register
18. Telephone Trunk call Register.
19. Dispatch and Service Postage Stamp Register
20. Guard book.
21. Pay bill register
22. Service books
23. Disciplinary Cases
24. Register for advances recovered/received
25. Register for concession to students and others
26. Way bills (used).

Note: The records maintained in Depot's workshop have been dealt separately under para. The working in the Deport can broadly be divided in two parts, viz. traffic side and workshop.

TRAFFIC SIDE

The working of the traffic side may further be divided in the following sections

(A) Cash Section

(B) Revenue Section

- (a) Sale of tickets by conductors
- (b) Sale of tickets of booking windows
- (c) Income from chartered buses
- (d) Other Income

(C) Operation Section

(D) Statistics Section

The working and the audit checks to the exercised in each section are discussed below

(A) CASH

The day to day income of the depots is to be deposited in Bank on the next day. The depot is not authorised to appropriate its income towards its expenditure.

The money required for meeting establishment and petty expenses are received from Regional Manager's Office. The checks prescribed for the audit of main and petty cash books under Para 3.11 above shall mutatis-mutandis apply here also with following additional checks:

(i) Check that the total of the day's earnings as per collection register tallies with the entries in Cash Book.

(ii) Check that the day to day income is invariably remitted into the bank on the next working day.

(iii) Check that entries for receipt of money from Regional Manager's office tallies with Remittances shown in the main Cash Book of that office.

(iv) Check that the day to day petty expenses are supported by proper Vouchers and accounted in the Cash Book.

(v) Check the day to day remittances into the Bank with pay in slips and Bank scroll/pass book.

(B) REVENUE

(a) SALE OF TICKETS BY CONDUCTOR

The bulk of the revenue of a depot comprises income by sale of tickets and booking of luggage by conductor during the course of journey. The procedure in this regard is that each conductor is allotted a bag (number) given at the commencement of the journey from the depot's office. The bag contains cut tickets (Electric Ticket Machine) of different stations and blank ticket books. The details of the opening number of which are noted in the bag register. The way bill is presented by the conductor at the booking of the starting and route stations for recording of the number, places and amount of the tickets, by the booking stations. The conductor also enters these details in the way bills in respect of tickets sold by him in route. The checking clerk will check the account of way bill, will note down the details in check up register to show the number of way bill, name of conductor, number, and amount assessed for deposit etc. After checking the waybills and certification of the amount. The conductor deposits the specified amount in Cash. Section obtains receipt in Form 44 and hands over the way bill to the respective Incharges. The Cashier also records the way bill wise and head wise income received by him in collection Register and totals of the day's collection and enters in the revenue cash book of the depot. Following checks should be exercised in this regard.

(i) Check the way bill to ensure arithmetical accuracy of the number of tickets sold with opening and closing number of tickets noted on the way bill.

(ii) Check the Computation of fare and taxes etc. shown on the way bill with reference to approved fare chart.

(iii) Check that the total revenue as per way bill, duplicate copy of form 44 (receipt for depositing Cash), checking cell register and collection register tallies with each other.

(iv) Check that the serial number of the way bill returned and deposited tallies with the number of way bill issued to the conductor as per way bill issue register.

(v) Check that the serial numbers of tickets shown as sold out on the way bill tallies with the numbers given to his bag as per bag wise register and daily issue register of blank ticket bag.

(vi) Check the way bill issue register to ensure that the return off each way bill issued had been timely and promptly done.

(vii) Check that the revenue as per way bill had been deposited by the conductor on the return of bus.

(viii) The name of conductor using the way bill should be checked with duty allotment regarding conductors.

(ix) The duplicate copy of tickets attached with the way bills should be tallied with the number of tickets shown to have been sold as per way bill.

(x) In case of checking notes, notes recorded on the way bills by the field checking squad daily, checking report of the concerned checking authorities should be checked.

(xi) Check that necessary action had been taken on qualified remarks of field checking squad on the way bills.

(xii) Check that the short collections in individual way bills pointed out by the checking cell of Regional Manager’s office or other authorities had been recovered from the conductor. For watching such recoveries a register is maintained by each depot and that register should be examined.

(xiii) Check the continuity of ticket numbers with subsequent way bills.

(xiv) Check that the way bill and ticket numbers declared lost or damaged were not in use and proper action was taken against their misuse in future.

(xv) Check that F.I.R. had been lodged and cases investigated for each reported theft of tickets, way bills etc. during the course of a journey or at the depot office.

(xvi) Check that the number of tickets sold for busy routes were not alarmingly poor with references to the trend in the past months/year.

(xvii) Check that the serial number of way bill tallied with the serial number of way bills shown in the tickets stock register.

(b) SALE AT BOOKING WINDOW

Following checks should be applied for audit of window sale of tickets at stations:

(i) Check that the window sale ledger with daily sale account (D.S.A.).

(ii) Check that the number of tickets as per D.S.A. had been correctly worked out with reference to the opening and closing numbers and correct fare had been charged.

(iii) Check the serial number of tickets sold out as per D.S.A. with the serial number of tickets in ticket stock register.

(iv) Check the D.S.A. with records of checking cell and details of revenue shown in the collection Register of cashier.

(v) Check the continuity of ticket numbers with subsequent D.S.A.’s

(vi) Check the entries of window sale ledger with entries recorded on the way bills for station booking.

(vii) Check that each day's sale was deposited on the same date.

(viii) Check that proper authorization had been obtained in respect of use of converted tickets.

(ix) Check whether any physical verification of tickets at the counter had ever been made, if so whether a certificate to that effect was recorded on the window sale ledger.

(c) INCOME FROM CHARTERED BUSES/TAXIES

The following checks should be applied for the audit of chartered service:

(i) Check that proper sanction had been obtained from the Assistant Divisional Manager concerned.

(ii) Check that hiring charges in advance as per prescribed rates had been recovered from prospective hirer.

(iii) Check that finalisation of the account of the hirer was promptly carried out after completion of chartered journey and actual charges in excess of the advance is recovered or excess advances, if any refunded.

(iv) Check the accuracy of fare and taxes charged with reference to orders in vogue.

(v) Check that the actual journey performed had not exceeded the limit applied for and sanctioned to the passenger and if exceeded, recovery for that was made.

(vi) Check the out/in time of the character bus/taxies with in and out register to ensure that there was no overstayal and in case of overstayal proper billing for detention charges had been done.

(d) OTHER INCOME

Check that monthly rent of building, stalls, Canteen etc. together with other allied charges *i.e.*, electricity, water etc. was recovered within the prescribed time. This should be checked with reference to particulars noted in the rent register (The receipt number in the rent register may be traced out from the daily collection Register of the Cashier) and the agreements.

(i) Check that a proper record of the time table received for sale and daily sale thereof had been kept. The entries for sale may be checked with reference to the receipt no (Form 44) and daily collection register.

(ii) In case, where the goods/luggage are received as lost/unclaimed properly, the details should be noted in the lost property register and if the same are not claimed by the rightful owners within one month, such property should be disposed off and sale proceeds credited to the revenue of the Depot. Check the entries in lost property register to ensure that the revenue had been deposited in the Depot's account.

(C) OPERATION SECTION:

The fleet of buses for each depot is sanctioned by the Divisional Manager on the basis of routes covered by them. It should be checked in audit that the utilisation of sanctioned fleet is adequate and whenever additional buses are allotted for the Depot it should be seen whether any demand had been placed by the Depot is this regard and also that the additional bus had been deployed on the same route for which it was demanded. Similarly, if some route is cancelled for being uneconomic or otherwise whether the service rendered spared had been properly utilized elsewhere or surrendered to Regional Manager Office.

The number of conductors in a depot is also sanctioned on the basis of approved number of the single and double crew operation. It should be checked that there were no excess deployment of conductors on the basis of actual remaining of single and double crew services. The duty allotment of conductor on different route is made by the station in charge and a record thereof is kept in the only allotment Register. It should be checked in audit to ensure that each conductor had been given duty for the prescribed time.

Each bus, whether it originates from the Depots or is *en route* has to report its arrival to the time keeper at the Depot's station and similarly the checkout time is also recorded by the time keeper in 'in and out register'. This may be checked in audit to ensure that there was no overstay of buses at the station and that they were running punctually as per scheduled time table.

The number of trips and scheduled kilometers for each day sanctioned for Depot and actual operation there against is noted in trip wise register. This register should be checked in audit to see that the scheduled operations had been maintained and the detailed analysis of trips curtailment showing the reasons thereof were recorded.

In order to ensure effective running of buses and also tapping the pilferage of income through unauthorized/ without tickets travelers, there ought to be an effective system of checking of buses in the routes. The Corporation has employed checking squad *viz.* traffic inspectors, traffic superintendent etc. for this purpose who are directed by the R.M. /A.R.M. to conduct extensive checking on different routes. All such staff is required to submit a daily checking report which may be checked in audit with reference to allocation of duty given to them, and the certificates recorded by them, on the way bills. The authenticity of the daily checking reports should also be verified from their travelling allowance bills.

(D) STATISTICS SECTION:

A Daily Vehicle Return (D.V.R.) is maintained by each depots to show the running of each bus per day showing kilometer done, income generated, passengers carried etc. The D.V.R. should be examined in audit to comment over the fleet utilisation, load factor, income per kilometer, etc.

3.22 WORKSHOP AUDIT

The entire maintenance and repairs of the Corporation's buses/taxies/trucks are dealt with in two workshops viz.

(i) Divisional Workshops

(ii) Depot Workshops

3.22.01 AUDIT OF DIVISIONAL WORKSHOP

Each workshop is headed by a Service Manager. The main function of Divisional Workshop is to undertake routine/preventive maintenance of Vehicles after completing one lakh kilometer run besides carrying out heavy repairs and reclamation of major spare parts. According to the norms prescribed by the Corporation (May 1980), the repairs and maintenance of the Vehicle (1 lakh kilometers maintenance) should be completed within 15 days, from the date of receipt of vehicles in the workshop. The following checks should be exercised for audit of Regional workshop:

(i) Check that the time taken by the workshop for 1 lakh kilometer maintenance does not exceed 15 days for each bus.

(ii) Check the vehicle wise register showing the details of consumption of material with issue indent and job cards.

(iii) Check that the assemblies, tyres and batteries removed from the buses were deposited in stores.

(iv) Check that cases of premature failure of tyres, engines and batteries (80,000 kms. and 12 months respectively) were investigated and action taken thereon.

(v) Check that the buses received from Workshop, were put on road on the same/next day.

(vi) Check that the consumption of materials as per Vehicle wise register with the entries recorded in depot register (showing the minor defects after return of bus).

(vii) Check that the Vehicles due for 3 lakh maintenance were promptly sent to Workshop. The time log in receipt of buses from depots for 3 lakhs maintenance and the date of actual sending to Workshop should be commented.

(viii) Check the entries for receipt back of tyres, batteries and major assemblies in Vehicle for 3 lakh maintenance.

(ix) Check the acknowledgement of accessories mentioned in the delivery memo of the Workshop with the charge memo prepared for the same.

3.22.02 AUDIT OF DEPOT WORKSHOP

Normally each depot is attached with a workshop which is looked after by a senior foreman. The Depot Workshops undertake preventive maintenance of Vehicles, on completion of 4,000, 8,000, 16,000, 32,000 kilometers run besides removal of day to day minor defects. In accordance with the instructions of the Corporation (June, 1980) a Vehicle coming to workshop for routine maintenance is required to be attended to either on the same day or the next day and the holdup time in depot workshop should not exceed 8 hours. As per instructions (July, 1983) only 3 days time has been allowed for 32,000 kilometer maintenance.

The checks prescribed for the audit of Regional Workshop shall apply here also with following additional checks:

(i) The norm for consumption of engine oil in topping up oil levels in the engine is 400 kms per litre (September, 1980) Check the actual consumption in topping up the oil level of engine.

(ii) Burnt engine oil recovered in topping up of engine should be 80 per cent of the oil used (June, 1970) Check that the burnt oil recovered was adequate and properly accounted for.

(iii) Check that Vehicles due for one lakh maintenance were promptly sent to Regional Workshop.

(iv) Check the fleet position to comment on buses lying off the road for pretty long time.

(v) Check that the parts issued for maintenance by other depot’s workshop for the Vehicle *en route* were properly accounted for.

3.22.03 AUDIT OF FUEL ACCOUNTS

High speed diesel is the basic item of consumption in a workshop. As per instructions issued by the Corporation whenever a diesel tanker arrives at the workshop it should be put stand still on smooth platform for a period not less than an hour so that the foam generated during the course of journey may subside before taking the tanker oil in the workshop. Tank dip reading of workshop tank is taken with the help of a dip rod and reading thereof, is recorded in the dip register. Similarly the dip reading of the supplier's tanker is also taken to ensure that the quantity of diesel supplies was same as mentioned in the invoice. There after all the three chambers of the tanker are detanked into the workshop tank. After complete drain out of the suppliers tank another dip reading of workshop tank is taken after a lapse of not less than an hour. The dip reading recorded before intake of the supplies is deducted from the reading recorded after intake to ascertain that the difference in the dip reading represented exactly the quantity supplied. The issue of H.S.D. to buses, noted in the daily issue register, the sum total of which at the close of the day is taken to stock ledger of H.S.D. the opening and closing dip reading of the oil tank is recorded each day. The following checks should be exercised in audit of fuel accounts.

(i) Check that the proper arrangement for taking dip readings at the time of fitting up fuel tank exists.

(ii) Check the receipts of the fuel with the invoices and the dip reading register.

(iii) Check that the receipts of the H.S.D. or other fuel from the other depots while the bus was *en route* were accounted for.

(iv) Check that the average consumption to the bus was not abnormally low as compared to the prescribed norms of the corporation *i.e.* 5.5 km. per litre in plains and 4.5 kms. per liters in hills.(June 10).

(v) Check that timely bills were raised in respect of H.S.D./ petrol, issued to Vehicles of other depots

(vi) Check that total of daily issue in respect of H.S.D. with entries recorded in the stock ledger.

(vii) Check whether the excess or deficiency as per physical verification at the end of each month is investigated. No evaporation loss has been prescribed by the Corporation.

(viii) Check the daily issue registers of H.S.D. oil with daily fleet position to ensure that the oil was not issued to the Vehicle lying, off the road.

(ix) Check that the diesel issued to workshop for maintenance purposes was on the basis of proper indents.

3.22.04 AUDIT OF STORES

The supplies against Central Purchase orders of the Corporation issued Dy. G.M. (Stores) against the annual indents of all the 3 regions and Divisional workshops stores have already been dealt with under Para 3.22.01 and 3.22.02. The audit checks in respect of Divisional stores and depot stores are dealt as under:-

AUDIT OF DIVISIONAL STORES

The audit checks prescribed for divisional stores shall apply *mutatis-mutandis* here also with following additional checks:

(i) Check that goods received sheet was prepared for each items received in the stores.

(ii) Check the quantitative balances of bin cards with stores ledgers prepared in the Regional store and in accounts section.

(iii) Check the G.R.S. with the invoice/Challans and bills received from the Central store.

(iv) Check that the scrap stores/spare parts recovered from the Vehicles during the maintenance in the workshop were properly accounted for.

(v) Check whether the issues were made on proper indents of the depots.

(vi) Check issues of stores to workshop on Vehicles with entries recorded in Vehicle register, Job cards and bin cards.

(vi) Check acknowledgements obtained for issues to other depots.

AUDIT OF DEPOT STORES

The audit checks prescribed for Divisional stores shall apply *mutatis-mutandis* here also.

3.23 MAN POWER ANALYSIS

It should be seen that:

(i) Whether the strength of operating crew and other staff that has been fixed was based on the number of scheduled operations and trips sanctioned for the unit and if so, how the actual strength compared with sanctioned strength.

(ii) Whether there was any excess strength of buses actually operated and the average effective scheduled operated per day.

(iii) Whether the actual steering duty hours of the operating crew as per duty allotment register performance register was not below 8 hours in day.

(iv) Whether alternate duties were given to the operating crew in cases of cancellation of schedule services.

(v) Check that drivers and conductors were not appointed temporarily in leave vacancies in cases where excess staffing was confirmed under point no. (ii) above.

(vi) The reasonability of payment of overtime to operating crews should be examined with reference to the shortage/excesses of drivers and conductors in relation to the actual operation of buses.

3.24 AUDIT OF CIVIL WORKS

The civil works of the Corporation relating to construction of buildings, boundary walls, etc. and maintenance thereof is looked after by a civil wing at the headquarters' office headed by an Assistant Engineer. The system of accounting in the civil wing is on P.W.D. pattern. The following checks should generally be applied in audit of civil works.

(i) Check that the administrative approval and technical sanction of the work had been obtained.

(ii) Check that no work is started without sanction of estimate.

(iii) Check that tenders were awarded and finalized according to the rules and procedures laid in the Financial Hand Books.

ANNEXURE–'G'

Para 3.04

UTTARAKHAND STATE ROAD TRANSPORT CORPORATION

BALANCE SHEET AS AT ....

Capital & liabilities	Schedules	Amount	Previous year's figures	Properties & Assets.	Schedules	Amount	Previous year's figures
Capital							
Contribution	1			Fixed Assets	8		
Loans	2			Investment	9		
Reserve & Funds	3 & 3A			Current Assets.	10		
Deposits	4			Inter Office			
				Adjustment A/c.	7		
Current liabilities & provisions							
Liabilities	5			Deficiency Net			
				Revenue			
				Appropriation A/c.			
Provisions	6						
Inter Office							
Adjustment	7						
Account							
Surplus Net							
Revenue							
Appropriation							
A/c.							
Total				Total			

UTTARAKHAND STATE ROAD TRANSPORT CORPORATION
PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED......

DR. **CR.**

Schedule	Expenditure	Amount	Per vehicle Km.	Previous years figures	Schedule	Income Amt.	Per Vehicle km.	Previous years figures	Per vehicle Km.
	Operating Expenses								
A.	To Traffic					OPENING			
B.	To Repairs & Maintenance					REVENUE			
C.	To Power					By Traffic revenue			
D.	To Licenses & Taxes					from			
E.	To Welfare & Superannuation					(i) Passengers			
F.	To General Administration					(Less refunds)			
	Expenses					(ii) Contract Services			
G.	Depreciation					(a) Buses			
H.	Net Workshop					(b) Trucks			
	Operation A/c.					(c) Taxies			
	Total operating expenses					(iii) Passenger Luggage			
	To Balance being					(iv) Parcel Services			
	operating profit for					(v) Postal Mail Services			
	the year G/D.					(vi) Out agencies			
	Total					(a) Trucks			
						(b) Buses			
						(vii) Net Workshop			
						Operation A/c.			
						Total operating			
						Revenue By Balance			
						being operating loss			
						for the years G/D.			
						Total			
	Non Operating Expenses								
I.	To debt charges.					OTHER REVENUE			
J.	To interest on					By Income from :-			
	Capital					(i) Advertisement			
K.	Provisions					(ii) Canteen Rents			
	To loss on sale					(iii) Profit on sale of vehicles			
	of Vehicles.					(iv) Sale of scrap			
	Net profit of the					(v) Interest			
	year carried to					(vi) Miscellaneous			
	Net Revenue					receipts.			
	Appropriation					Net loss for the year			
	Account.					carried to Net Revenue			
						appropriation Account.			
	Total					Total			

UTTARAKHAND STATE ROAD TRANSPORT CORPORATION
NET REVENUE APPROPRIATION ACCOUNT FOR THE YEAR ENDED......

Expenditure	Amount	Per vehicle Km.	Previous years figures	Per vehicle Km.	Revenue	Amount	Per vehicle Km.	Previous figures	Per vehicle Km.
To Net loss b/f from Profit & Loss Account					By Net Profit b/f from Profit and loss A/c.				
To Expenses in respect of previous years					By Income in respect of previous years				
To Dividend on share Capital					By excess provisions written back				
To Contribution to :-									
(i) Passengers Amenity Fund									
(ii) Staff Welfare Fund									
(iii) Price Equalisation Fund									
(iv) Sinking fund for re-payment of debentures									
(v) General Reserve Fund									
(vi) Capital Reserve for financing expansion programmes									
(viii) State Government for Development.									
Net Profit carried to balance, sheet.					Net loss carried to balance sheet				
Total					Total				

UTTARAKHAND PARIVAHAN NIGAM
SCHEDULES FORMING PART OF THE BALANCE SHEET AS ON......

Schedule 1 **Capital Contribution**

Particulars	Amount	Previous year's figures
1. Authorised share Capital		
2. Issued and Subscribed share capital		
(a) Central Government		
(b) State Government		
(c) Others		
3. State Government Capital Contribution		
4. Union Government Capital Contribution		
Total		

Schedule 2 **Loans**

Particulars	Amount	Previous year's figures
1. Loans from Union Government		
2. Loans from State Government		
(a) Capital conversion loan		
(b) Others term loan		
(c) Short term loan		
Debentures		
Loan from Banks		
(a) Term Loan		
(b) Cash Credit		
(c) Deferred payment facilities		
(d) Other Loans		
Total		

Schedule : 3 A **Depreciation Reserve Fund**

Particulars	Opening Deprecation Total	Deduction Depreciation already charged on assets disposed off during the year	Balance as on
1. Building			
2. Temporary sheds			
3. Furniture and Fixtures			
Plant and Machinery			
Tools and equipment			
Vehicles			
Total			

Schedule : 3 **Reserve and Funds**

Particulars	Amount	Previous year's figures
1. Depreciation Reserve Fund		
2. Insurance Reserve Fund		
3. Passenger Amenity Fund		
4. Staff Welfare Fund		
5. Pension Fund		
6. Provident Fund		
7. Price Equalisation Fund		
8. Capital Reserve for		
Expansion Programme		
Development Rebate		
Reserve Sinking Fund		
General Reserve Fund		
Others		
Total		

Schedule : 4 **Deposits**

Particulars	Amount	Previous year's figures
Deposit from :		
Staff		
Public		
Others		
Total		

Schedule : 5 **Current Liabilities**

Particulars	Amount	Previous year's figures
Sundry Creditors		
Interest payable on capital & loans to State Government		
Interest payable on capital and loans to Union Government		
Interest on deposits		
Other Liabilities		
Total		

Schedule : 6 **Provisions**

Particulars	Amount	Previous year's figures
Provision for Audit		
Charges		
Income Tax		
Bad and Doubtful debts		
Assets clearance A/c		
Stock Adjustment A/c		
Total		

Schedule : 7 **Inter Office, Adjustment A/c**

Particulars	Amount	Previous year's figures
Inter Office transfer of		
Capital Assets		
Inter Office transfers of		
spare parts		
Inter Office remittances		
Total		

FIXED ASSETS

Schedule : 8

Particulars	Gross block as on	Transfers (Received) during the year	Additions during the year	Total	Transfers during the year	Value of assets sold during the year	Value of assets written off during the year	Total	Gross block as on
1. Land									
(a) Free Hold									
(b) Lease hold									
2. Buildings									
(a) Permanent									
(b) Temporary									
(c) Work in progress									
3. Plant and Machinery									
4. Vehicles									
5. Chassis									
6. Tools and equipments									
7. Furniture and Fixtures									
Total									

Schedule : 9 **Investments**

Particulars	Amount	Previous year's figures
Depreciation Reserve Fund with		
State Government		
Insurance Reserve Fund with		
State Government		
Others		
Total		

Schedule : 10 **Current Assets**

Particulars	Amount	Previous year's figures
1. Stores and spare parts		
2. Building Material		
3. Work in progress (at estimated cost)		
4. Sundry Debtors		
(a) Govt. Departments		
(i) Debts outstanding for a period of over six months		
Good		
Doubtful		
(ii) Other debts		
Good		
Doubtful		
(b) Private parties		
(i) Debts Outstanding for a period of over six months		
Good		
Doubtful		
(ii) Other debts		
Good		
Doubtful		
5. Advances:		
(a) Staff		
(b) Government Department		
(c) Private Parties		
(d) Advance payment of Income tax		
6. Deposits:		
7. Accured Interest in investments		
8. Prepaid expenses		
9. Deferred Revenue expenditure		
10. Shortages pending recoveries or adjustments		
(a) Cash		
(b) Stores		
(c) Building Materials		
11. Cash and Book Balances:		
(a) Cash in hand		
(b) Cash with treasuries		
(c) Cash with Bank		
(d) Remittances in transit		
(e) Cash Interest		
(f) Postage and Revenue		
Total		

UTTARAKHAND PARIVAHAN NIGAM

Schedule forming part of Profit & Loss Account for the year ended.......

Schedule : A **Traffic**

Particulars	Amount	Per Vehicle Km.	Previous Years figure	Per vehicle figure
Salaries & Allowances:				
(a) Officers				
(b) Staff				
(c) Driver & Conduction				
Ticket & Traffic				
Stationary				
Uniform				
Tools & Equipment				
Time Tables				
Other charges				
Total				

Schedule : B **Repairs & Maintenance**

Particulars	Amount	Per Vehicle Km.	Previous Years figure	Per vehicle Km.
Salaries & Allowance				
Officers :				
(a) Maintenance				
(b) Workshop				
Staff :				
(a) Maintenance				
(b) Workshop				
Stores :				
(a) Spare parts				
(b) Lubricants				
(c) Tyres Tubes & Flaps				
(d) Batteries				
(e) Other Stores				
Uniforms :				
Electric Powers				
Other charges				
(a) Repairs by outside agencies				
(b) Reconditioning and Repairs by Central Workshop				
(c) Reconditioning and Repairs by Regional Workshop				
(d) Other charges				

Schedule : C **Power**

Particulars	Amount	Per Vehicle Km.	Previous Year’s figure	Per vehicle Km.
Petrol				
Diesel				
Lubricants including Engine oil				
Total				

Schedule : D **Licenses & Taxes**

Particulars	Amount	Per Vehicle Km.	Previous Years figure	Per vehicle Km.
Permit Fee and Registration				
Motor Vehicle Tax and fitness certificate fee				
Others				
Total				

Schedule: E **Welfare and Superannuation**

Particulars	Amount	Per Vehicle Km.	Previous Years figure	Per vehicle Km.
Employees State Insurance				
Welfare and Medical				
Employer's Contribution to Provident Fund				
Contribution to Pension Fund				
Gratuities				
Ex-gratia payment to-employees				
Total				

Schedule : F **General Administrative Expenses**

Particulars	Amount	Per Vehicle Km.	Previous Years figure	Per vehicle Km.
1. Salaries & Allowances				
(a) Officers				
(b) Other staff				
2. Sitting Fee & T.A. to Corporation Members				
3. Rent Rates & Taxes				
4. Insurance				
(a) Third party				
(b) Employer's liability				
(c) Fire and other insurance				
5. Staff Car and Van expenses				
6. Maintenance and Repairs to building				
7. Heating Lighting and Water				
8. Claims (Accidents)				
9. General Charges				

10. Advertising and publicity
   (b) Postage
   (c) Telephone, Telex and Telegram Charges.
   (d) Legal Expenses
   (e) Audit Fee
   (f) Stationery & Printing
   (g) Uniforms other than in schedule A & B
   (h) Other Miscellaneous Expenses

Total

Schedule 'G' **Depreciation**

Particulars	Amount	Per Vehicle Km.	Previous Years figure	Per vehicle Km.
Depreciation				
(a) Vehicle				
(b) Plant & Machinery				
(c) Tools & Equipment				
(d) Buildings				
(e) Temporary Sheds				
(f) Furniture and Fixtures				
(g) Other Fund assets				
Total				

WORKSHOP OPERATION ACOUNTS, STORES AND SPARES ACCOUNT

Schedule : H

Dr. Particulars	Amount	Previous year figures	*Cr.* Particulars	Amount	Previous Year's figures
(i) To opening Stock			By transfer to regions		
To purchases			By transfer to Departmental Works :		
To Carriage Inward			(i) Buildings		
To Stock returned from shops			(ii) Plant & Machinery		
Establishment expenses			(iii) Tools & Equipment		
			(iv) Contingency		
			(v) Furniture's & Fixture		
			By Sales to:		
			(i) Govt. Dept.		
			(ii) Private parties		
			By Stores & Spare Parts consumed transferred to Manufacturing Account		
			By Closing Stock		
Total			Total		

Schedule : 'H' **Workshop operation account (continued)**

MANUFACTURING ACCOUNT

To Opening balances of	By work-in-progress
Work-in-progress	(Closing Balance)
A. Capital A/c.	A. Capital A/c.
B. Revenue A/c.	B. Revenue A/c
To Stores & spares	By return to stock A/c.
consumed transferred	
from stock.	
A/c.	
To Direct Wages	Balance being value
To leave salary	of finished stores transferred to
To workers	finished stock A/c
To Indirect Wages	
To Electricity Charges	.
To repair & Maintenance to	
workshop	
To Factory Licensee	
To miscellaneous	
To depreciation	
(i) Plant and Machinery	
(ii) Tools & Equipment	
to tools consumed	
Total	Total

Schedule : 'H' **Workshop operation account (continued)**

FINISHED STOCK ACCOUNT

Balance of finished	
Store transferred	By transfer
from Manufacturing A/c.	
A. Capital A/c.	A. Capital A/c.
B. Revenue A/c	B. Capital A/c.
	By Miscellaneous Income
To Workshop Establishments :-	
(a) Salaries & Allowances	By Rent
(b) Stipend to apprentices	By Sale of serviceable stores & Spares
To repairs &	By other receipts
maintenance :	By Balance Transferred to Profit & Loss A/c
(a) Building	
(b) Furniture & Fixture	
To Losses on stock .	
To Rent Rates and taxes	
To Contribution to	
(a) E.S.I.	
(b) E.P.F.	
To Office Contingency	
To interest on Capital	
To Interest on Loan	
To Audit Charges	
To ex-gratia payments to employees	
To Gratuities Contribution to	
pensioner Fund	
To Depreciation	
(a) Buildings	
(b) Vehicles	
(c) Fixtures	
Balances transferred to	
Profit and Loss A/c.	
Total	Total

Schedule : 'T' **Debt Charges**

Bank Charges	Amount	Per Vehicle Km.	Previous Year's figure	Per vehicle Km.
Interest on Debentures				
Interest on other loans.				
Total				

Schedule : 'J' **Interest on Capital**

Bank Charges	Amount	Per Vehicle Km.	Previous Year's figure	Per vehicle Km.
State Government				
Union Government				
Total				

Schedule : 'K' **Provisions**

Bank Charges	Amount	Per Vehicle Km.	Previous Year's figure	Per vehicle Km.
Income Tax.				
Development Rebate				
Reserve				
Bad and Doubtful Debts				
Adjustment Account				
Clearance of Assets				
Adjustment Account				
Total				

STATEMENT SHOWING THE PERCENTAGE CHECK TO BE APPLIED BY AUDIT IN RESPECT OF THE ACCOUNTS OF STATE ROAD TRANSPORT CORPORATION

ANNEXURE H

Para : 3.05
(Ref. C.A.G. Circular No.780-Admn. III/143-60, dated : 12th April, 1960 and 662-C A IV/99-74 dated 4.11.1974)

Sl. No.	*Name of the Documents to be checked*	*Process of Check*	*Extent of Audit*	*Remarks*
1.	Head-Office Records Cash Book	Checking with relevant documents	Detailed check for one month and general review of the whole year	The books of original entries, the receipt books, daily abstract of collection will be checked.
2.	Journal Vouchers & Journal vouching	Vouching with reference to sanction, etc.	Detailed check for one month and general review for the whole year (annual closing adjustment entries to be checked 100%)	
3.	Daily payment Register *i.e.*, register of cheque drawn.	Check with sanction orders & their posting into the ledgers	Detailed check for one month and general review for the whole year.	
4.	Income & Expenditure Register	Check posting of receipts & payments from the monthly statement of the unit.	-do-	
5.	Summary register of expenditure & Income	Check monthly posting with income and expenditure register.	-do-	
6.	Contingent bills	Check with contingent register & orders of the competent authority	-do-	
	Head Office Records			
7.	Register of cheques received.	Trace entries into Cash book.	Detailed check for one month & general review.	
8.	Bank pass book	Compare with the entries in cash book & Check reconciliation statement.	One month	
9.	Reconciliation of remittances into treasuries/banks	Verify remittances as shown in the unit returns with reference to treasuries/bank pass book received directly at head quarters	One month	
10.	Register of Capital contributions	Check posting into the respective ledgers of different Governments	100%	
11.	Emoluments paid to members of the Corporation	Scrutinize with the minutes of the Board.	General review.	
12.	Pay bills, T.A. Bills including overtime register.	Check with authority time period, etc.	One month & General review.	

13.	Scale Audit	Checking of dates of increments	General review.	
14.	Service books and leave accounts	Check entries with rules and orders.	5% of total strength.	
15.	Rent register of staff quarters	See fixation and collections regularly.	General review.	
16.	Provident Fund account (Where the management of fund is not through the Board of trustees).	Check with schedules of deduction received from units.	One month	Trace recoveries to personal account, check withdrawals & payments etc. 25% of total subscribers for one month.
17.	Register of call deposits and short term deposits	Check with reference to the sanctions by the board, verify receipts of interest on due dates.	100%	
18.	Stamp account	- - -	One month.	
19.	Register of investments & securities	Verify physically. Fresh purchases & sales may be checked with reference to board's sanctions & their receipts in the Cash Book. Verify receipts of interest on due dates.		
20.	Register of security deposits from the staff & contractors etc.	Scrutinise with reference to conditions of Contract/ service, are taken properly in receipts & refunds.	One month	
21.	Scrutiny of allocation of expenditure between Capital and revenue	Scrutinise with reference to Board's resolutions and properties	100%	
22.	Register of fixed charges and periodical payments.	See such payments in this register to avoid duplicate payments.	General Review	
23.	Register of advances to Suppliers.	See that advances are in accordance with rules and are settled without undue delay.	-do-	
24.	Register of Earnest money deposits.	See that receipts are properly noted & accounted for and refunds are noted against original entry.	One month	
25.	Register of tender applications forms sold.	Trace receipts into Cash Books.	-do-	
26.	Retention money register.	See that amounts retained are as per conditions of contract.	-do-	
27.	Register of penalties recovered from contractor.	See that penalties are levied as per rule.	General review.	
28.	Register of recovery of advertisement charges.	Check the rates with Contractor and trace their recovery in Cash Book.	One month	
29.	Register of losses written off.	Scrutinize with reference to losses reported by the units & Survey reports,	100%	

		sanction of the competent authorities.		
30.	Register of transit losses	Check with claims raised and their valuation of items.	100%	`
31.	Scrutiny of Corporation resolutions.	Scrutinize with Road Transport Corporation Act and rules, Govt. directions and with reference to propriety.	100%	
32.	Scrutiny of standing Committee resolutions.	Scrutinize with Road Transport Corporation Act, and rules, Govt. directions and with reference to propriety.	100%	
33.	Scrutiny of Tender committee's resolutions	-do-	100%	Purchases should be verified with rates approved by tender committee.
34.	Scrutiny of Sanctions	Scrutinize with reference to regularity, propriety etc.	General Review	General review and Cent Percent of sanctions above Rs. 10,000.
35.	Main ledger.	Check posting from the Journal and Cash Book.	One month's detailed check and general review	Opening & Closing balances should be checked Cent Percent.
36.	Section Ledger	-do-	-do-	-do-
37.	Monthly returns of Units.	Check posting to Head office books	One month	
38.	Register of cheque books.	Checking of receipts issue with supply memos of requisitions	Detailed check for one month and general review.	-do-
39.	Log books of departmental vehicles.	Checks trips with requisitions	-do-	-do-
40.	Register of Contracts and tenders for purchase of stores, etc.	See that important charges are entered into register.	General review	
41.	Scrutiny of tenders for stores & works.	Scrutiny with reference to original tenders papers	All tenders above Rs. 1,00,000, Rs. 50,000 to 1 lakh 25% and less than Rs. 50,000. 10%. In case of DG&SD contracts: general review	
42.	Audit of store account at Central Store.	Comparative statement of sanctions of competent authority.	Receipt : 100% of one month Issue : 25% of one month	
43.	(a) Works abstracts. (b) Measurement Books.	Check with reference to contracts, purchase orders, receipt vouchers, issue vouchers and stock ledger. Checking of postings : Check as prescribed in P.W.D. Code	Two months detailed	
44.	Register of works.	Check positing from works abstracts.	One month.	

45.	Stock account of receipt issue & balance of tickets books and passes	Check with reference to supply memo receipt voucher & requisition slips.	Detailed check for one month and general for the whole year.
46.	Register of capital Assets	See that fresh purchases are as per Board's resolutions, checking of invoices, additions & disposals, etc.	Detailed check for one month and general review for whole year
47.	Schedule of depreciation calculation examination of provisions	Check for arithmetical accuracy, scrutiny with provisions of the Act, rules & Boards resolutions.	100%
48.	Annual financial statement	Scrutiny with reference to the principles of budgeting.	General Scrutiny
49.	Annual accounts & all schedules connected therewith	Verification of Assets and liabilities.	100%
50.	Examination of the minute book of the Board		100%
	Records at Depots		
1.	Cash Book	Same as for Head Office	One month & General review.
2.	Audit of vouchers	-do-	-do-
3.	Imprest Register	Checking of grant of temporary items and recoupment thereof.	General review.
4.	Scrutiny of Way bills	Check trip wise collection with way bills abstract.	2 days in each quarter
5.	Way bills abstract.	Check open balance of tickets with closing balance of previous abstracts. Total collection should be checked with traffic revenue register	-do-
6.	Column register	Receipts in issue and completion of ticket books may be checked with reference to supply memo, conductors, way bills	-do-
7.	Stock account of ticket books.	Same as per H.Q. Records	Same as H.Q. Records
8.	Register of Casual contracts	Check receipt on account of buses supplied with terms of contract and entries in the log books.	-do-
9.	Stock account of stores (other than fuel)	Check issue of tyres, batteries etc. with entries in the log books.	-do-

10.	Scrutiny of Fuel (P.O.L. Account)	Scrutinize daily issue with the total of sheets/mileage covered	One month
11.	Register of empty barrels.	See that proper receipt and issue account maintained.	One month
12.	Scrap Register	See that weight of quantity account is maintained & their disposal accounted for	General Review.
13.	Register of Uniforms		General Review
14.	History Sheet of vehicle	See that spare parts etc are entered and all unserviceable items removed and accounted for in other records	History sheet of 25% of total No. of vehicles for one month and general review
	Workshop Records		
15.	Log book of vehicles.	Check mileage with P.O.L. consumed and see that proper use of vehicles in made	One month detailed check and general review.
16.	Scrutiny of Estimates	Check estimates with actual and comment wide-variations, if any.	100% of the works.
17.	Job Cards.	Check with reference to orders of Competent authority , trade materials etc. with materials requisition placed on stores	-do-
18.	Stores/accounts	Issue and receipts.	One day per each quarter.

CHAPTER-IV

4.01 Uttarakhand Van Vikas Nigam Ltd.

Uttarakhand Van Vikas Nigam Ltd. was incorporated on 1 April 2001 as a statutory corporation. The main work of the Corporation is conservation of forest by extraction of dry and uprooted trees in the forest within the jurisdiction of Uttarakhand and sale by auctions, tenders, order supply and retail sale to generate the revenue for the payment of royalty to forest department for the trees allotted by forest department.

4.01.01 Main Activities

(i) Extraction and disposal of forest produce

(ii) Collection, storage and marketing of herbs

(iii) Supply of wood and bamboo for retail sale to general public for domestic use

(iv) Sale of boulders, bajri and reta from the rivers of the reserved forests

4.01.02 Organisation Structure;

The management of the corporation vests in a Board of Directors. Managing Director is Chief Executive Officer who is assisted by 2 General Managers and 4 Regional Managers.

4.01.03 Records Kept (Division Wise)

1. Tally sheet containing details of material received in the depot, goods disposed off (through auction) and remained in the stock.
2. Export Ravanna for goods dispatched from forest to Depot and Export Ravanna for material dispatched from Depot to the purchaser.
3. Details of royalty and transit fee paid to the forest department.
4. Payment received for sale of goods
5. Sale Book.
6. Cash book
7. Ledger of customers.
8. Vouchers relating to payments made.
9. Bank reconciliation statement
10. Payment Voucher
11. Cheque issue register
12. Fixed Assets register
13. Auction Result
14. Stock Register

4.01.04 Audit Checks

The activity wise audit checks to be applied while auditing the accounts/ transactions of the Corporation are as follows.

(i) Extraction and disposal of forest produce

(a) To see that material received in the depot is as per export ravanna issued for depot.

(b) To see that material issued from Depot is as per export ravanna issued from Depot.

(c) To see physical verification report of the stock lying in the depot.

(d) To see that payment received is in accordance with the material dispatched from the depot.

(ii) Allotment and supply of forest produce.

There are some industrial units of the state which use forest produce as raw material. The forest produce are allotted to these units on the basis of the different Government orders and through the Corporation. For example, the Eucalyptus wood is supplied to the Paper Mill, Lal Quan, Haldwani and the fire wood (Jaloni) is supplied to the State Sugar Corporation and the other recognised sugar mills.

While auditing the supply of forest produce to the industrial unit, ensure that:

a) the forest produce was supplied in accordance with the relevant allotment order issued by the Government;

b) The agency charges, if any, recoverable from the State Government, has been charged properly and duly recovered.

(iii) Collection, storage and marketing of Herbal medicines.

The Corporation is also engaged in collection, storage, and marketing of herbal medicines in Tanakpur, Bibwala, Rishikesh and Amdanda, Ramnagar.

While auditing the Collection, Storage and Marketing of Herbal medicines the general audit checks related to stores and sales as given in Chapter-VI may please be applied.

(iv) Sale of boulders, bajri and reta

(a) To see that royalty/payment is deposited before lifting of material by the contractor.

(b) To see that royalty is deposited at prescribe rates.

(c) To see the record maintained at check post.

UTTARAKHAND PEYJAL SANSADHAN VIKAS EVAM NIRMAN NIGAM

4.02 Introduction:

After formation of Uttarakhand, the Uttarakhand Peyjal Sansadhan Vikas Evam Nirman Nigam was established in November 2002 under the Uttar Pradesh Water Supply and Sewerage (UPWSS) Act, 1975 (Act).

The main objective of the Nigam was to prepare plan for storage of water, sewage management and implementation of other works and schemes related to water and sewer system in the State or as directed by the State Government from time to time.

For attaining its objective, the Nigam has created two wings viz. Peyjal wing and Nirman wing. Peyjal wing looks after work relating to water supply, Sewarage, hand pumps and tube well whereas Nirman wings looks after deposit works (construction of buildings).

4.02.01 Organisational Structure:

The management of the Nigam vests in a Board of Directors headed by the Chairman. The Managing Director is Chief Executive of the Nigam who is assisted by Secretary, Financial Adviser and other functionaries.

4.02.02 Audit of accounts of Nigam:

In pursuance of Section 50(3) of the Act, the audit of the accounts of the Nigam has been entrusted to the Comptroller and Auditor General of India by the Governor of Uttarakhand. Accordingly, the audit is conducted under Section 20(1) the Comptroller and Auditor General (Duties, Power and Conditions of Service) Act, 1971.

Under section 50(2) of the Act, the Nigam maintains its accounts in the form prescribed in regulations framed by Jal Nigam and approved by the State Government in June 2003. The Board of Directors on an emergent meeting held on 17 December 2004, decided to prepare the Balance Sheet in the format prescribed in the Companies Act, 1956. Approval of the State Government to the revised format is, however, awaited (March 2015).

4.02.03 Main Records maintained by the Nigam

1.	Cash Book	2.	Cash Disbursement Order Book	3.	Money Receipt Book
4.	Transfer Entry Order Book	5.	Purchase Register	6.	Remittance Register
7.	General Ledger	8.	Personal Ledger	9.	Fixed Assets Register
10.	Contract / Supplier Ledger	11.	Demand and Collection Register	12.	Document Control Register
13.	Source Document Books (GRN, MRN, MTN, ARN, ATN etc.)	14.	Work Order Book	15.	Estimate Register
16.	Measurement Book				

4.02.04 Audit Checks

In audit of Jal Nigam, the general principles of audit of contract/ supplies / tender / Expenditure / establishment etc. are to be followed. Besides this, the following other audit checks should also be exercised.

1. Jal Nigam has its own Accounting Manual. During audit, it would be seen that the instructions contained in Accounting Manual are adhered to.
2. The instructions contained in Government Orders and the instructions issued by the Management from time to time have been followed scrupulously.
3. Whether the schemes sponsored by Govt. of India /Govt. of Uttarakhand /World Bank etc have been implemented as per terms and conditions stipulated in the schemes and obtained the desired benefits.

CHAPTER-V

5.01 GENERAL PRINCIPLES OF AUDITING

Under provision of section 619 (3) (B) of Companies, Act, the Comptroller and Auditor General is empowered to conduct a supplementary or test audit of the Companies accounts by such person, or persons as he may authorise on his behalf; and for the purpose of such audit to require information and additional information to be furnished to any person, or persons so authorised, on such matters by such, person or persons and in such form as he may by general or special order direct.

While commencing audit, the auditor should first study the memorandum, articles of association, minute book, agendas, annual accounts and standing orders, rules, and codes issued by the management, and Government. They should also go through the internal audit report as well as previous audit reports of A.G. in order to make themselves, conversant with the mode of business and system of accounts of the Company

The following guidelines are laid down, on various aspects which are common to all the Government, Companies. The special checks according the nature of business of individual companies have been laid down separately in the manual. These instructions should not be taken as sacrosanct and necessary deviations/changes may be made keeping in view the specific character of trade/activity.

5.02 CASH BOOK

The Cash Book is the basic record of the accounts section and requires utmost care in its audit on the following lines.

(a) ***Receipts***

(i) Check the day to day receipts with counter foils of receipts book.

(ii) The serial number of receipt books in the use should be checked with stock register of receipt book.

(iii) Check that defective receipt forms were cancelled by a responsible officer.

(iv) Check that all the receipts as per office copy of receipt books had been brought into the Cash book.

(v) Check that each day's receipts had been accounted for on the same day and remitted to the bank on the next working day.

(vi) Check the receipts on cash sale or realisation against credit sales with sales register and invoices.

(vii) Check that the drafts and cheques received as per cheque/draft inward register had been accounted for on same day and deposited in the bank for collection on the next working day.

(b) ***Payments***

(i) Check that each cash payment is supported by proper voucher showing acknowledgement of payees.

(ii) Check that the payments of large sums were not made in cash.

(iii) Check that the payments were made on sanction of appropriate authority.

(iv) Check that the bearer cheques were not issued and cheques were invariably crossed.

(v) Check that copies of Challan in support of money remitted into the Bank were duly receipted.

(vi) For wages paid, examine the wages sheets together with the acquittance of the workers.

(vii) Check that the payments were released to suppliers/Contractors only after verification of bills by appropriate authority.

(viii) Check transfer of Cash from main Cash book to subsidiary Cash book with receipt shown in the later.

(ix) Examine whether the system of receipts and payments of cash, cheques and bills, banking and custody of cash, insurance of chest and cash in transit, verification of Cash balances, and recording of Cash transaction was adequate and satisfactory.

(c) ***Closing and Balancing***

(i) Check that the total of each page of cash book was correct and also correctly brought forward.

(ii) Check that each days Cash book was closed and balances worked out correctly.

(iii) Check that physical verification of Cash, balance at the close of the month/day and ensure that surprise checks were being carried out each month.

(iv) Check that the Cash count certificates of the verifying officer tallies with the balances of that day.

(d) ***Reconciliation***

(i) Check that monthly reconciliation of balances as per cash book and pass book or remittances and withdrawals was being regularly prepared.

(ii) Check that necessary Contra entry had been passed in the Cash book for stale cheque.

(iii) Check that the matters relating to remittances into the bank not acknowledged by the bank as also other debits passed on by the bank, not related to the company, had been taken up with the Bank.

(iv) In case of banking transaction of units, where telegraphic transfers are required to be sent to Head Office. Check that (a) there were, no delays in such periodical transfers. (b) The maximum balances as on the date of transfer had actually been transferred (c) Check that transfers by the unit Bank had been credited to Head Office account within a reasonable time or *vice versa*.

5.03 PURCHASES

(i) Except in the cases of petty purchases, check that requirements had been received from appropriate authority showing the purpose, stock, position and final requirement.

(ii) Check that the requirements were not more than the consumption required for three months.

(iii) Check that tender/quotations were invited/received through vide publicity/reputed registered firms.

(iv) Check that the tenders/offers received were opened on specified date by a competent authority who should also initial the offers in token thereof.

(v) Check that no offer of any kind, which tantamount to variation in prices, had been accepted subsequent to opening of tender.

(vi) Check whether the item for which the tender was invited was available on the rate contract. If so, call for reasons for which purchases were not made on D.G.S. and D. (Director General Suppliers and Disposal) rates.

(vii) Check comparative statements to find out that the correct rates had been entered, the prices were properly loaded for special terms and conditions offered by the supplier e.g. (ex works on F.O.R. destination rates, terms of payments, discount, alternate product different to the specification given, taxes levies etc.)

(viii) Normally the tenders are decided by different purchase committees who are expected to recommend/accept the lowest workable rates offered by the tenderer. In case however, rates of second, third or even highest tenderers were accepted/recommended by the committee the reasons for passing over the tenderer with lowest rates should be looked into.

(ix) Check that tenders received with the sale of tender forms register to ensure that the tender had not been received from a party to whom no tender was sold.

(x) After approval of rates either an agreement is executed or a supply order is issued. Check that terms and conditions of agreements/orders were not prejudicial to the interests of the company and all terms and conditions as given in the tender form had been incorporated.

(xi) In case of civil works contracts or order for fabrication, manufacturing and supply; Check, that analysis of rates had been prepared before inviting the tenders and the rates finalised were not abnormally high.

(xii) Check that payments to suppliers were made according to the terms of orders/agreement.

5.04 SALES

(i) To begin with audit of sales a study of the system and policy of the company with respect to cash and credit sale should be made.

(ii) Sales invoices should be checked with entries in the Cash Book and sales day book in respect of Cash sale.

(iii) In case of credit sale, check that the sales were within permissible financial limits, and the purchaser, was regular in clearing old dues.

(iv) Check the credit sales invoices with sales day book and entries in debtors' ledger.

(v) Invoices should be checked with the prescribed rates to ensure that there was no under billing.

(vi) Check that discounts allowed (both cash and quantity) were as per sales policy of the Company.

(vii) If the discount is conditional upon payment within a stipulated time, check that the discounts allowed were forfeited in cases of delayed payments.

(viii) Check the entries in the sales return day book with the duplicate copy of counterfoils of credit notes issued and goods returned books/sheets as well as with goods received note in case of goods returned by customer.

(ix) Check that the statutory levies as applicable from time to time had been billed correctly.

(x) In case of excisable commodities check the debits in P.L.A (Personal ledger Account) with excise gate passes and sales day book.

(xi) In case of agency sales, check the commission paid to the agents on sale with the sales returns received from them and terms of their agreements.

(xii) In case where sole selling agents were appointed by the Company, check that agreements with such agents were executed after giving vide publicity and obtaining, adequate security to safeguard company's interests.

(xiii) In case of Branch Sales, check the branch accounts, received in Head Office with copies of the sales invoices attached and the rates prescribed for sale.

5.05 STORES

(i) Check the entries in stores ledgers with bin cards, goods receipts sheets and inspection notes of quality Control Wing.

(ii) Test check the goods received sheets with supply orders to ensure that correct material as per specification had been accepted.

(iii) Check that the supply as per G.R.S. had been received within the stipulated delivery period or otherwise a note had been put for invoking the penalty clause, if applicable, in case of delayed supply.

(iv) Check the issues in store ledgers with indents/requisitions and entries in the bin cards.

(v) Check that indents were issued by competent authority.

(vi) Check the issue invoices, with indents and see that a proper acknowledgement had been obtained.

(vii) Check the issue invoices, indents with entries in job card for home consumption.

(viii) In case of issue to sister units of company, cross check should be exercised for issue and receipt of both the units.

(ix) In case of transfer of materials to units not under the same management (UPRNN, Bridge Corporation etc.) the Cash settlement bills raised for adjustment and acceptance thereof should be examined.

(x) Returns to stores should be checked with the entries in store ledgers with reference to goods return vouchers.

(xi) Check that maximum and minimum stocking limit of vital stores had been fixed and maintained.

(xii) Check that the reordering level of major and fast moving items had been fixed. Check that there is no huge accumulation of slow moving items.

(xiii) Check the arithmetical accuracy of totals in the bin cards, store ledgers etc., the balances brought forwarded year to year and page to page should be checked.

(xiv) Study the instructions/ policy of the Company regarding physical verification of stores which must be carried out at least once in a year. Results of physical verification as submitted to management should be examined to see the manner of accounting of excesses and shortages.

(xv) The register of thefts and misappropriation cases should be examined from relevant, correspondence file.

(xvi) Check that the stores were declared condemned, unserviceable and obsolete by competent authority. The reasons responsible for it should also be analysed.

(xvii) Check that condemned, unserviceable and obsolete stores were disposal off within a reasonable time. In case of auction check that vide publicity had been made and benefits of highest rates were availed of.

(xviii) Check the demurrage/wharfage register and R.R. register to find out high value cases of payments of demurrage/wharfage, the circumstances leading to such payments should be looked into.

5.06 MUSTER ROLLS

(i) Check that the engagement of labour had been made after proper sanction of competent authority.

(ii) Check the arithmetical accuracy of some of the muster rolls at random.

(iii) Check the muster roll attendance sheets was followed by daily progress, reports of the work done by the labour.

(iv) Check that acknowledgements of the payees had been obtained.

(v) Check that the muster roll labour had not been engaged if the regular worker/staff was sufficient, to carry out the Job. Adequacy of regular staff can be judged from the sanctioned and actual number of posts giving due consideration to works being carried out departmentally.

5.07 MAN POWER ANALYSIS

(i) Check that the actual number of employees was not more than the sanctioned posts under different categories.

(ii) Check the actual personal factor (percentage of actual staff to staff required) with that given in the project report.

(iii) As per Factories Act, 1948. The overtime hours put in by a worker should not exceed 50 hours in a quarter. Check that this limit was not exceeded.

(iv) Check that prior approval of competent authority had been obtained before directing the workers for overtime.

(v) Check the overtime wage sheet with time office records and sanction of competent authority.

5.08 LOG BOOKS

(i) Check that date wise details of opening and closing meters of journey's performed by each officials indicating the purpose of journey and signature is noted in a log book opened for each, light and heavy, Vehicle.

(ii) Check that log book is also maintained for each plant and machinery which consumed fuel.

(iii) Check that repair log book is also maintained for each vehicle/plant and machinery, showing the repair and replacement from time to time.

(iv) Check the monthly closing of log books, the total mileage done/hours run and P.O.L. consumed to ensure that the consumption average was not below the prescribed limit.

(v) Check the recoveries at prescribed rate were made for private Journey.

(vi) In case the vehicle remained off the road for more than 90 days at a time, check that the claim for refund of road tax had been preferred.

5.09 ESTABLISHMENT AUDIT

(i) The pay bills should be ensured that the incumbents whose, salaries are drawn were, the *bona fide* employees.

(ii) A test check of pay bills should be carried out with the service book, to ensure that the pay drawn in the pay bill was correct.

(iii) In case of leave salary, check the service book to ensure that leave account was properly debited and leave was sanctioned as per rules.

(iv) In case of drawal of annual increments and arrears of pay fixation etc. check that the increments were authorised by competent authority and Pay fixation memos were correctly drawn as per relevant orders. In this connection, the entries in service book should also be examined.

(v) In case of leave encashment bills, the leave account should be checked to ensure that there was adequate leave at the credit of the incumbents and it was sanctioned by a Competent, authority.

(vi) A test check of total of pay bills and the arithmetical accuracy of other calculations and deduction should be carried out.

(vii) Check that prescribed minimum contribution towards E.P.F./G.P.F. had been deducted from each/incumbent's salary on completion of one year's service.

(viii) Check that recoveries for G.P.F. advances, salary advances. House building advance, Motor Cycle/Scooter advance. Festival advance, etc. were made from monthly pay bills, and advances registers were maintained to watch recoveries.

5.10 CASH MANAGEMENT

(i) Whether cash flow statements were prepared properly and regularly.

(ii) Whether short term deposits and borrowings, exist side by side and if so, avoidable interest, if any should be commented.

(iii) Whether a large block of share capital had been called up much in excess of actual requirements of the company.

(iv) Where a loan had been sanctioned by the Government to the Company, the rate of interest charged was not less than the borrowing rate of the Government. Check that the loan or grant has been utilised for the purpose for which it was sanctioned.

(v) Check that the debts due from trade debtors were being realised regularly and evenly, especially from Government departments.

(vi) In case of manufacturing companies under construction period, check that proper allocation of expenditure into revenue and capital heads had been made.

(vii) Check that the administrative charges and overheads were correctly allocated during the construction period.

(viii) The register of charges as required to be maintained under provision of section 193 of the of Companies Act should be examined to ensure that all charges specifically affecting the property of the company and all floating charges on the undertakings or any property of the Company were entered in the register.

(ix) Check the action taken in respect of bigger items of bad and doubtful debts lying outstanding for long time.

(x) Check that funds surplus to immediate requirements of the Company was invested in short/long term deposits.

(xi) Check that large balances in current account were not kept for long.

5.11 BORROWINGS

(i) Check that the borrowings were within the limits prescribed by the Board.

(ii) In case of borrowings, from financial institutions commitment charges at specified rates are payable in cases the loan is not availed within the prescribed time; check the reasons of non-availment of loans and payment of commitments charges. Examine whether payments of commitment charges was justified.

(iii) Check that the rebates admissible on timely payment of principal and interest had been availed.

(iv) Check that the loans were utilised for the purpose for with these was taken. Specific cases, where the loans raised for specific purposes were not utilised should be analysed to comment on avoidable interest payments.

(v) Check the cases of defaults in repayments and incidence of penal interest thereon.

5.12 COST AUDIT

Under provision of section 209(i) d of the Companies Act, 1956, Companies, engaged in production, processing, manufacturing or mining activities are required to keep proper books of accounts relating to utilisation of materials, labour or other items of cost as may be prescribed. Under provision of section 233 of the Act, the Central Government may by order direct an audit of cost accounts in such manner as may be specified in the order. During the scrutiny of cost accounts records the following points should be looked into:-

(i) Ascertain the units/products manufactured by each unit, financial head of accounts and cost centers in details for the purpose of direct allocation of income and expenditure.

(ii) Check the areas identified for concentration to reduce cost, increase in production and review the action taken in this regard.

(iii) Analyse the losses of raw materials in process and transit and treatment thereof in the cost sheet.

(iv) Analyse the consumption of major raw materials as per norms laid down.

(v) Review the packing, selling and distribution expenses and the weightages given in the cost sheet.

(vi) Examine pricing of materials issued but returned.

(vii) Check that visible and invisible wastages have not exceeded the standard wastage fixed on the basis of project report/technical data and whether the cost thereof was distributed over the goods produced.

(viii) Check that the value of abnormal waste or loss was not included in total cost of the products.

(ix) Check that the sale proceeds of scrap were either credited to profit and loss account or overheads to jobs or transferred to other jobs depending upon nature of activity.

CHAPTER-VI

AUDIT OF GOVERNMENT COMPANIES

6.01 SUGAR COMPANY

(a) Kichha Sugar Company Ltd., Kichha

(b) Doiwala Sugar Company Ltd., Doiwala

The Companies are engaged in manufacture and sale of sugar. Sugar is manufactured as main product and its bye-products are Molasses & Bagasse.

6.01.01 PURCHASE PROCEDURE

Basic raw material is sugarcane which is purchased through various Cane Societies at the rates fixed by State Government.

6.01.02 ROLE OF STATE/CENTRAL GOVT

Major decisions like release of sugar (Monthly Quota), Levy price fixation & ratio , Statutory Minimum Price of sugarcane are controlled by Govt. of India. Similarly the state govt. advises Cane price, Molasses Control Price, Molasses Polices.

6.01.03 SALE PROCEDURE

Levy sugar is sold at Levy price fixed by Govt. Free sugar and Molasses is sold by State Govt.

6.01.04 ORGANISATIONAL SETUP

The company is managed by a Board of Directors and also has one whole time Executive Director. There are 2 units (Factories) acquired by the Government. These factories are headed by a whole time Executive Director.

6.01.05 MAIN RECORDS

1. Engineering
    a. Measurement Book of fabrication work
    b. Log Book of DG Set
    c. Statement of expenses of Engineering Section
2. Manufacturing &Storage /Sales
    a. Annual Final Manufacturing Report
    b. Daily Manufacturing Report
    c. Molasses Production / Stock Register
    d. Excise Duty register
3. Cane
    a. Daily cane purchase register
    b. Daily cane receipt file.
    c. Cane purchase register
    d. Centre wise daily cane purchase sheet
    e. Tender file of transport and labour contractors
4. Finance & accounts
    a. Cash Book
    b. Vouchers
    c. Final Accounts & Balance Sheet

6.01.06 AUDIT CHECKS

(I) *Audit of Sanctions*

(i) Check that the sanction has been made by a competent authority and it is within the powers delegated.

(ii) Check that the work had not been unnecessarily split into segments to avoid sanction of higher authority.

(iii) Check that the there are no re-delegation of powers delegated to the General Manager.

(II) *Cane Procurement*

(i) Check that the agreement with the cane grower co-operative societies and transport agencies are executed as per the terms and conditions approved by the Head office.

(ii) Check that the recoveries were made from the bills of the transporters for excess transit losses of cane over the limit provided in the agreement.

(iii) Check that the functioning of weigh-bridges was checked from time to time and proper records thereof maintained.

(iv) Check the total cane purchased at a particular centre with the total cane received at the factory against that centre on completion of crushing season. Excessive losses in transit (damage/pilferage) should be commented upon.

(v) Check that subsidy received from the government for cane development was utilized for the purpose for which it was received.

III) *Sales*

In case sugar is not lifted by the agents as per release orders issued to them within the prescribed period then they are liable to pay for decrease in the market price and make good the loss sustained by the Factory. Check that necessary recoveries were made.

Generally baggasse, unless it is surplus to its requirement of fuel, is not sold out but used as fuel. If however, surplus baggasse is sold out, check that the rates were reasonable with reference to adjoining factories.

Check that molasses were sold out immediately on receipt of instructions from the Excise Commissioner. Deterioration in quality/gradation of molasses should be analysed.

Check the sales with reference to gates passes and also excise records in case of molasses.

Check that the bills have been properly raised for the quantity of molasses sold and according to rates prescribed by Government of Uttarakhand.

6.02.01 STATE INFRASTRUCTURE AND INDUSTRIAL DEVELOPMENT CORPORATION OF UTTARAKHAND LIMITED

State Infrastructure and Industrial Development Corporation of Uttarakhand Limited (SIIDCUL) was incorporated as a limited Company in July 2002 to promote industrial development of the State by development of industrial infrastructure and to take up all other services which are necessary to promote industry.

6.02.02 ORGANISATIONAL STRUCTURE

The Managing Director is the Chief Executive of the Company who is assisted by Financial Controller, General Manager, Company Secretary, Regional Managers and other officers in managing day to day affairs of the Company.

6.02.03 RECORDS MAINTAINED

Apart from the statutory records the following other main records are maintained.

At Head Office

1. Stock Register(Consumable and Non Consumable)
2. Cheque issued and Deposit Register
3. Tender Sale Register
4. All ledger accounts maintained in tally software
5. Project wise contractor files
6. Contractors running account bills
7. Measurement Books
8. Earnest Money Registers
9. Rent agreement files
10. Voucher
11. Agenda and Minutes of Board Meeting

At Regional Offices

1. Individual files for plot -containing
    a. Application for Allotment
    b. Allotment Letter
    c. Lease dead
    d. Demand notes
    e. Copies of payment receipts
2. Measurement Books
3. Stock Register (Consumable and Non Consumable)
4. Cheque issued and Deposit Register

6.02.04 AUDIT CHECKS

Apart from the general checks prescribed for Government Companies separately, the following additional checks should be exercised in audit of this company.

(i) The State Government gives subsidy to the Corporation for acquisition of land in specified districts of the State. Check that the claims were submitted to Government for the subsidy in respect of land identified in such, districts and acquired.

(iv) The development of land acquired for construction of sheds etc., is carried out by Executive Engineers of the Company. The Civil works relating to such activity should be checked on the lines prescribed for the audit of companies engaged in civil works.

(v) Check that allotment of the plots was in accordance of powers delegated for allotments of plots. The applications received for allotment of plots are scrutinised by allotment committees. Check the minutes of allotment committees and test check the allotments made by it.

(vi) On receipt of allotment letter, the allottees are required to deposit the allotment money varying from 10 to 15% of the total premium payable, check that requisite demand was paid within the stipulated time.

(vii) The balance premium is payable in 8 to 10 equal annual installments. Interest at predetermined rates is chargeable in half yearly installments. Check that annual installments were fixed and bills for interest were being raised regularly and correctly.

(viii) The rebate at specified rate is permissible for timely payment. Check that rebate was not allowed to defaulters.

(ix) In case of defaulter in payment of dues or in completion of construction of sheds or commencement of production within the stipulated time, the allotment is liable to be cancelled and in that case, 20 to 25% of the amounts deposited towards premium are required to be forfeited. Check the compliance of these provisions.

(x) In case of restoration of plots to old allottees by competent authority (authorised to do so), check that the restoration was done at prevailing rates and not at old rates.

(xi) Lease rent as decided by the Company is also recoverable from the allottees, check the position of lease rent due and received from the plot allotment register.

(xii) As regards activities of underwriting of shares, check the amount invested by the Company and corresponding return in the shape of dividend.

6.03.01 KUMAON MANDAL VIKAS NIGAM LIMITED

The Kumaon Mandal Vikas Nigam Limited (Nigam) was incorporated (August 1976) as a wholly owned State Government Company under the administrative control of the Department of Tourism with the aim of promoting tourism related activities in all the six districts[20] of Kumaon region of Uttarakhand. The Nigam was responsible for development, promotion, marketing and operation of Tourist Rest Houses (TRHs) and canteens which are running on contractual basis, Tourist Information Centers (TICs). Besides, it is also engaged in retail marketing of petroleum, Liquefied Petroleum Gas (LPG), mining and construction activities.

6.03.02 ORGANISATIONAL STRUCTURE

The Chief Executive of the Company is the Managing Director who is assisted by two General Managers, Company Secretary, Accounts and Audit Officer in day to day affairs of the Company.

6.03.03 Main Records

Apart from statutory records, the following additional records are maintained.

1. Purchase Day book.
2. Publicity correspondence files.
3. Bill book.
4. Credit bill register.
5. Consolidated income and Expenditure Register.
6. Log Books.
7. Work indent and work orders.
8. Monthly progress report from units.
9. Checkout registers.
10. Bill register.
11. Receipt books and stock register.
12. Petty Cash book.

---

[20] ***Nainital, Almora, Pithoragarh, Bageshwer, Udham Singh Nagar and Champawat.***

13. Shortages/damages register.
14. Estimate register.
15. Measurement books.
16. Unserviceable crockery and cutlery register.

6.03.04 Audit Checks:

Apart from the general checks as prescribed earlier, the following additional checks should be exercised during the course of audit of this Company:

(i) Check the monthly progress report (MPR) of various units and analyse that the income and expenditure as supported with copies of vouchers/invoices etc. were correctly classified and accounted for.

(ii) Check that each expenditure as shown in the monthly progress report was supported with a proper voucher and it was incurred for the business of the Company.

(iii) Analyse the income and expenditure of accommodation and catering services to find out that unit was not running in losses. The reasons for losses should be investigated.

(iv) Check that occupancy ratio was not declining and if so, analyse the reasons thereof.

(v) Check the checkout register with the Bill Book and Cash Memo to ensure that the prescribed rates had been charged.

(vi) Check the Cash Book with Cash memos and checkout register to ensure that the day to day receipts were accounted for on the same day.

(vii) Check the telephone/trunk call register for tourist to ensure that each call was billed and paid.

(viii) Check the bill book and receipt book number used with the stock register of such books.

(ix) Check the expenditure incurred on purchase of raw materials for canteens with day to day Canteen Sales to ensure that excessive food was not prepared and wasted.

(x) Check the taxi booking register with entries of log books and bills thereof, with a view to ensure, that the bills were raised at prescribed rates for actual distances. Care should be taken to see that minimum charges were recovered.

(xi) Check the disposal of unserviceable crockery, cutlery, furniture and fixtures.

(xii) Check the Civil works with reference to estimates, measurement books and payments made to contractors.

(xiii) Check the expenditure incurred on non recurring nature of works and analyse the reasons thereof.

(xiv) Check the physical verification reports of various units.

(xv) Check the log books of diesel generating sets installed at unit.

(xvi) Check the sale process of view cards and other priced publications with sales in the stock ledger.

(xvii) Check the expenses on running of stalls in Melas, exhibitions etc. with its sanction and estimates.

(xviii) Check the write off cases of linen, furniture, fitting, crockery and cutlery etc.

(xix) Check that the expenditures incurred on individual package tours were not more than its income received/accrued.

6.04.01 Garhwal Mandal Vikas Nigam

Garhwal Mandal Vikas Nigam (GMVN) was incorporated in March 1976 under the administrative control of the Department of Tourism for promotion of tourism related activities in seven districts of Garhwal region of the State. Records maintained by KMVN and audit checks prescribed for KMVN are also applicable for GMVN.

6.05.01 Uttarakhand Jal Vidyut Nigam Limited

Uttarakhand Jal Vidyut Nigam Limited (UJVNL) was incorporated on 12 February 2001 under Companies Act 1956. UJVNL operates hydro power plants ranging from 0.2 MW to 376 MW, totaling upto 1306 MW.

The management of UJVNL vests in a Board of Directors headed by the Chairman. The Managing Director is Chief Executive of the Nigam who is assisted by 04 Directors, 04 Executive Directors and other functionaries.

6.05.02 Function

Main function of the company is to establish and maintain the hydro power projects and produce electricity and sell it to the state distribution licensee *i.e.* UPCL.

6.05.03 Records Kept

Project Department

1. Feasibilty Reports of the projects.

2. Detailed Project Reports of the respective projects.
3. Power Purchase Agreements (PPA) with the state distribution licensee.
4. Agreements (Civil, Mechanical) with contractors.
5. Physical and financial progress records of ongoing projects.
6. Agenda and Minutes of the BOD meetings.

Electrical and Maintenance

7. Generation records and realization of revenue.
8. Repair & Maintenance Records.
9. Break down/ tripping records

Commercial

10. Correspondence with UERC regarding fixation of tariff.
11. Central financial assistance (CFA) received from Govt. of India
12. Files relating to loans from PFC, REC, PNB, NABARD, ADB, etc.
13. Billing to UPCL.

6.05.04 Audit Checks

Apart from general checks prescribed in the foregoing paragraphs, the following additional checks should be exercised in the audit of the Company.

1. (i) To examine whether the projects were completed within the scheduled time, if not, analyse reasons thereof.

   (ii) If there is delay at the part of the contractor, whether penalty was imposed and recovered from the contractors as per contractual terms.
2. To examine whether necessary statutory clearances were obtained before commencement of the works of the projects.
3. To examine whether cost incurred was within the estimated cost of the project, if not, analyse reasons for cost escalation.
4. To see whether, any cost incurred by the Company was disallowed by the Uttarakhand Electricity Regulatory Commission (UERC)? If yes, then assess financial impact and analyse reasons thereof.
5. Whether the power generation of the projects is as per installed capacity? If not, analyse reasons and its impact thereof.
6. Whether revenue collected is as per power generation records? If not, analyse reasons for the difference, if any
7. To see justification note approved for any major R&M expenses incurred and there were no serious breakdowns due to poor maintenance.
8. To see that maintenance of generation units was carried out at regular interval.
9. Whether Central financial assistance received was utilized for the projects for which it was received.
10. Check the tripping records of the Unit.
11. To check that there is no delay in utilisation of loan obtained.
12. To check that billing was as per approved tariff.

6.06.01 Power Transmission Corporation of Uttarakhand Ltd.

The Power Transmission Corporation of Uttarakhand Limited (PTCUL) was formed on 1 June 2004 to maintain and operate 132 KV and above Transmission Lines and Sub-stations in the state.

Main objective of the company is to acquire, establish, construct, take over, erect, lay, operate, run, hire, manage, maintain, enlarge, alter ,renovate, modernize, work and use electrical transmission lines and/or network through extra high voltage, medium voltage and low voltage lines and associated sub-stations, etc.

6.06.02 Records kept

1. Feasibilty Reports of the projects.
2. Detailed Project Reports of the respective projects.
3. Agreements (Civil, Mechanical) with contractors.
4. Physical and financial progress records of ongoing projects.
5. Agenda and Minutes of the BOD meetings.
6. Repair & Maintenance Records.
7. Correspondence with UERC regarding fixation of tariff.
8. Central financial assistance (CFA) received from Govt. of India.

9. Progress reports of the projects.
10. O&M expenditure allotment files
11. Filing details of Annual Revenue Requirement (ARR) & Tariff proposals.
12. Directions, Orders and show-Cause Notice issued by UERC.
13. Court cases in respect of challenge of tariff orders issued by UERC.
14. Cases settled by Corporate Level Dispute Settlement Committee.

6.06.03 Audit Checks

1. Review the agenda and minutes of BOD Meetings to ascertain approval of the BOD for the items of work for which BOD has not delegated its power to any officer.
2. (i) To examine whether the projects were completed within the scheduled time, if not, analyse reasons thereof.

   (ii) If there is delay at the part of the contractor, whether penalty was imposed and recovered from the contractors as per contractual terms.
3. To examine whether cost incurred was within the estimated cost of the project, if not, analyse reasons for cost escalation.
4. To see whether, any cost incurred by the Company was disallowed by the Uttarakhand Electricity Regulatory Commission (UERC)? If yes, then assess financial impact and analyse reasons thereof.
5. To see justification note approved for any major R&M expenses incurred.
6. To see that maintenance works were carried out at regular interval and there were no serious breakdowns due to poor maintenance.
7. Review of Showcase notice, direction issued by UERC.
8. Review of procurement files relating to conductors, power transformers.
9. Projects were commenced after getting all statutory clearances.
10. Whether any project was stopped after incurring some expenditure. If yes, analyse that.

6.07.01 Uttarakhand Power Corporation Ltd.

Uttarakhand Power Corporation Ltd (UPCL) was incorporated on 12 Feb 2001. Main activity of the Company is to purchase and sell electrical energy and acquire, establish, construct and operate distribution lines and sub-stations (upto 66 KV) for distribution of energy in the state.

6.07.02 Records kept

1. License and license fee payable to UERC
2. Filing details of Aggregate Revenue Requirements & Tariff proposals.
3. Directions, orders and show-cause notice issued by UERC.
4. Court cases in respect of challenge of tariff orders issued by UERC.
5. Cases settled by Corporate Level Dispute Settlement Committee.
6. Monthly Energy Account.

Long Term Power Purchase Section

7. Bills of all Generating Companies
8. Reconciliation of CSGS Companies
9. Evacuation charges for Small Hydro Projects

Short Term Power Purchase Trading Section

10. Power purchase/ Banking Agreement.
11. Billing files of open market purchase.
12. Power Purchase Agreement with Generating Stations
13. Implementation of PPP projects for Haridwar and Udham Singh Nagar District.

General

14. Procurement of transformers.
15. Tripping records of transformers.

6.07.03 Audit Checks

1. Review the agenda and minutes of BOD Meetings to ascertain approval of the BOD for the items of work for which BOD has not delegated its power to any officer.
2. To examine whether the projects were completed within the scheduled time, if not, analyse reasons thereof.

3. If there is delay on the part of the contractor, whether penalty was imposed and recovered from the contractor as per contractual terms.
4. To examine whether cost incurred was within the estimated cost of the project, if not, analyse reasons for cost escalation.
5. To see whether, any cost incurred by the Company was disallowed by the Uttarakhand Electricity Regulatory Commission (UERC)? If yes, then assess financial impact and analyse reasons thereof.
6. To see justification note approved for any major R&M expenses incurred.
7. To see that maintenance works were carried out at regular interval and there were no serious breakdowns due to poor maintenance.
8. Review of Showcase notice, direction issued by UERC.
9. Review of procurement files relating to conductors, power transformers.
10. Projects were commenced after getting all statutory clearances.
11. Whether any project was stopped after incurring some expenditure. If yes, analyse that.

6.08.01 Uttarakhand Bahuuddeshiya Vitta Evam Vikas Nigam Ltd

Uttarakhand Bahuuddeshiya Vitta Evam Vikas Nigam Ltd was incorporated on 25 October 2001 with the main objects to implement the schemes of the state government for educational, economic and social development of scheduled castes, scheduled tribes, handicapped and other backwards classes on ‘no profit and no loss’ basis. In addition to Hqrs office located in Dehradun there are 13 district offices in each district.

6.08.02 Records kept

1. Personal file of the beneficiaries –containing application, income certificate, and proof of residence and details of loans sanctioned.
2. Personal Loan account-containing scheduled dates of loan reimbursement, annual interest due and actual repayment by the beneficiaries.
3. Register containing details of beneficiaries financially supported under different schemes.
4. Files relating to training programs conducted.
5. Fixed Asset Register
6. At Hqrs level-Register containing details of Receipt Books (RB) got printed and RB issued to the different districts for collection. At District levels- details of RB issued from Hqrs and RB issued to the employee.
7. Voucher register- containing details of payments made and amount recovered.
8. Files containing details of budget received from Government under different schemes and amounts disbursed to the districts there against.
9. Details of BOD Meetings held.
10. Monthly Progress Report and details of recovery made by the district offices.

6.08.03Audit Checks

1. To check that the documents submitted by the applicants are duly verified and recorded thereupon by some responsible officer of the Nigam.
2. Grant/Funds received are utilized for the purpose for which it was received.
3. Disbursement of the fund is in line with the terms conditions mentioned in the sanction letters issued by the Government.
4. To check that recovery from beneficiaries is being made as per prescribed interval.
5. To check that regular correspondence is being made with the defaulting beneficiaries.
6. To check whether any post implementation survey is being carried out to ascertain envisaged benefits of the schemes.
7. To check that Receipt Books (RB) are being issued chronologically. RBs duly filled in are being returned by the individuals and noted in the concerned register.

6.09.01 Uttarakhand Purv Sainik Kalyan Nigam

Uttarakhand Purv Sainik Kalyan Nigam (UPNL) was incorporated on 01 March 2004 with main objects to provide employment/ self–employment, to provide financial assistance, to encourage and impart trainings to the ex-servicemen (ESM) and their dependents as per schemes approved by UPNL. UPNL acts as a contractor on behalf of ESM and bids for Security Contracts in central Public Sector Corporation and State Public Sector Corporation and private sector. Govt of Uttarakhand has declared UPNL as placement agency for Govt. of Uttarakhand.

6.09.02 Records kept

1. Regional Project Office (RPO) - is responsible for recruitment of ESM and their sponsorship. Records relating to enrollment, appointment and termination of ESM are maintained.
2. Agreement Section- Looks after agreement entered into with the organization hiring services from UPNL.
3. Billing Section-Keeps records relating to bills raised for sponsored contractual employees.
4. Insurance department- keeps records relating to medical facility, compensation, and timely payment of contribution of ESI, etc.

6.09.03Audit Checks

1. To see that the bills are timely raised and realized from the party hiring services of UPNL.
2. To check that payments to the ESM are timely made.
3. To check that contribution towards ESI is timely made.
4. To check that cheques received are immediately deposited.
5. To check that insurance policy obtained covers all its employees.

6.10.01 Uttarakhand Project Development and Construction Corporation Ltd

Uttarakhand Project Development and Construction Corporation (UPDCC) Ltd was incorporated in 2010 to plan, promote and organize integrated and efficient development of hydropower projects in the state of Uttarakhand and outside, to carry on business to conceptualize the Water Resources Development projects.

6.10.02 Activities carried out

The Company is working on finalization of Detailed Project Reports (DPR) of Tuni-Plasu (72 MW) and Arakot- Tuni (81 MW) Hydro Projects.

6.10.03 Records Maintained

As the Company is still finalising the DPRs, only primary accounts records required as per Companies Act are being maintained.

6.10.04 Audit checks

1. Whether the DPR was prepared within the prescribed time? If not, whether the reasons for delay were avoidable?
2. Whether work relating to preparation of DPR was outsourced? If yes, whether work was awarded through competitive bidding. If not comment it.
3. Whether expenditure incurred as per approved budget.

Apart from the general checks, the following additional checks should be exercised for audit of these companies.

(i) Check that each work has been undertaken after preparation of detailed estimate and sanction thereof.

(ii) Check the completion reports of the completed works with the bills of quantity annexed with the sanctioned estimates and analyse the variation, if any.

(iii) Check the consumption of materials, as per actually executed quantity with the norms prescribed.

(iv) Check the monthly consumption of raw materials with the work executed during that month and daily concreting register wise *viz.* monthly stock returns of section holders entrusted with the job.

(v) Check that deviation from the approved drawings/designs were made on the approval of the clients after deciding the rates thereof in case of additional item and also ensure that the client was paying the charges for the additional work.

(vi) Check the correspondence file to find out whether any demolition of work done had been made as a result of defective construction, poor quality, etc.

(vii) Check the bills and deductions made by the clients as against observation of the T.A.C. (Tech. Audit Cell) and analyse the reasons thereof.

(viii) Check that the bills were raised on the client as per provisions of agreement as no claims were left over.

(ix) In case of completed works, check that all surplus materials received from the client departments had been returned and no deductions at the penal rate had been made by them in the bills.

(x) In case where the client department undertakes the responsibility of providing the materials free of cost/at specified rates, on completion of such work, check the materials reconciliation account showing the receipts, consumption returns and balance.

(xi) Check the completed contract works to ensure that there were no losses. In case of loss a detailed investigation into the reason is warranted.

(xii) Check that there was no unusual delay in completion which tends to increase the cost of construction.

(xiii) Where the item rates of certain items like labour cost P.O.L. (Petrol Oil and Lubrications) and steel are subject to price escalation, check that the bills were properly drawn as per formula laid down in the agreement.

(xiv) Check cases where the rates tendered by PSU were reduced in negotiation without proper analysis and reasons.

(xv) Check that the losses on completion of works were not attributable to unworkable rates agreed upon in negotiation.

(xvi) Cases of works withdrawn should be specifically analysed.

(xvii) On completion of each work check that the labour had been withdrawn and deputed on other works and there was no payment of idle wages.

(xviii) Check the log books of heavy tools and Plants to see that plants and Materials surplus to the requirements in one unit are not unnecessarily held up but transferred to other needy unit.

(xix) Check that deduction for bulkage had been made in the measurement recorded for supply of sand. Similarly also ensure that the deduction for voids at prescribed rates had been made in the measurement recorded for supply of stone ballast/boulders.

(xx) Check the physical verification report and investigate shortages/losses if any.

(xxi) In case of fabrication, workshop. Check the completed jobs with reference to estimated consumption as recorded into job cards and stock ledgers/bin cards.

(xxii) The purchase of raw materials should be made directly from suppliers, quarries or recognised markets without any role of middle men and minutes of the purchase committee are required to be recorded serially for each purchase.

(xxiii) In case of sale of empty Cement bags and scraps, check that sales tax on scrap materials and Cement bags, was realised from the buyers.

(xxiv) Check the amounts received from Govt. as grants in aid and utilisation thereof on purposes for which it was given. Utilisation certificates sent to Government in this regard, should also be reviewed.

(xxv) In case of fabrication contract through outside agencies, check that material had been issued as per terms of order.

6.11.01 U P Hill Electronics Corporation Ltd

U P Hill Electronics Ltd (HILTRON) was incorporated in 1985 as subsidiary of UPTRON and became independent Corporation in 1989 under Hill Development Department, Govt. of UP to promote developments and growth of electronics industry in Uttarakhand.

Board of Directors has decided to wind up the Company. Employees working in the Company are being adjusted in other offices. 76 employees out of 102 employees have been adjusted in other offices. However, at present work relating to supply of manpower and training programs on Information Technology is being carried out.

6.11.02 Records Kept

H R Department

1. Personal files of the employees.
2. Agenda and Minutes of BOD Meetings.
3. Store Register.
4. Purchase Register.

Training Department

1. Record relating issuance of hologram (other record is maintained in website)

Accounts Department

1. Cash Book
2. Ledger
3. Cheque issue register

6.11.03 Audit Check

1. Check that expenditure is being made with due approval of the competent authority

6.12.01 Uttarakhand State Infrastructure Development Corporation Ltd

Uttarakhand State Infrastructure Development Corporation Ltd was incorporated in March 2008 as fully owned state Govt. company with main object to construct, execute, carryout , improve, work, develop, administer, manage all types of bridges, buildings, highways roads and other infrastructure projects.

6.12.02 Main Activities

Company is executing various construction contracts awarded to it by various Government Departments.

6.12.03 Records Kept

1. Administrative Department- Agenda and Minutes of BOD Meetings, stock register.
2. Accounts Department- Payment and receipts, general vouchers, Cash Book/ Bank Book and Asset Register.
3. Technical Department- Request for proposal, Detailed Project Report, Contracts/ Agreement, Measurement Books.

6.12.04 Audit Checks

1. To see whether work was completed within the agreed period. In case there is delay on the part of the contractor, whether penalty as per agreed terms was imposed and realized.
2. To see that payment to the contractors was paid as per agreed terms and rate mentioned in the agreement.
3. To see that the bill of quantity of the work executed was as per approved estimate and as per tender specifications.
4. To see that all the sums due from the customers are realized in time.
5. In case cost of the project is increased due to any reason, prior consent of the customer is obtained for incurring further expenditure.

6.13 Transcable Limited, Kathgodam

Transcable Limited, Kathgodam is a subsidiary company of KMVN. It was established in 1973 for production of conductors and supplies the same to UPCL. Activities of the Company are closed since 2006-07. Government of Uttarakhand decided (December 2006) to wind up the Company w.e.f. 1 January 2007. Employees working in the Company have been transferred to UPCL.

6.14 U P Digital Limited, Bhowali, Nainital

U P Digital Limited, Bhowali, Nainital is a subsidiary Company of KMVN. Government of Uttarakhand decided (December 2006) to wind up the Company w.e.f. 1 January 2007. Dues for the period July 2006 to December 2006 amounting to Rs 38.74 lakh is yet to be paid.

6.15 Kumaon Anusuchit Janjati Vikas Nigam Limited

Kumaon Anusuchit Janjati Vikas Nigam Limited was established for promoting Anusuchit Janjati by establishing cottage and small industry utilising local raw materials, encouraging the Scheduled Tribes to increase agricultural and horticultural production through improved techniques and providing financial and technical assistance.

Govt. of Uttarakhand vide its order dated 3 April 2007 decided to wind up the Company and sanctioned VRS to all the employees. Amount due to the employees has been released. Process of winding up of the Company is under progress.

6.16 Garhwal Anusuchit Janjati Vikas Nigam Limited

Garhwal Anusuchit Janjati Vikas Nigam Limited was established for promotion of Anusuchit Janjati located in Garhwal region of Uttarakhand. Activities of the Company are closed since 2002. Govt of Uttarakhand vide order dated 23 May 2012 decided to wind up the Company and sanctioned VRS to all employees. Winding up of the Company is under progress.

CHAPTER–VII

AUDIT OF COMPANIES FALLING UNDER SECTION 619(B) OF THE COMPANIES ACT, 1956

7.01. INTRODUCTORY

Audit of some non-government Companies have also been devolved on the C.A.G. by virtue of introduction of Section 619(B) of the Companies Act 1956 as per Companies (amendment) Act, 1974 as well as Section 139(5) of the new Companies Act, 2013. The companies which fall under Section 619-(B) of the Act are companies where 51% or more of the paid up capital are held by.

(a) The Central Govt. and one or more Govt. Companies.

(b) Any State Govt. or Govt's and one or more Govt. Companies.

(c) The Central Govt. one or more State Govt's and one or more Govt. Companies.

(d) The Central Govt. and one or more Corporation owned or controlled by the Central Govt.

(e) The Central Govt. one or more State Govt's and one or more Corporations owned or controlled by the

7.02 Uttarakhand Seeds and Tarai Development Corporation

Uttarakhand Seeds and Tarai Development Corporation, Pantnagar (Company) formerly known as Tarai Development Corporation Limited (private company) was established in 1969. Subsequently, it was incorporated as Government Company in 1978 named as Uttar Pradesh Seeds and Tarai Development Corporation, comes under the category of 619(B) Company. After formation of Uttarakhand, Uttar Pradesh Seeds and Tarai Development Corporation known as Uttarakhand Seeds and Tarai Development Corporation.

7.03 Organizational Structure

The Managing Director is the chief executive of the Company who is assisted by Financial Controller and General Manager etc. in managing the day to day affairs.

7.04 Main Functions

The Company is carrying out production, processing and marketing of certified seeds of food grains and vegetables within and outside the state. Foundation seeds are provided by the Company to its authorised growers and multiplied seeds procured from them are than processed by treatment with chemicals and thereafter are certified by the Seed Certification Agency of the Government. The sale of the seeds is undertaken through distributors and dealers.

7.05 Main Records

(i) Production targets of seed and actual production there against.

(ii) Actual intake of raw seeds from growers.

(iii) Estimated production reports of certified seeds.

(iv) Issuance of jute bags to growers.

(v) Details of crop and plant -wise intake and processed seeds.

(vi) Stock Issue (SI) register of certified seeds.

(vii) Consumption records of processing material.

(viii) Dispatch of seeds to different godowns.

(ix) Contracts/Agreement files with the dealers and distributors.

(x) Sales ledger.

(xi) Sales day book.

(xii) Stock ledger of wheat and paddy.

(xiii) Project Report.

(xiv) Demurrage/wharfage registers.

7.06 Audit Checks

(i) To check whether intake from growers was within the production target, if not, reasons for shortfall or excess should be commented.

(ii) To check whether the commission paid to the distributors was as per contractual terms.

(iii) Whether the distributors lifted the seeds as per their demand and advance deposited.

(iv) Whether consumption of processing material was as per prescribed norms.

(v) To check there is no unsold stock of certified seeds.

(vi) To check that while assessing its requirement of processing material, stock lying at the processing plants is considered, if not comment it.