

AUDIT MANUAL

HARYANA VIDYUT PRASARAN NIGAM LIMITED

CHAPTER-I

INTRODUCTORY

1. Constitution and function of the Haryana Vidyut Prasaran Nigam Limited (HVPNL).

The erstwhile Haryana Electricity Board was constituted on 3rd May, 1967, under Section 5(1) of Electricity Supply Act, 1948. The Board was responsible for generation, transmission and distribution of electricity. Under Haryana Electricity Reform Act, 1997 the Board had been reorganized in August 1998 by segregating generation, transmission and distribution functions in separate services to be provided by separate companies. Generation service was transferred to Haryana Power Generation Corporation Limited (HPGCL), transmission and distribution services were transferred to Haryana Vidyut Prasaran Nigam Limited (HVPNL). Further, distribution service was transferred from HVPNL to two distribution Companies viz. Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL) and Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL). Haryana Vidyut Prasaran Nigam Limited was incorporated in Aug. 1997.

2. Organisational set up

The business of the company shall be managed by Board of Directors, Comprising not less than 3 and not more than 12 Directors. *At present the company has 9 directors and managing directors under the overall control of the chairman* who are appointed by the State Government from time to time on such terms and remuneration as fixed by the State Government.

A table of organizational set up of the company is given in **Appendix-A**.

All the rules and regulations of the erstwhile HSEB have been adopted by corporation as per **Appendix-B**.

3. Accounts, Records, & Registers to be audited.

The company was promoted and established by the State Government as envisaged in Section 13 of the Haryana Electricity Reform Act 1997 with the principal object of engaging in the business of procurement, transmission and supply of electricity in the state of Haryana. Various accounts, records, registers, ledgers etc. generally maintained in the units of the company and at headquarter which required to be checked in Audit are given in **Appendix-C**.

4. General Principles for Company's Finance

(i) *The Share Capital of the Company is Rs.5,000.00 crore only divided into 50,000,000 shares (50,000,000 shares of Rs. 1000/- each) and paid up capital of company is Rs. 1636.72 crore.*

(ii) Section 27 of Haryana Electricity Reform Act 1997 lays down that

(a) The State Government may from time to time advance loans to Generating Company which for the time being is wholly or partially owned by the State Government on such terms and condition not inconsistent with the provisions of this Act or the Electricity (Supply) Act, 1948, as the State Government may determine.

(b) The State Government may guarantee in such manners it thinks fit the repayment of the principal or the payment of interest (or both) on any loan proposed to be raised by the company which is for the time being wholly or partly owned by the State Government or the discharge of any other financial obligation of any company provided that the State Government shall, so long as such guarantees are in force, lay before the state legislature during the budget session in every year a statement of the guarantees, if any, given during the current financial year of the State and up-to-date account of the total sums, if any, which have been paid out of State revenues in each case by reason of any such guarantees or paid into state revenues towards repayment of any money so paid out.

(iii) Values of fixed assets of the corporation in service at the beginning of the year means the original cost of such fixed assets as reduced by aggregate of the cumulative depreciation in respect of such assets calculated in accordance with the provision of the Electricity (supply) Act.

5. Audit of Haryana Vidyut Prasaran Nigam Limited (HVPNL).

- i) Section 19(1) of the Comptroller & Auditor General (Duties, Power & conditions of Services) Act, 1971 lays down that the audit of Accounts of the Government Companies shall be performed and exercised by him in accordance with provisions of the Companies Act, 1956.
- ii) The Comptroller & Auditor General of India shall have power to direct the manner in which the Company's account shall be audited by the Auditor/Auditors appointed in pursuance of Article 53 of Memorandum & Articles of Association of the Company and to give such Auditor/Auditors instructions in regard to any matter relating to the performance of his/their functions as such.
- iii) Once at least in every financial year the accounts of the company shall be examined and correctness of the Profit and Loss accounts and Balance Sheet ascertained by one or more auditors.
- iv) The Auditor/Auditors of the Company shall be appointed or re-appointed by the Comptroller & Auditor General of India in accordance with the provisions of Section 619 of the Companies Act, 1956.
- v) Auditor/Auditors shall submit a copy of his/their Audit report to C&AG of India who shall have the right to comment upon or supplement the Audit Report in such manner as he think fit.
- vi) Any such comment upon or supplement to the Audit Report shall be placed before the Annual General Meeting of the company in the same manner as the Audit Report.
- vii) The audit of the erstwhile HSEB now HVPNL has been assigned by the Comptroller & Auditor General of India to Principal Accountant General (Audit), Haryana. The Principal Accountant General in discharge of his duties as an auditor of the Company is assisted by the Deputy Accountant General and a team of Senior Audit Officers/Audit Officers, Assistant Audit Officers & Senior Auditors/Auditors. The Audit is managed through the Economic Sector comprising CA-III, and IV Sections in the office of the Principal Accountant General (Audit), Haryana, Chandigarh by

deputing Audit parties in all set up of the Company throughout Haryana. The organizational chart is at **Appendix-D**.

6. Scope and extent of Audit

The extent and process of audit checks to be applied have been prescribed by the C&AG of India vide his confidential letter No. 139/O&M (RC)/46/81 dated 15 October, 1981 (**Appendix-E**). Guidelines for preparing Performance Audit of various activities of the Company were issued by the C&AG of India vide his No. 68A/Ar G(C)/ 57/52 dated 16 June, 1972 (**Appendix-F**). Besides, other instructions issued by Headquarter from time to time be also kept in view.

CHAPTER II

7. Regulation of electricity business

Haryana Electricity Regulatory Commission was established on 17th August 1998 as an independent statutory body corporate as per the provision of the Haryana Electricity Reform Act, 1997. Haryana was the second State in India to initiate the process of Reform & Restructuring of the Power sector in India.

The Government of India notified [The Electricity Act, 2003](#) with effect from 10th June 2003. The broad objectives of the Electricity Act, 2003 as incorporated in its preamble is to consolidate the laws relating to generation, transmission, distribution, trading and use of electricity and generally for taking measures conducive to development of electricity industry, promoting competition therein, protecting interest of consumers and supply of electricity to all areas, rationalization of electricity tariff, ensuring transparent policies regarding subsidies, promotion of efficient and environmentally benign policies, constitution of Central Electricity Authority, Regulatory Commissions and establishment of Appellate Tribunal and for matters connected therewith or incidental thereto.

8. Filling of Aggregate Revenue Requirement

In exercise of the powers conferred on it by sub section (1) and clause (zd) of section 181 of the Electricity Act 2003 and all other powers enabling it in this behalf, the Haryana Electricity Regulatory Commission notified (19th December 2008) regulations for determination of Transmission Tariff. These regulations shall apply where the commission determines tariff for Transmission of electricity by transmission licensee to distribution licensee (s) under Section 62 & 64 of the Act. Clause 7 of the regulations provides that each intra-state transmission licensee for the ensuing financial year shall file the Annual Revenue Requirement (ARR) for determination of tariff with all the relevant details, both on hard and soft format, along with requisite fee, each year by 31st November. The transmission licensee shall furnish such additional information, particulars and documents as the commission may require from time to time for the purpose of validating the data provided in the ARR.

9. Determination of Transmission Tariff

The commission shall, by an order, determine the transmission tariff, for transmission of electricity by a transmission licensee to a beneficiary (ies).

The tariff order shall, unless amended or revoked, continue to be in force for such period as may be specified in the tariff order. In the event of failure on the part of transmission licensee to file the ARR under regulation 7, the tariff determined by the commission shall cease to operate, unless allowed to be continued for a further period with such variations, or modifications, as may be ordered by the commission.

Tariff determined by the commission and the directions given in the tariff order by the commission shall be the quid pro quo and mutually inclusive. The tariff determined shall, within the period specified by it, be subject to the compliance of the directions to the satisfaction of the commission and their non compliance shall lead to such amendment, revocation, variation and alterations of the tariff, as may be ordered by the commission.

10. *Charging of permissible tariff*

Regulation 6 provided that no transmission licensee shall, without prior approval of the commission, charge any tariff.

The transmission licensee shall not charge a tariff in excess of the tariff determined by the commission and if any transmission licensee recovers a price or charge exceeding the tariff determined under these regulations, without prejudice to any other liability incurred by the transmission licensee, the excess amount shall be recoverable by the person who has paid such price or charge along with interest equivalent to the bank rate and the transmission licensee shall be liable to penalties as are prescribed under section 142 and 146 of the Act.

If the commission is satisfied that the expected revenue of a transmission licensee differs significantly from the revenue it is permitted to recover, it may order the transmission licensee to file an application within the time specified by the commission to amend its tariffs appropriately failing which the commission shall suo moto start the proceeding for determination of tariff.

11. *TARIFF ORDER ON THE ARR OF HVPNL FOR TRANSMISSION BUSINESS & SLDC CHARGES FOR FY 2012-13*

The Haryana Electricity Regulatory Commission (hereinafter referred to as 'the Commission'), in exercise of powers vested in it under section 62 of the Electricity Act, 2003 and Section 26 of the Haryana Electricity Reforms Act, 1997 and all other provisions enabling it in this behalf, passes this order determining the Aggregate Revenue Requirement

(ARR) for Transmission and State Load Dispatch Centre Business of Haryana Vidyut Prasaran Nigam Limited and the transmission tariff and SLDC charges for the FY 2012-13. The Commission while passing this order has considered the petition filed by HVPNL for ARR for Transmission Business & SLDC, Transmission tariff & SLDC charges for FY 2012-13, subsequent filings made by HVPNL in response to various queries of the Commission, the objections/comments of UHBVNL and DHBVNL on the ARR Petition furnished to the Commission in response to the Public Notice, submissions made by HVPNL in its presentation during Public Hearing held on 13th February, 2012 and clarifications given in respect of objections of UHBVNL and DHBVNL. In its consultative process the Commission convened a meeting of the State Advisory Committee on 23/02/2012 and their views on different aspects of transmission tariff & SLDC charges have been kept in mind while passing this order. Further all other relevant facts and information on the record of the Commission have been perused before passing this order.

The Commission, under section 62 read with section 64(3) (a) and section 64(6) of the Act, issues this tariff order for FY 2012-13 determining the ARR for transmission business and SLDC business of HVPNL, the transmission/ SLDC charges and the transmission tariff for short term open access customers as per details given in the order and summarized as under:-

- a) The net ARR of HVPNL, for its transmission business, is determined as Rs 6305.99 million for FY 2012-13.*
- b) The recovery of transmission cost shall be @ Rs. 266.22 million (UHBVNL) and Rs. 259.28 million (DHBVNL) per month.*
- c) The Net ARR of HVPNL for its SLDC business is determined at Rs. 113.73 million (monthly recovery of Rs. 9.477 million).*
- d) Transmission tariff / Wheeling Charges for short-term open access consumers shall be Rs. 0.21/kWh.*
- e) Intra-state Transmission losses are pegged at 2.5% & Inter-state transmission losses shall also be considered at 2.5 % for FY 2012-13.*

The licensee shall implement the tariff and charges contained in this order with effect from 1st April 2012. This order is signed, dated and issued by the Haryana Electricity Regulatory Commission on 29th March, 2012.

Date: 29th March, 2012.

Place: Panchkula.

CHAPTER-III

AUDIT OF EXPENDITURE

12. General Principles

The Audit of expenditure of the Company is conducted under Section 69 (2) of the Electricity (Supply) Act, 1948, as per the general principles of audit defined in section IV of Comptroller and Auditor General's MSO (Tech) Vol I and relevant chapter of OAD Manual and Manual of Instructions for inspection of Public Work Offices. The principles of expenditure and its accounting, embodied in different manuals/books issued by the Government of Punjab and adopted by the Haryana Government are followed in general in respect of Company's expenditure. In addition the instructions issued by the Company from time to time to regulate the expenditure of the Company, as embodied in Manual of Instructions, should also be referred to.

The initial accounts of the Company maintained on monthly basis by various units, projects and divisions of the Company are subjected to test check by the Accountant General (Audit) Haryana, Chandigarh.

The specific audit checks to be applied on various records connected with expenditure are outlined below:-

13. Cash Book (Main)

It should be seen that:

- i) The instructions issued by the Company for writing of the cash book and remittances of cash into Company as incorporated in Instruction No 13 to 17 of the Board's Manual of Instructions are strictly followed. The instructions issued by the Board vide memo No CAO/Comml. Accounts/4534/3333 dated: 16-11-90 and CAO/Comml. Accounts/2466/2968 dated: 24-08-93
- ii) The money realized by the officers of the Company is paid into Bank for credit to Company accounts and is not directly appropriated towards expenditure. The collections on account of energy charges and miscellaneous collections are remittance be made at least twice a week or whenever collection exceeds the limit prescribed for the purpose.

- iii) The Cash Book is balanced on the date prescribed for closing of the cash book i.e. on the last day of month. It should be seen that there is no undue delay in closing of Cash Book.
- iv) The disbursing officer has attested all the entries in the Cash Book under his dated initials;
- v) The disbursing officer has physically verified the cash balance at different occasions during the month and a certificate in this regard is recorded in the Cash Book under his dated signature showing actual cash both in words and figures. In case of any discrepancy, it should be seen that a note to this effect has been recorded in the Cash Book and necessary adjustment entry for excess/shortage made and prompt action taken to investigate the discrepancy. The cash of Sub division/Division should also be checked by the XEN/SA respectively during their periodical inspections;
- vi) The cash balance exhibits the actual cash balance and the amount of imprest/temporary advances given to the staff are not included in the closing cash balances;
- vii) Every payment including repayment of money lodged with the Company is supported by a voucher duly stamped if the amount exceeds Rs 500 setting forth full and clear particulars of the claims and all information necessary for its proper classification and identification in the accounts;
- viii) No cheque is drawn unless the money is intended to be paid immediately. Stamped acknowledgment shall invariably be obtained for all payments. The balance in cash chest should be kept as low as possible so as to avoid risk of loss or misappropriation;
- ix) The transactions in the Cash Book are entered strictly in chronological order and totals and balances are correctly worked out;
- x) Total of revenue Cash Book are transferred to the Main Cash Book at the close of each month; and
- xi) Entries on account of unpaid salaries, allowances and bonus of regular staff in the Main Cash Book at the close of each month may be vouchsafed with reference to divisional monthly accounts and SA IV register.

14. Records connected with the cash book (Permanent Advance

- a) Imprest: it should be seen

- i) That the amount of the imprest is kept as low as possible and in no case exceeds the amount sanctioned by the Company;
- ii) That the account of imprest cash is kept in duplicate in accordance with the directions given in the imprest form. The explanatory memorandum and the original copy supported by requisite vouchers is forwarded for recoupment;
- iii) The imprest holder must at all times be ready to produce the total amount of imprest in vouchers or in vouchers or in cash; and
- iv) That the unspent balance or imprest is refunded at the close of the financial year.

b) Temporary Advances

It should be seen that:

- i) The temporary advances is given to the subordinates only for making urgent payment against passed vouchers and accounts thereof is rendered at the earliest; and
- ii) The account of temporary advance is kept in form PHA-3 and is closed in the same way as imprest account.

15. Cheque Books

Cheque books required by the account officer and other disbursing officer are obtained from the bank. It should be seen that

- i) The cheque books on receipt are carefully examined by the account officer/disbursing officer who should count the number of cheques contained in each and record a certificate of count on the fly leaf;
- ii) The cheque books are kept under lock and key in the personal custody of the drawing and disbursing officer. Counterfoils of used cheque books should be carefully kept in record;
- iii) That no cheque is issued for sum under rupees twenty and is drawn for cash actually required to meet current disbursement only.
- iv) The register of cheque books is maintained in the form prescribed by the Company.
- v) In case of expiry of the currency of cheques due to non presentation within six months after the date of issue of cheque is received back by the drawer and destroyed and a fresh cheque drawn in lieu thereof. The fact of destruction and the number and date of new cheques and old cheque should be interlinked on the counterfoils of the old and new cheques. It should be seen that a reverse entry is made on the receipt side of

the cash book showing the amount of the cancelled cheque and a fresh entry on the payment side of the cash book is made for the amount of the new cheque.

- vi) On receipt of a report of a cheque having been lost, the drawing officer has obtained a certificate from the bank authorities to the effect that the relevant cheque has not been paid nor it will be paid in future on presentation. On receipt of such certificate, it such certificate, it should be seen in audit that the original cheque was cancelled and certificate kept tagged with counterfoil before issue a fresh cheque.
- vii) The paid cheques of the selected month should be checked in detail with the counterfoils of cheque books and the entries in cash book. These should also be checked with paid voucher to see that payments have actually been made to the persons titled to them; and
- viii) Correction, if any, made in the counter foils of cheque books do not disclose any financial irregularity and that these have been attested by the drawing officer.

16. Works accounts

A) General Principles

In the execution of works expenditure, the operations of the Company are primarily divided into (i) Capital Works and (ii) Revenue Works (Operations, maintenance and repairs). The principles governing the classification of expenditure as capital and revenue have been laid down in the paragraph 60 of the Central Public Works Department Code and Article 30 (A) of the Account Code Volume-I.

All estimates for work to be done for private individuals, local bodies, and State Government shall be treated as 'deposit works' and shall be executed out of funds deposited by the beneficiaries.

In the case of civil works divisions and other projects, the work is carried out departmentally as well as through contractors. Where works is executed through contractors the main emphasis should be on the close scrutiny of the terms and conditions of the contracts entered into, so as to see that the rules/orders in force have not been violated. Any payments made or expenditure incurred beyond the scope of the contracts have to be examined, analyzed and justification ascertained. In audit of the operation and maintenance divisions the following aspects may be specifically seen;

- i) Maintenance of transformer, transformers damaged within warranty period, missing parts of the damaged transformers,
- ii) Losses/theft
- iii) Excess expenditure on maintenance works
- iv) Accident cases (fatal/non fatal)
- v) Any other expenditure of abnormal/doubtful nature and
- vi) Expenditure on redundant sub stations or redundant lines and non dismantlement thereof.

B) Administrative approval for execution of a work/scheme

In the execution of a work or a scheme it should be seen that

- i) It carries the administrative approval of the competent authority as per delegation of powers of the Company under para 2.7 of PWD code.
- ii) There is technical sanction for the work from competent authority as also for material and structural alternations;
- iii) Provisions of para 2.18 of the PWD code are observed; and
- iv) Proper estimates and detailed designs have been prepared and approved by competent authority.

C) The estimates for works be examined to ensure that;

- i) the rates applied and sanctioned do not exceed the approved schedule of rates of PWD.
- ii) While working out the rates, the tenders accepted for works during the twelve preceding months have been studied and the rise or fall in prices have been taken into account. For non scheduled items, detailed analysis of the rates allowed be examined to ensure that these are correct and reasonable in view of prevailing trend;
- iii) The cost of labour and material along with quantity is exhibited separately in the estimate irrespective of the mode of execution of work i.e. departmentally or by contract;
- iv) In case of replacement and renewal estimates, credit has been allowed for the dismantled material (original cost less depreciation). Establishment charges and

overhead expenses incurred on the original work are not to be credited to the estimates but should be debited to revenue;

- v) The provisions have been made in estimates for establishment and other charges at prescribed rates;
- vi) Supplementary and revised estimates are drawn as per instructions contained in para 51 of Manual of instructions; and
- vii) Expenditure incurred in excess over estimate has been scrutinized, analyzed, justified and covered by proper sanction.

D) Muster Rolls

Muster rolls are an important record and should be examined carefully keeping in view the instructions contained in rules 7.12 and 7.13 of the departmental financial rules. In particular, it should be seen that:

- i) The payment through muster rolls is restricted to daily labourers. It does not include labour engaged through contractors. No erasing or cutting is allowed in muster rolls;
- ii) Attendance is taken daily and record of attendance is checked at intervals by responsible officer (SDO/XEN) and the sanction of the competent authority to engage the labour on a particular work has been obtained before hand.
- iii) The disbursement of wages through muster roll is under certification of the officer entrusted with the execution of work;
- iv) A systematic record is kept of unpaid wages and subsequent payment and that wages remaining unpaid for three months are regularly reported to the divisional officer. It should be seen that time barred wages not payable vide para 7.40 and 7.74 (sub rule 2) of DFR are not paid subsequently;
- v) Progress of work done is commensurate with the wages bill of the work. The daily progress report of work done by the labour is submitted by the subordinate incharge of the work to the SDO/XEN in Form B & R 124 as per para 4.3 of PWD Code.
- vi) Muster rolls manuscript or printed form should be prepared only in the form issued by the divisional officer alone before the date of making presence of the labour and blank or spoiled forms are invariably returned to the divisional officer;

- vii) The forms issued by the divisional office are registered in his office to which their proper use and forms not used for over three months are called for by the divisional office and examined that the rates allowed are in accordance with sanctioned scales; and
- viii) The rates allowed are in accordance with sanctioned scales.
- ix) Totals for labour deployed each day as per attendance marked are struck daily so that no unauthorized addition or alterations are possible.

E) Measurement Book

The payment made should be checked with reference to entries in the relevant measurement books (MBs) and agreements. Use of material on works such as cement, fly ash, iron rods etc, should be worked out on the basis of the theoretical requirements furnished by the technical branch of the Company/circle/division/sub division so as to ensure that recovery from the contractor has been made for short use.

Following MBs are maintained in the Company:

- i) Stock measurement books (EB for CA-5) for recording receipt of material in stores;
- ii) Electrical measurement books (EMB) for material used in electrical works (EB form CA-25).
- iii) Measurement book (small) Form DFR (PW) (20) for petty purchases, civil works and miscellaneous payments;
- iv) Standard measurement book (Large) Form DFR (PW) (20) 1 for recording permanent structure;
- v) Measurement book for lumpsum contracts (EB) Form (CA-23)

The detailed procedure for maintaining the MBs has been given in Manual of Instructions MOI (Instruction No 42) which may also be kept in view while test checking the MBs it should be seen that:

- i) Measurement book have been made use of when the work done or supplies made is susceptible of detailed measurement or counting.

- ii) The measurements have been promptly taken and delay in recording measurement have been avoided and the quantum of check measurements by SDO/XEN has also been complied with;
 - iii) General instruction for writing of MBs (given in the leaf attached in the MB) have been complied with;
 - iv) The genuineness of the entries in the MB should be test checked with reference to dates and other particulars in TA journals/registers of the subordinates concerned;
 - v) The cases of measurements taken in the first instance by subordinates but subsequently reduced by the SDO/XEN, on account of check measurement should be scrutinized and in case this happens frequently in respect of measurements recorded by particular individuals, the cases be reported in audit to higher authorities; and
 - vi) Measurement once recorded but subsequently cancelled are adequately justified.
- F) Analysis of work

During audit of selected work are analysed in detail. For this analysis it should be seen that:

- i) The estimate of work has been sanctioned by the competent authority and that all charges constituting the estimates are within the scope of sanction;
- ii) The quantities of work actually executed are not at variance with the quantities of work theoretically worked out in the approved estimates. In case of variation detailed scrutiny be made and results together with financial implications pointed out.
- iii) All payments and supplies of materials are strictly in accordance with the terms of contract/agreements and the rates provided in the sanctioned estimate vis-a-vis the schedule of rates;
- iv) Any surplus materials at site of the completed works of materials due to or from contractors etc. have been properly accounted for in the accounts/stocks;
- v) In case of work susceptible to measurement, the payment is in accordance with measurement and the rates and quantity of work executed are as per the sanctioned estimates and no financial irregularity or serious accounting error involved;
- vi) The expenditure incurred on the work is not in excess of the sanctioned estimate;
- vii) Charges on account of work charged established are in order;

- viii) Measurement recorded in the MB for the material supplied and used on work are as per store issue records and indents and no fictitious claims for labour or materials are involved
- ix) The expenditure has been correctly booked against the work and check measurement as per instructions No 42-IV of the MOIs have been made by the SDO/XEN and results recorded on the MB.
- x) The material account of the work be examined so that it may be seen that without sufficient reason materials are not collected in excess of the requirements of works, that charges debitable to contractors are not shown in material accounts, that rules relating to the verification of material are observed and differences are adjusted in accordance with rules.
- xi) In case of completed work, quantities of work executed and paid may be compared with quantities of work sanctioned in the estimates and rate approved to verify that there are no variations involving serious financial irregularities.

(G) Form-4 (Register of receipts and issue of stores)

All the transactions of store receipts are accounted for in Form-4 of concerned work.

It should be seen in the audit that:

- (i) All SR, STW, local purchases made are taken in Form-4 and brought forward up to date.
- (ii) There is no arithmetical mistake in totals.
- (iii) The material issued for the work is actually issued for the particular job as per record entries in the SMB/EMB of the work.
- (iv) The dismantled material is taken in CA-104 (dismantlement register) and the material returned to store without any delay.
- (v) All the material is issued on attestation of the incharge of the work and countersigned/approved by SDO.
- (vi) All the balances at the close of the year have been carried forward in the next year's Form-4.
- (vii) The stores drawn are required for immediate use of works and are not drawn too much in advance or in excess of requirements.

- (viii) In the case of Form-4 of M&P Divisions the parts viz meter glass, C coil, potential coil top bearing and lead seals have been removed from the meters which are to be surveyed off and accounted for in Form-4.
- (ix) The quantity of transformer oil issued for topping up of transformers tallies with the entry in the Maintenance Equipment register of transformers and limit of 8 liters for topping up of transformer upto 100 KVA per year has not been ruled as laid down in TIE-4.

(H) Work charged establishment

- i) The register of fixed charges in form DFR (PW) 4 showing the work- charged establishment employed in the Division should be examined to see that the sanction and charges relating to it are in order. The genuineness of entries in the register may be test checked by comparison with the paid acquaintances rolls of the work charged establishment. Sanctions of the competent authority should specify in respect of each appointment.
- ii) consolidated rate of pay
- iii) period of sanction;
- iv) full name of the work as given in the estimate of the work and
- v) the nature of duties on which the man engaged would be employed.

It should also be verified in audit that the wages, which have become time barred are not subsequently paid.

(I) Register of works (From PWA-12 and PWA- 13)

It should be seen that

- i) The register has been prepared in accordance with the instructions printed on these forms;
- ii) The posting in the register is correct as per works abstracts; and
- iii) The accounts of the works have been closed immediately after their completion. It should be seen in particular that further charges are not incurred without the permission of the Divisional Officer, which should also be reviewed to adjudge their bonafide; and

- iv) The suspense account “Material” be reviewed and its adjustment verified with the connected records.

(J) Works Abstract

An account of all the transactions relating to a work during a month, whether in respect of cash, stock or charges is known as works abstract. It should be seen that

- i) the outlay is posted sub head- wise according to the sanctioned estimate;
- ii) expenditure during a month and upto date progress of expenditure should be reviewed with reference to estimate/progress of work and reasons for variation analysed;
- iii) old outstanding under the sub-head ‘Contractors’ ‘Material’ and ‘Labour’ be reviewed and their genuineness adjudged.

Other important records to be seen in Divisional Audit.

17. Dismantlement Register (CA-104)

The account of the unserviceable material dismantled from the idle lines or due to augmentation or replacement of sub-mains is required to be maintained by each ALM /JE incharge of the work in the proforma given in serial No 35 of MOIs (Annexure A&B).

It should be seen in audit that:

- i) The register is maintained in the prescribed proforma;
- ii) The authority for dismantlement is recorded in the register;
- iii) The cost of dismantlement is debited to the annual maintenance estimates;
- iv) The entry of dismantled materials is taken in CA-104 on the same day and verified by the Sub-Divisional Officer as laid down in Instruction No 33 (C) of the MOIs.
- v) The survey report of the material which is considered by the SDO to be unserviceable is prepared and submitted to the Executive Engineer for survey off the items;
- vi) The value of unserviceable material is calculated in consistence with their physical condition or mobility;
- vii) The material which can be used on temporary service connection/any other work is transferred in Form-4 of that work and its estimated value debited to the said work as required in Instruction No 33 (C) of MOIs;

- viii) The scrap is returned to store immediately and reference to the SRW No and date recorded in CA-104;
- ix) The material has been dismantled only after a duly approved estimate is prepared. The material dismantled corresponds with original entries in the EMB or has been estimated by two SDO's after physical inspection and site survey. Original estimates, where available may also be referred to in this context to adjudge the bonafide of the estimates so prepared.
- x) The procedure prescribed in Chief Engineer/Operation's memo No. 191/3-d 37/IG/74 dated 08-07-74 (**Appendix -G**) for dismantlement and replacement of copper conductor has been adhered to strictly by the concerned staff.

18. Log Book and Maintenance Register of Vehicles

The records of movement of a vehicle are recorded in the log book of the vehicle and the entries regarding repairs, purchase of lubricants are also recorded therein, besides "maintenance register of vehicles". It should be seen in audit that:

- i) The vehicle log books are maintained in the prescribed proforma;
- ii) The authority using the vehicle is prominently stated in the log book and he himself should mark the journey as 'private' or 'official';
- iii) Monthly abstract is prepared at the close of every month bringing out the KMPL. The KMPL should be compared from month to month and with standards of KMPL prescribed;
- iv) The charges of different works are debited to the concerned works as per estimates;
- v) The distance from one place to another as recorded in the log book is correct and petrol/diesel purchased does not exceed the capacity of the tank.
- vi) The M.Oil is changed after covering the prescribed mileage as per estimate.
- vii) The estimates of each vehicle is got sanctioned from the component authority earlier.
- viii) The record of dirty M.Oil changed from the vehicle is kept in the dismantlement register and returned to store
- ix) The entries of repair of parts of the vehicles are taken in the maintenance register and the parts dismantled are taken in CA-104 (dismantlement register)
- x) The reasons for frequent repairs/break downs of Company's vehicle are not such as to indicate negligence on the part of the driver or laxity of control.

- xi) The replacement of parts for which a life has been fixed, have been made only after completion of the prescribed life. Such cases be reviewed and suitably commented upon in report.
- xii) All official journeys outside the headquarters or jurisdiction of the officials are reported by written sanction of the competent authority.
- xiii) The list of equipment and tools kept with the driver of the vehicle is entered in the log book.
- xiv) The road taxes and insurance charges are paid and connected entries made in the maintenance register of vehicle.

19. Register of Tools and Plant and T&P returns

Each subordinate (including a store-keeper having the charge of tools and plant) is to maintain a register of daily receipt and issues of articles in PWA Form No. 4 as per instruction no. 216 of MOIs

A consolidated account of receipts, issues and balances of tools and plants is to be kept in the sub divisional office in Form DFR (PW) 14 Register of tools and plants.

In case of loss or damage each subordinate is required to make an immediate report to his SDO. The former has to prepare and submit a survey report in form DFR (PWR) 15 of all tools and plant articles, which might have become unserviceable due to wear and tear. These articles should not be written off from the books and disposed off until these are inspected by the sub divisional officer and their survey report approved by the competent authority. Such articles are to be disposed off in the manner ordered in the survey report.

It should be seen that:

- a. the closing balances are correct;
- b. the annual stock taking has been done by a responsible officer. The results of this may be scrutinized in audit to see that no irregularities of serious nature are involved;
- c. there is a certificate by a responsible official, not below the rank of sub divisional officer, that the balances in part II actually represent articles lent or sent out for repairs;

- d. the shortage, if any, noted in part III are not heavy and that there is not undue delay in their adjustment;
- e. office furniture is not issued for use at the residence of officials /officers who are not entitled to this privilege;
- f. the sub divisional register of tools and plant is posted up to date and the monthly account of receipts and issues are received from the SDO on due dates;
- g. the items of tools and plants are not charged off as final issue to a particular work. All the items will be accounted for only in the T & P register;
- h. all the unserviceable/lost/short items are depicted in numerical balances of the T& P register till these are written off;
- i. all the items found surplus are taken into account as receipt and no adjustment for value is made;
- j. physical verification is made by the officer not below the rank of SDO as per instructions of the Company and a dated certificate recorded on the register; and
- k. the repairable items are repaired and brought to use instead of purchasing new, unless their repairs prove to be uneconomical.

20. Register of Plant and Machinery

A register of plant and machinery is to be maintained in all divisions to show the description, date of purchase, price paid and the work on which used. When any plant is transferred to another division an extract from the register is to be forwarded to that division. A column is also to be opened in the register in which reference to the authority under which an Article has been written off or transferred to another division is recorded (as per instruction no 218 of manual of instruction).

It should be seen that:

- a. the register of fixed assets and plant and machinery are properly maintained with all details and have been kept upto date for working of depreciation charges;
- b. the machinery on loan is given after the approval of the competent authority; and
- c. plants and equipments have been duly insured and in case of any damage/loss to these equipments necessary claims have been lodged with the insurance company and the same has been pursued vigorously. It should also be seen that the expenditure on the

replacement/repairs do not exceed the amount of such claims and where heavy amounts have been spent on repairs, the cause thereof be scrutinized.

21. Register of hiring of electrical plants and equipments

Machinery, tools and plants may also with sanction of the competent authority be let out on hire to consumer, licensees, contractors, local bodies and private persons. The hiring charges in such cases which arise only occasionally are calculated as per para 4.16 of PWD code. Where there are such cases it should be ensured in audit that

- a) the equipment are let out after proper verification of the credentials of the parties and their financial position.
- b) adequate security (equivalent to book value) is realized.
- c) an agreement is entered into and
- d) rent is regularly realized.

22. Acquisition of land

For execution of works in the corporation land has to be acquired and payments made to the owner of the land. The detailed procedure for acquiring land and payments is laid down in the Land Acquisition Act, 1894. The land acquisition proceedings pass through the following three stages:

- a) issuing a notification for acquiring land either before or after taking possession of land;
- b) determination of the amount of compensation payable by the Land Acquisition Officer;
- c) payment of compensation to land owners after the award is announced by the Land Acquisition Officer.

The stage at (b) above is of quasi-judicial character interest is, however, payable for delay in payments after the announcement of award as also for delay in issue of notification under Act, after taking over the possession.

As the payment of interest is an avoidable expenditure, information on the following aspects be collected and examined. Due caution is, however, needed in making a comment as all the proceeding are of quasi-judicial nature:

- 1) date of possession of land
- 2) date of notification
- 3) interest owing to delay in notification
- 4) No & date of award
- 5) Amount of award
- 6) Date of actual payment
- 7) Interest due to belated payment
- 8) Remarks

Use of vacant land for cultivation

It should be seen in audit that except the land attached with residences/bungalows/quarters and other residential places, the corporation land is not being used for cultivation without prior permission of the corporation as per instruction issued by the erst while Board vide Memo No Ch- 79/425/CB dated 4-5-1978.

23. Register of rents of buildings and lands (Form DFR P.W.6)

It should be seen in audit that the entries relating to the assessment of rent have been made month by month on receipt of timely intimation (with full particulars) of all changes of tenancy from the subordinates incharge of the properties. Besides, it may be seen whether the total realization of each month have been abstracted at the foot of the register so as to show separately

- i) cash realized in the division;
- ii) recoveries by the other disbursing officers adjusted in the divisional accounts.

In case any special services or furniture etc. are provided separately, it may be verified whether the recoveries of these services have been realized and kept separately from that of the rent of the building.

24. Security Deposit Register

In accordance with paragraph 1.154 of the PWD Code (2nd edition) security will be taken from the members of establishment as prescribed by the corporation who handle cash and store. A register of security deposited by the employees is required to be maintained. It should be seen in audit that:

- a) the register is maintained in the proforma prescribed by the Company;
- b) all the columns are properly filled in;
- c) the balances are transferred and to, cleared from the register at the time of transfer of the employee concerned;
- d) the amount of security as per norms laid down by the Company is realized;
- e) the progressive total of amount realized against deposit are worked out; and
- f) the money under security deposits is invested in the manner prescribed.

25. Metering & Protection Organisation

The company has two metering and protection (M&P) circles at Ambala and Hisar having under their control M&P divisions at Dhulkote, Panipat Rohtak, Hisar, Faridabad and Gurgaon which are looking after the Metering & Protection and PLCC activities of. Sub Stations. The major activities under the divisions are periodical maintenance audit of Sub Stations, testing of equipments before commissioning, Inter Utility & Inter-State Meters testing, attending the faults, testing of equipments of new departmental works, witnessing of testing of Turnkey Projects, PLCC Speech, Data Transmission & Protection Coupler.

26. Material Management Organisation

The company has a centralized system of purchase headed by (i) Chief Engineer, Material Management. (ii) Chief Engineer, Design & Procurement. The payments of material Purchased are, however, made through “Centralized Payment Cells” which is infact a first step in the internal audit of purchases.

27. Procedure for purchases

The Company has adopted “the Haryana State Electricity Board (Purchase) Regulation 1974” under section 79 (g) and (k) of the Electricity (supply) Act, 1948 which came into effect on 1st March 1974.

28. Audit checks on Purchases

While examining purchase cases following points should be seen in audit in respect of each case examined and a scrutiny sheet as per **Appendix-H** and **H (i)** be prepared:-

- a) there are proper indents for stores under purchase and the indents are based on consumption pattern, planned targets of activities and construction programme, after taking into account the pending orders and stock availability;

- b) the indents have been consolidated and detailed specification laid down before inviting tenders;
- c) for all items of stores except for items for which the Corporation, may otherwise decide, open tenders are invited through advertisement in the newspapers/journals allowing adequate time to the tenderers for submission of tenders;
- d) all the tenders were opened on the due date, place and time specified in the Notice Inviting Tenders (NIT) in the presence of tenderers and all the tenders along with the requisite particulars had been entered in the 'Register of Tenders Received'. It should be ensured that all the overwriting, cutting etc. have been attested under the dated initials of the officer opening the tenders.
- e) the comparative statement of tenders received as prescribed in schedule "F" of Purchase Regulations is prepared correctly and checked by an officer other than the one who had prepared the comparative statement and has further been checked by an Account Officer of the attached finance wing. (Regulation No 9 of Purchase Regulation may also be referred to);
- f) in accepting the tenders, the financial status of the tenderers, their capability, the earnest money deposited, security offered, their previous record, guarantees etc. have been taken into account. In case of rejection of lowest tenders, detailed reasons thereof have been recorded in writing. In audit, the reasons may be analysed in depth so as to ensure the same are valid, genuine and do not transgress the financial principles;
- g) no tender received after the due date has been considered and entered on the comparative statement;
- h) the purchase order has been placed by the competent authority;
- i) while reviewing the purchase order in audit it should be seen that it clearly specifies the rates payable to the supplier, payment of excise and VAT on the delivery, quantity ordered, detailed specifications, place of delivery, delivery schedule and date of delivery, penalties for late delivery etc.
- j) the rates mentioned in the purchase order agree with the rates quoted by the tenderers and approved by the competent authority. It should also be seen that total value of the purchase order was also worked out correctly;

- k) a register of purchase order is maintained by the purchasing agency in chronological order;
- l) amendments to the clauses of the purchase order were approved by the competent authority. The impact of amendment on final settlement/execution of order be specifically reviewed.
- m) the purchase orders were not split up to avoid the sanction of higher authorities with reference to the total amount of the order;
- n) wherever purchases had been effected by deviating from general procedure, the sanction of the competent authority had been obtained before hand. The reasons put forth for such purchase be reviewed and their bonafide adjudged;
- o) the supply register to watch the receipt of material against each purchase order has been maintained and entries made therein are properly authenticated;
- p) in cases where the material has not been received according to the stipulated delivery schedules, necessary action, as per terms of the purchase orders, has been taken by concerned purchase agency of the Company;
- q) the material received against each purchase order has been properly accounted for in the concerned books;
- r) charges paid on account of demurrage and wharfages may be reviewed and reasons traced to see that these were paid only under cogent reasons. Where demurrage was occasioned due to fault on the part of supplier, the same should be adjusted against supplier account and not charged to the Company's accounts;
- s) the documents received from the supplier may be reviewed with reference to purchase orders in general and miscellaneous charges added in the bill in particular to verify their validity; and
- t) wherever escalation clause has been agreed to with the supplier, the escalation allowed should be examined and it may be seen that it is allowed only for the genuine increase in the cost of material consumed on the product and that no undue benefit on this account has accrued to the supplier. It should also be examined whether variation clause covers case of decrease in cost etc.

Audit checks to be exercised in respect of records maintained by the purchasing agencies are indicated in the succeeding paras.

Store Purchase records:

Audit checks to be exercised in respect of records maintained by the purchasing agencies are indicated in the succeeding paras.

29. Register of Tender Documents sold

It should be seen that:

- a) stock register of tender forms showing the receipt and sale thereof is maintained properly and balance on a particular day tallies with the physical balance of such forms; and
- b) sale proceeds of the tender forms are properly accounted for in the cash book.

30. Register of Earnest Money Deposits

It should be seen that:

- a) the earnest money deposited by the tenderers has been accounted for in the register under proper attestation; and
- b) all refunds of earnest money deposits are noted in the register under proper attestation.

31. Register of security deposits

It should be seen that

- a) a security deposits furnished by the suppliers are noted in the register of security deposits with requisite details and at the time of refund of security deposit a reference to this effect has been given against the relevant items;
- b) refund of security deposits is made only when supplies/work are completed in accordance with the terms and conditions of work order/ supply order ;
- c) in case where warranty clause is applicable, security deposits are refunded only after the expiry of the warranty period.

32. Register of Samples

It should be seen that:

- a) the register of samples received from the suppliers is maintained in the form prescribed by the company;
- b) all samples received from the firm are duly entered in the register immediately on their receipt; and

- c) their disposal i.e. sale by auction or otherwise is indicated on the relevant column of the register and properly accounted for in the books (Stores/Cash).

33. Registration of Suppliers

The Company has introduced the system of registration of firms/suppliers vide regulation No 5 of Purchase Regulations. It should be seen that:

- a) the procedure for registration of suppliers has been properly followed;
- b) the list of suppliers have been approved by the Board of Directors of the Company.

34. Central Payment Cell

Payment to the suppliers against order placed by the MMO and CE (D&P) are made by the CPC. Audit checks to be exercised in respect of the records maintained by the Central Payment Cell are indicated below:

(A) Register of Advances to Suppliers

The purchase-cum contract agreements sanctioned provide for advance payment to suppliers against dispatch, documents to be received through Banks. In such cases it should be seen that the dispatch documents have been got retired from the Bank in time and that no extra payment in the shape of demurrage/wharfage charges is involved and the advance paid to the suppliers against purchase order has been noted in the register of advances to suppliers and final adjustment has been watched properly.

(B) Register of Penalties Imposed and Recovered

It should be seen that

- a) the penalties imposed on suppliers are noted in the register;
- b) the recovery effected has been properly accounted for in the books;
- c) in case of default regarding supply, suitable action is initiated to recover the amount due as per terms and conditions of the contract;
- d) the bank guarantee of the firm is released only after getting no demand certificate from consignee and after observing the prescribed formalities and

- e) where any payment on account of wharfage/ demurrage and other incidental charges are involved those are recovered either from the final bills or from the bank guarantee of the suppliers.

(C) Audit of payments

During audit it should also be seen that;

- a) the necessary particulars of the purchase orders i.e. quantity ordered, advance payments made, quantity dispatched and received and details of other payment/ recoveries have been noted in the requisite ledger;
- b) the payments have been made and regulated according to the rates, terms and conditions of purchase order as amended from time to time;
- c) all recoveries due from the supplier on account of short supply, railway or other freight charges, undercharges paid on behalf of the suppliers, demurrage, wharfage charges have been effected from the supplier's bills;
- d) the payment made may be reviewed with reference to the purchase order and the rates allowed verified to adjudge their correctness;
- e) final adjustment of consignments may be reviewed to see that the material for which payment has been made has actually been received and properly accounted for in the books;
- f) position in regard to advance paid to the suppliers has been properly depicted and is reviewed periodically. All outstanding advances are analysed and action taken where recovery has become doubtful.

35. Controller of stores

The allocation of stores purchased by the centralized purchase agency i.e. Material Management Organisation (including CE/D&P) is made by the Controller of Stores to Central Store and Divisional Stores from where these are issued for use. The detailed procedure to be followed for receipt, issue and accounting of material was prescribed by the erstwhile Board vide Secretary HSEB's Memo No CAO/CAC/B-21 (IV) 1066/1166, dated 15-4-1981 (**Appendix I**). In addition controller of stores is empowered to make purchase of urgent nature upto a monetary limit of Rs 50000 in each case for items under Sr No 28 (C) of HSEB's Delegation of Powers, subject to the following conditions, which should be recorded in writing:-

Reasons which necessitated the emergency purchase.

Steps taken to avoid such emergency together with the reasons due to which these steps did not succeed.

Steps taken to avoid such emergency in future.

36. Audit checks in audit of controller of stores

It should be seen that;

- i) The purchase order placed for the emergency purchase are within the powers delegated vide Sr No 28 (C) of the delegation of financial powers;
- ii) The reasons recorded for the emergency purchases are bonafide and do not disclose any deliberate action to create a situation in which some items become critical so that powers of emergency purchase can be exercised. It should also be ensured that it is not frequent phenomenon;
- iii) The procedure prescribed for effecting purchases in HSEB (Purchase) Regulations, 1974 has been followed in respect of purchase orders issued by the Controller of Stores and;
- iv) all other checks above described for purchase by MMO are to be applied in such purchases also.

37. Valuation of Stores received

Valuation of stores is an important aspect requiring attention in audit. It should be seen that the valuation is correct as per following principles:

- i) material received from suppliers are valued at the invoice price plus sales tax, excise and custom duty, freight, insurance/packaging, handling and cartages etc. upto the receipt of goods in the stores. In the absence of such details FOR destination rates are mentioned in the Purchase Order/Invoice are adopted provisionally. If these are also not known the current market rates or a valuation approved by the competent authority may be adopted;
- ii) Dismantled material returned to stores from works is valued at the depreciated price or the market price whichever is less. Tools and plant totally worn out through wear and tear are to be valued at rates fixed for scrap;

- iii) material received from other divisions/stores of the corporation are valued at provisional rates based on the valuation of similar articles and this valuation is adjusted on receipt of debit advice from the transfer; and
- iv) Materials transferred from one stores to another within the same circle are priced at issue rate obtaining in the priced stores ledger of the issuing office.

38. Pricing

The controller of stores fixes the standard prices for issue of materials so as to have a uniform issue rate for each article of stores in the Company on the basis of weighted average. For this purpose procedure laid down in Instruction No 202 of Manual of Instruction is to be followed. It should be seen that:-

- a) the price fixing card (FB form CA-18) is maintained properly. Its entries should be checked with the purchase order and invoice. The material received should be valued at the invoice price plus sales tax, excise duty, custom duty, insurance, packing, handling and carriage charges etc., up to the receipt in the store;
- b) other incidental charges, if any actually incurred on the acquisition of stores on the basis of monthly incidental charges statement in EB Form CA-24 from the various Divisional Stores have been posted correctly in the price fixing card;
- c) the issue rate has been revised half yearly unless occasion demands an earlier revision such as where there are heavy fluctuations in prices;
- d) the quantities in the bin cards agree with balances as per quantity ledger;
- e) all cases where balances are outstanding in the quantity ledger without corresponding amount as per price ledger and vice-versa have been scrutinized and action taken to rectify the discrepancy; and
- f) the accounts of receipts/issues and balances of all stores for the selected month are vouched and discrepancies pointed out.

39. Valuation of Stores issued

While examining the issue rate adopted for pricing of store issues, it should be seen in audit that the following principles have been adhered to:-

- (I) The issue rate of material is worked out according to weighted average method, i.e by dividing the total value of stores purchased at different rates by total quantity in stock.

All incidental charges such as carriage inwards and other miscellaneous expenses are added thereon;

- (II) In case of material returned from a work to stock the cost of carriage etc. is however debited to the work concerned ; and
- (III) The issue rate has been revised half yearly unless occasion demands an earlier revision, such as where there are heavy fluctuation in prices.

40. Central Stores

(A) Receipt of Stores

The first step in the receipt of stores is the clearing of packages at destination. While examining this aspect in audit it should be seen that the packages have been cleared promptly on their receipt at the railway station and no demurrages/wharfage charges are paid; nor are there any avoidable expenditure in handling. Any discrepancies in weight or description noticed on the retirement of the consignment have been promptly brought to the notice of Railway authorities and necessary entries made in Railways receipt register/defective goods register. The case of any damages or loss has been taken up with the consignee after obtaining a certificate of damage and loss from railway authorities.

In case of loss of goods in transit the claim should be lodged and pursued with the Railways/carrier as the case may be.

(B) Verification of stores received and accounting

Materials is received in stores from suppliers, workshop of the company and various works. The record of the detailed count or measurement is kept in the Measurement Book (E.B form CA-5) in the manner prescribed in instruction No 38 based on Rules 7.16 and 7.17 of DFR.

It should be seen in audit that:

The stores received have been counted, measured and physically verified as to quality and quantity before entering the Goods Receipt Note/stock cards. Undue delay in preparation of goods receipt notes should be thoroughly investigated and reasons analysed;

Responsibility has been fixed for any loss consequent to the failure or delay to report shortages/damages;

The records are maintained and written by the authorized persons as per MOI (Instruction No 207.);

The quantity ledger is posted regularly as and when any transaction occurs and that quantity tallies with the invoice/challan/SRW as the case may be;

The maximum and minimum limits have been recorded on the ledger folio and these are adhered to;

The store ledger has been balanced at the close of an accounting month and balances correctly worked out;

The stock entries correspond with those of SMB; and

Those discrepancies pointed out by the stock verifier SDO or other inspecting officers are investigated by the competent authority and action taken to make good the losses.

(C) Stores received from works

In the case of stores received from works it should be seen that:-

A store return warrant in the prescribed form has been prepared by the officer incharge of the work and approved by the sub-divisional officer before returning surplus material from work to store

41. Stores received from workshop

It should be seen that;-

- a) Stores received are as per challans issued by the workshop authorities; and
- b) The material received has been entered in the stock records. The entries should be verified with reference to SRW/Stock Measurement Book.

42. Issue of Stores

The accounts of issues from stock are compiled from approved indents, store requisitions, store challans etc. It should be seen that :-

- (i) Issues are made only on the authority of authenticated and approved stores requisitions forms. The indenting authority is responsible for seeing that a work/job order has been issued for the work and the requisition for stores is limited to actual requirements. It should also be seen that the procedure laid down in Instruction No.

203 and 204 of Manual of Instructions has been adhered to while requisitioning the stores.

- (ii) Proper acknowledgement has been obtained on the requisitions in respect of materials issued;
- (iii) Daily record of stores issue is kept in quantity ledger and the Bin-Cards concurrently on the basis of store requisitions. Lapses in the proper maintenance of these records including variation if any, should be promptly brought to the notice of the higher authorities;
- (iv) Various points incorporated in Instruction No. 207 of Manual of Instructions for guarding against frauds have been duly observed;
- (v) A Bin Card (CA-6) is maintained and hang-up with each bin or receptacle in the store. Balances appearing in the Bin Cards tally at any time with the numerical accounts maintained in the ledger as well as physical existence of the items; and
- (vi) Where materials have been issued to contractors with whom such agreement exists it is to be ensured that the issues were on proper indent/requisition in E.B Form- CA-I/CA-8 duly signed by the SDO. It may also be seen in such cases that the cost of material has been correctly adjusted in the contractor's accounts. The issues may also be compared with estimates to ensure that quantity such as cement, steel etc. issued is as per estimates and no excessive drawal is reported to.

43. Accounting of scrap and empties

It should be seen that :-

- (I) All scrap and empties are returned to the stores through stores return warrant and a credit for their value is affordable to the work to which these were debited. In case where particulars of the work where from the scrap was collected are not known the value is credited to miscellaneous revenue of the Company.
- (II) The scrap material is valued properly(based on prevailing rates) and is disposed off periodically with the orders of the competent authority. Fixation of reserve price for the disposal of scrap or stores should be on rational basis duly approved by the competent authority. The rates realized may be reviewed and in case where disposal has been made below reserve price, the reasons may be investigated where any

discretion was vested in the authority responsible for disposal below reserve price it should be ensured that this discretion was exercised judiciously; and

- (III) Empty cement bags and other empties such as transformer oil barrels, oil drums, paint drums etc, are returned to the stores on completion of the work, accounted for numerically and disposed off periodically with the orders of competent authority.

44. Miscellaneous points to be seen while test checking the store records

(a) Verification of stores

The stock verification reports for the period under audit should be reviewed to see that the provisions laid down in Instruction No. 209 of Manual of Instruction regarding physical verification of stores have been complied with. Stock found surplus has to be taken as Revenue receipt or Capital receipt as the case may, both in quantity and value in accounts. In case of shortages of stores, the shortages have been adjusted both in quantity and value, the same are investigated and debited to the personal a/c of the officials at fault, pending recovery. Recovery has been made from the concerned officials and in case the loss has been written off, the grounds on which the loss has been written off, be reviewed and their bonafide examined and commented upon where necessary.

(b) Unserviceable store

When stores including tools and spares become unserviceable, a report is made at once and a survey report prepared. The report indicates the period for which the articles were held in stores or remained in use and the cause of their becoming unserviceable.

In the case of these items it should be seen that :-

- (I) Complete details of unserviceable stores have been maintained in the proper form and their disposal has been made after observing requisite formalities;
- (II) The survey reports may reviewed to examine the bonafide of the action, particularly in cases where the stores become unserviceable very often or at short intervals;
- (III) The materials declared unserviceable / surplus due to obsolescence have not been purchased again; and
- (IV) The sale proceeds of the disposal of unserviceable stores are accounted for properly in the records.

(c) Loss of Stores

Any loss of stores and equipment due to theft, accident or destruction by fire or otherwise is to be reported to the higher authorities/police.

It should be seen that:-

- (I) The loss of stores etc has been reported promptly to the higher authorities;
- (II) The loss has been investigated by the officer, incharge of the store and preliminary report made in the prescribed proforma;
- (III) The departmental inquiry has been instituted as per rule 4.56 of P.W.D code.
- (IV) That final police report/investigation report by Inquiry Officer has been received and action as per findings initiated;
- (V) Where the cases of losses are declared as untraceable, the same have been written off by the competent authority in terms of SR No. 52 of Company Delegation of Financial Powers; and
- (VI) Unsettled cases be reviewed and where there are delays in finalization the reasons may be scrutinized and analysed.

(d) Sale of stores

When stock articles can be spared without hampering the Company own works these are sometimes sold to :-

- I. Contractors for departmental works
- II. Local bodies
- III. Officers and staff of the Company; and
- IV. Other departments or consumer in works executed for other departments

It should be seen in such cases that;

- I. An additional charge at the rate of 10 percent is levied for supervision charges in terms of para 4.38 of P.W.D code apart from storage charges leviable under rule 6.24 of departmental Financial Rules.
- II. The sale of stock has been made under the orders of the competent authority;
- III. The cost of material sold to contractors is recovered from their bills, or in cash in advance; and
- IV. The cost of material sold to departmental officers and staff is made either in cash or from their next months salaries as laid down in rule 6.24 of D.F.R.

45. Divisional Stores

The audit checks as prescribed for central stores will apply mutatis mutandis to Divisional stores/Sub-stores also.

46. Disposal of obsolete / unserviceable stores and scrap.

It should be seen in audit that:-

- (I) Proper identification of non-moving, slow moving and obsolete items of stores in carried out by the Disposal Cell after it receives the intimation of such items from the stores;
- (II) Verification of movement of items on stock is made by the Disposal Cell by periodical visits to various stores;
- (III) Lists of slow moving unserviceable items is circulated by the Disposal Cell all over the Company before deciding their disposal;
- (IV) None of the items contained in such lists are purchases afresh; and
- (V) Disposal of such stores and scrap is made through tenders or through open auction after considering the suitability of mode of disposal as would be beneficial to the Company;

Audit of establishments records

47. Establishment Pay Bills, TA and Medical Claims

For the audit of these claims the principles of audit enunciated in MSO Technical be kept in view besides specific orders issued by the Company, if any, where house rent has been paid to an employee it should be seen that he has not refused quarter allotted to him by the Company. In such cases house rent is not payable.

48. Overtime Allowance and Honorarium

It should be seen that the rules regarding grant of overtime allowances and honorarium are adhered to in letter and spirit and that Overtime Allowance is granted only in cases of emergency and for the work which is not occasional and of intermittent character and the work can not be postponed till the next working day.

While scrutinizing these claims it should be seen that;

- I. The sanction to the payment of OTA has been accorded by the authority competent to deploy people on overtime and the urgency involved has been adequately justified;
- II. There is no apparent circumvention of the requirements in getting the OTA sanctioned for the staff. It should be analysed in circumspection that where the same set of people are repeatedly deployed on overtime there are really justifying reasons for it; and
- III. The OTA has been worked out correctly and does not exceed the maximum limits prescribed in this regard;

49. Advances to Employees

Various advances are granted by the Company to its employees e.g pay advance, TA advance on tour and transfer, advances to meet medical expenses, house building advances and advance for purchase of conveyance etc.

It should be seen that the Grant of these advances is covered by rules and formalities of the Company and the same are adjusted promptly in accordance with the prescribed procedure and orders. The Broad sheet of these advances should be checked to see that entries are promptly made therein and where recovery entries are not made the reasons for the same be traced.

50. Payment of Pensions

The payment of pension, family pension and death-cum-retirement gratuity be checked with reference to Pension Rules contained in the Punjab Civil Services Rules Vol II as well as the orders issued by the Company from time to time. The following points should inter alia receive special attention in audit;

- a. That the date of superannuating/retirement is correctly recorded in the pension papers and this date corresponds with that worked out with reference to date of birth as per entries on the title page of the service books / orders issued by the competent authority;
- b. That the service, as per entries in the service Book History sheets, not qualifying for pension has been deducted correctly; and
- c. That the sanction to the payment of pension and DCRG has been accorded by the competent authority and that the cases have been finalized promptly to avoid hardship to the retiring employees.

51. General Provident Fund

In exercise of the Power conferred by clause (c) of section 79 of the Electricity (Supply) Act, 1948 the Haryana State Electricity Board adopted the regulations framed by the Punjab State Electricity Board in September 1960 for establishing and maintaining a Provident Fund for its employees;

While conducting audit of these funds these regulations be referred to and it should be seen that;

- I. The subscribers Accounts are maintained in accordance with the regulation;
- II. The interest at rate fixed by the Company is credited to the accounts of the subscribers as per provisions;
- III. The advances are granted as per provisions of the regulations (Regulation No. 18) and are properly accounted for in the accounts of the subscribers. For this all debit vouchers and sanctions be reviewed with reference to ledger cards and it should be ensured that no debit is left un-posted. It should be also be seen that recoveries of refundable advances are regularly effected from the subscribers;
- IV. The final withdrawals are made in accordance with the regulations No. 31 to 38 and payment cases for the month selected for detailed check be reviewed to see that no debit is left unposted and interest has been worked out at prescribed rates and is correct; and
- V. The position of credits may also be reviewed to ensure that balances in suspense account are not mounting.

52. Contributory Provident Fund

The employees who are governed by the Factories Act viz Workshops, sub-station etc, are entitled to the Contributory Provident Fund Scheme. Recovery at the rate of 8 percent of the salary is made every month from the employees who have rendered 120 days continuous service. It should be seen that the recovery is effected from their salaries regularly and this amount along with Company's contribution remitted in time to the Regional Provident Fund Commissioner. The checks prescribed in para 7.62 of the Manual of Inspection (Civil wing) Vol I be kept in view while conducting audit of CP Fund Sections.

Penalties, if any, levied by the Regional Provident Fund Commissioner for the infringement of the rules should be commented upon in Audit.

53. Service Books and leave accounts

Service Books of each of the regular non-gazetted employees, and temporary subordinates appointed for more than 6 months, is required to be maintained by the head of office concerned;

It should be seen that:

- a. That all the columns of the title page of the service book are correctly filled in and attested by the Head of the office.
- b. That all the entries have been made correctly and attested by competent authority.
- c. That the service verification has been done and a certificate to that effect recorded in the body of the service book.
- d. That a statement of family member is affixed in the service book and up dated from time to time.
- e. That leave account is maintained properly and balances are correctly worked out;
- f. That the service books are got signed from the official concerned every year in token of his acceptance of the entries therein, and
- g. That the pay fixation done from time to time is in accordance with the orders issued by the corporation.

The points mentioned in paragraphs 1.41 (Annexure I(F) of HSEB Manual of Orders (2nd Edition) may also be kept in view.

54. Service stamp and dispatch register

To dispatch the outstation dak service stamps which are obtained from the post office are used and account there of is maintained in the service stamp and dispatch register.

It should be seen in audit that;

- a. The stamps received from the post office are accounted for in the service stamp register and the totals worked out are correct;
- b. Daily balances of service stamps in the dispatch register are correct

- c. Physical verification is carried out annually by the competent authority and a certificate there of recorded, and
- d. Letters dispatched should be screened to see that the service stamps have not been used for letters other than official or for Corporation's purposes.

55. Rent Register of a staff quarter

It should be seen;

- a. That the register is maintained in the prescribed proforma and all the columns filled in properly;
- b. That full particulars necessary for recovery of rent i.e. basic pay, date of next increment etc. of the employee are recorded in each case in the Rent Register.
- c. That the date of occupation and vacation of each quarter are recorded against each employee;
- d. That the Rent rolls are being issued to the concerned officers and recovery of rent is made as per instructions of the Company
- e. That the recovery of rent from the officials in unauthorized occupation of Company's quarter is made as per the scale prescribed by the Company ie at the rate of 40 percent of the pay for two months after 21 days of the quarter becoming due for vacation and 100 percent of pay after two months till the date of vacation (Memo No. Ch-6/WO/A-II-26 dated 31 Oct 1980);
- f. That water charges are recovered as per Company's instructions issued from time to time; and
- g. That the quarters are allotted immediately to other employees as and when these are vacated by erstwhile occupants on transfer or otherwise.

CHAPTER-IV

56. AUDIT OF WORKSHOPS

The Company has its own workshop organization with headquarters at Dhulkote with the main object of manufacture fittings and accessories and repair various components departmentally. The organization consists of one Transformer and Switch gear Division at Faridabad, power Transformer Repair Workshop Ballabgarh, steel structure workshop division Panipat and a switchgear workshop at Dhulkote. Steel structure fabrication workshop at Panipat fabricates line towers and structures for construction and maintenance lines. In addition the general workshops coil winding workshops and switchgear workshops manufacture accessories, fabricate coils and repair damaged switchgears respectively. The Superintending Engineer (Workshops) is the Chief Executive of the workshop organization and is assisted by two Executive Engineers. In addition to the checks mentioned in the preceding paragraphs for expenditure of audit, the following points and checkes should be specially applied for the audit of workshops:-

(i) Costing System

Whether there is an efficient costing system for ascertaining the cost of manufacture of various parts, components, assemblies and final product. How far the cost of the manufactured articles compares with the market price of these articles? Wide variations in the cost should be investigated and brought to light.

(ii) Utilization of man power

Whether any targets have been fixed. How far these were fulfilled and the variation, if any, could be avoided?

(iii) Comparison with standard cost

Whether there is any system of estimating the price in advance. How far the cost of the product compares favorably with the predetermined price? The excessive incidence in any of the elements of cost should be analysed and investigated.

(iv) Payment of taxes and duties such as central excise etc., should be specially looked into.

(v) Adjustment of variances

Any variances from the budgeted/standard should be properly scrutinized and adjusted to proper head of account. Since these workshops cater to the departmental use, any profit/loss has to be properly adjusted. The main idea is that the workshops have to run on no profit no loss basis;

(vi) Record relating to wastage/rejections and expenditure incurred on rework be properly scrutinized;

(vii) System of ascertaining idle machine/labour time with detailed analysis of the reasons thereof be examined;

(viii) Any losses, thefts and damages be specifically highlighted;

(ix) The actual quantitative consumption of various items viz. core laminations, press board, aluminium/copper wire of strips used in coils, oil etc., used in the manufacture of transformers should be compared with the norm laid down in the bill of Material prescribed by the designers (M/s BHEL) and variations pointed out;

(x) It should be seen that set off in Central Excise Duty admissible, if any, is duly availed of.

(xi) Items of general use in the field are also manufactured in the General Workshops at Dhulkote/Delhi. Apart from looking into the aspects of men and machine utilization and maintenance of proper records, it should be seen that output commensurate with inputs and that the wastages scrap are within permissible limits. Consumption of various items viz. iron/copper scrap, M.S. flat, angles, channels, pipes, coal etc., should be reviewed and variations pointed out;

(xii) In the case of repair activities of the workshop specific points to be seen are; whether any norms/targets for repair were fixed and how far the workshop lagged behind in achieving these norms, and whether the shortfall could be avoided? Accumulation of arrears in repair activities and value thereof be seen. How far these accumulation were due to negligence/carelessness of the staff? Any incentive bonus schemes paid for either increasing production/repair activity be properly scrutinized and its impact on the cost of manufacture/repair be brought to light.

CHAPTER V

57. Audit of Projects Financed by World Bank

World Bank has sanctioned a loan of USD 330 Million (Rs 1650 Crores) for Haryana Power System Improvement Project under following schemes:

Sr No	Scheme	Amount in USD	Amount in Rupees
1	Creation of new Transmission System by Haryana Vidyut Prasaran Nigam Ltd	USD 250 Million	(Rs 1250 Crores)
2	Technical assistance	USD 10 Million	(Rs 50 Crores)
3	Augmentation of Distribution System by Dakshin Haryana Bijli Vitran Nigam Ltd	USD 70 Million	(Rs 350 Crores)
Total		USD 330 Million	(Rs 1650 Crores)

The loan agreement with World Bank has already been signed. Total cost of the transmission works tied up with World Bank is USD 312.50 Million, (Rs 1562.50 Crores), which includes Loan component of USD 250 Million(Rs 1250 crores) and rest is the equity investment by Haryana Govt.

HVPNL has identified various 400 KV, 220 KV, 132 KV & 66 KV Sub Stations and Associated Transmission Lines and a component for SCADA Expansion for execution with world bank funding are detailed in **Appendix (J)** and the guidelines of IBRD loans and IDA credit are given in **Appendix J(i)**.

58. Audit checks in World Bank projects

While auditing the expenditure incurred on the World Bank Loan Project it may be seen in audit that:

- i) Records and separate accounts are maintained in accordance with the sound accounting practices.

- ii) The guidelines regarding procurement of goods and works issued by the World Bank in 2004 and revised in 2010 shall be kept in view.
- iii) Expenditure incurred on the items of each category is within the amount allocated as per Schedule of the agreement.
- iv) Avoidable payment of Commitment charges paid to Bank on account of not availing the sanctioned loan may be analysed and commented.
- v) Interest and other charges have been paid on due date. Penalties due to delayed/non-payment may be commented.
- vi) Besides this, the guidelines for the audit of expenditure and purchase of stores given in this Manual shall apply mutatis mutandis to the audit of WB projects.

CHAPTER-VI

ANNUAL ACCOUNTS

59. General

- i) The Accounts of the Haryana Power Sector Companies viz HVPNL, HPGCL, UHBVNL AND DHBVNL are audited by the Statutory Auditors who are appointed or re-appointed by the Comptroller and Auditor General of India as per provisions of section 619(2) of the Companies Act 1956.
- ii) The Comptroller & Auditor General of India shall have power to direct the manner in which the Company's account shall be audited by the Auditor/Auditors appointed in pursuance of Article 53 of Memorandum & Articles of Association of the Company and to give such Auditor/Auditors instructions in regard to any matter relating to the performance of his/their functions as such.
- iii) These accounts are also subject to supplementary audit conducted by C&AG of India as per provisions of section 619(4) of the Companies Act 1956.
- iv) Any such comments upon are supplement to the Audit Report are required to be placed before the Annual General Meeting of the Company at the same time and as the same manner as the Audit report.
- v) Once at least in every financial year the accounts of the company shall be examined and correctness of the Profit and Loss accounts and Balance Sheet ascertained by one or more auditors.
- vi) As per Section 215 of the Companies Act 1956 every balance sheet and profit and loss account of a company shall be signed on behalf of the Board of directors by not less than two directors of the company one of whom shall be a managing director. The balance sheet and the profit and loss account shall be approved by the Board of directors before they are signed on behalf of the Board in accordance with the provisions of this section.

60. Application of Accounting Standards

I) Accounting Standards for Auditing issued by ICAI shall be followed by the company while preparing the annual accounts and the compliance of the same shall be ensured in audit. Deviation from the standards shall be commented. A checklist in respect of accounting standards applicable for audit of financial statements are given in the **Appendix (K)**.

61. Application of Auditing & Assurance Standard 28

During audit of annual accounts it should be ensured that the auditor's report complies with the Auditing and Assurance Standards-28. A brief checklist of AAS-28 is given in **Appendix-K(i)**.

62. Application of ISSAI's standards

In addition to accounting standards issued by ICAI the International Standards of Auditing issued by ISSAI shall also kept in view at the time of auditing of annual accounts of the company. The brief of ISSAI's standards effective for audit of financial statements for period beginning on or after December 15, 2009 is given in the **Appendix K(ii)**.

The audit report on the annual accounts (along with all annexure) shall be prepared and submitted within the scheduled time. The formats of reports and other relevant certificates are given in **Appendix (M)**.

CHAPTER VII

MISCELLANEOUS AND GENERAL

63. Bank Accounts

The Company has made its own arrangements for conducting its cash transactions through the Banks, which have been approved in consultation with the State Government. The following banks have been appointed as HVPNL bankers:

State Bank of India, Panchkula

State Bank of Patiala, Panchkula

Central Bank of India, Chandigarh

ICICI, Panchkula

Punjab National bank, Panchkula

Canara Bank Panchkula

Oriental Bank of Commerce, Chandigarh

Bank of India, Chandigarh

Punjab & Sind Bank, Chandigarh

Syndicate Bank, Panchkula

HDFC, Chandigarh

SBI, Chandigarh

The Branch office keeping the Account of the Company sends daily statement of all transactions to the Financial Advisor (HQRs) of the company separately for collection account and drawing account. While depositing any money with a Branch of the Bank, specially printed "Pay-in Slips" which will be supplied by the Bank free of cost will be used. These slips will be quadruplicate. Two foils of the pay-in-slip will be returned by the Bank to the depositing officer. One will be retained by the Branch concerned and the other will be sent by it to the Branch maintaining the Company's Accounts for being passed on to the Financial Advisor (HQRs) with the daily statement of collections. Similarly the paid cheques will be returned by the Bank of the Financial Advisor (HQRs) at the end of every month with

a duplicate statement of Drawing Account, one of which will be returned after verifying receipt of cheques and correctness of the balance.

64. Audit checks on bank accounts

The following audit checks should be applied while conducting the audit of Bank Account:

That the drawing limit fixed on each branch has not been exceeded by the drawing officer.

The statement of Drawing Account be scrutinize to see that it tallies with the statement of paid cheques returned by the bank. In case of variations, the reasons thereof be scrutinize to ensure that proper steps have been taken to reconcile the statement.

That the statement of “Remittances into Bank” (Form-BA-2) are prepared by each depositing officer in the manner as prescribed in Instruction No. 217(a, b, c) of the “Instructions for the maintenance of Bank Accounts” and forwarded to Financial Advisor (HQRs) through Divisional Officer who will record thereon the following certificate:- “Certified that above amounts aggregating; to Rs.----- as per details, are correct as per amounts or remittances into the Banks shown in the Cash Book”. The statement so received should be tallied with the statement received from the Banks and difference, if any, scrutinize to see that no embezzlement/misappropriation is involved.

That the statement of remittances into Banks (Form BA-2) is checked with the supporting pay-in-slips and authenticated by the appropriate official. These should be reviewed to see that these do not indicate any variations.

That the remittances made by the depositing officer are verified with the advices received from Banks. It should also be ensured that deposits made by the field offices are immediately credited to the Company’s account and got adjusted against the cash credit/overdraft outstanding, if any.

That the outstanding items arising out of reconciliation are properly investigated and \, if necessary cleared by personal efforts. Old outstanding items should be minutely scrutinized and final position got recorded and commented **upon** in report.

That the Bank Ledger (BA-4) is posted correctly from Cash Collection Abstract Register.

That entries for interest on short term deposit/ fixed deposit, transfers, from short term deposits/ fixed deposits and Drawings Account to Collection Account, cheques drawn against

collection account and transfers from collection account to short term deposits/ fixed deposits and Drawing Account, as made in banker's Ledger for Collection Account from Bank (Collection) Account statement should be verified from corresponding entries in the fixed/ short term deposit register and Banker's ledger for Drawing Account made therein independently.

That the net figure of deposit (Obtaining from total deposit less Bank Charges i.e. col. No. 9 minus col. No. 13) is reconciled with the monthly schedule of debits to Bankers as received with Divisional Accounts.

That the drawings from this drawing account are limited to the immediate requirements so as to avoid unnecessary incidence of interest.

That the register of monthly drawing limits is maintained properly i.e. showing limit originally fixed, subsequently increased, total cheques drawn against each where the, unutilized balance against the limits recorded in r/o each drawing officer is heavy with the same drawing officer and on the other hand interest on overdraft is paid where the limit has been exceeded, the case should be linked up properly and financial implications with reference to interest on overdraft be worked out and highlighted in the report.

That the statement of cheques drawn and encashed (Form-BA-7) and the figure of grand total should be reconciled with the monthly schedule of credits to banks as received with Divisional Accountants.

65. Reconciliation between Company Book and Bank Account Statement

It should be seen that:

Bank Reconciliation Statements (for each bank) for collection account (Form BA-9) are prepared by Financial Advisor (HQRs) each month as per Banker's ledger and collection account statements received from Banks. These statements should be reviewed to see that variations, if any, properly investigated and brought to the higher authorities.

The deposits not acknowledged by the Banks are scrutinized and where dates of deposited cheques/Bank Drafts expired, the matter is brought to the notice of higher authorities for immediate action.

Bank Reconciliation Statements (for each bank) for Drawing account (Form BA-10) are prepared by Financial Advisor (HQRs) each month as per Banker's ledger and Drawing account statements received from Banks.

The position of unpaid cheques is reviewed and actual position got expedited from concerned Bank.

66. Cash Balance

The position of cash balances lying with the Banks in Company's current accounts should be reviewed from time to time by the officer appointed for the purpose and proposals for transfer of surplus balances to short term deposit/fixed deposits with the Bank are made. This should be seen in the audit that such recommendations are implemented forthwith.

67. System Audit

In order to improve the quality of local audit sufficient emphasis is to be laid on a system approach. With this end in view field parties should examine during local inspection of various units whether rules and regulations would require any change with reference to the existing situation and if so, to make concrete suggestions therefore. The audit parties should also examine whether the current rules and regulations are actually being followed. Where any large scale defaults in observance of the rules noticed or in case where the parties come across cases of obsolescence in any of the rules and regulations, the parties should report upon such cases in adequate detail. Headquarter office may prepare a consolidated report on the deficiency defaults noticed and send it to the Company. If these are of significant interest, processing comment in the Audit Report after taking into account the remarks of the Company/ Government can also be considered.

Where new schemes are operated and new organizations set up it will be particularly necessary for audit to enquire the question of prescribing proper rules and regulations in financial and procedural matters, elicit information regarding control mechanism built in these rules and check through local audit parties the actual observance of the prescribed rules and regulations by the subordinate formation of the Company. Where fresh rules and regulations have been prescribed by the Company for any new scheme, it should be seen whether these cover all the areas which will not get covered by existing rules/regulations. (Authority: CAG's letter No. 692/D&M/7-82-IV dated 5-8-82)

68. Results of inspection and local audit

The main purpose of the inspection of sub-divisions, divisions and other units of the Company is to help the executive as far as possible in accurate and efficient maintenance of accounts and to help plug loop holes where the system of internal check/ internal control has become loose.

69. Compliance of Inspection report

Part-I-A (i) Introductory

Besides brief narration/description of the nature and general working of the office inspection this part should make a mention of records not put up for examination along with the reasons for non-production and special steps taken by the Inspection Officer to ensure their production indicating particularly whether the matter was brought to the notice of the head of the office and if so, what results. The Inspecting Officer should also indicate whether in his opinion there are any records or matters which should be obtained for audit scrutiny.

An inspection report should contain disclaimer statement regarding preparation of inspection report on the basis of information furnished and made available by the auditee office. The proforma of disclaimer statement is given in **Annexure (N)**.

Part-I-A (ii) Review of old objections

Special attention should be paid to the settlement of maximum number of outstanding paras from previous reports after obtaining their replies and carrying out local verification with this end in view inspection staff should establish close rapport with the concern head of office and his staff so that old and routine objections are cleared from the Inspection Report.

It should be seen that paras which have been taken up in advance are not settled by the audit party. However, latest position alongwith recommendation of the Inspection Officer be recorded separately for being examination at Headquarter in the advance para file; and

An abstract of outstanding paras to the date of audit is given

Part-II-A Serious Irregularities

Major irregularities which are likely to materialize into draft paras for the audit report should find a place in this section. These cases should be drafted with due care and diligence, keeping a keen eye on the point sought to be established. It is desirable that copies of all important references, which have a bearing on the para to be attached with para.

Part-II-B Other Irregularities

Irregularities, which though not major so as to merit notice of higher authorities, but are otherwise important to be mentioned and complied with by the head of the office inspected should find place in this section.

Part-III Test Audit Note

It contains minor irregularities in which a schedule of items settled on spot or which would be settled on verification of the action taken. The procedural irregularities in respect of which the head of office has held out assurance about following correct procedure in future should be noted in this schedule.

2 Instructions regarding writing and compiling the Inspection Reports

The inspection report should be written by the Inspecting Officer himself who should not leave this work to his subordinates. He should ensure the accuracy of the facts stated, the cogency of arguments and moderation and preciseness of the language used.

3 Tone and Language of Inspection Report

Criticism in itself unpleasant audit should not be made worse by any discourtesy in language. It is possible for an Inspection Officer to take strong position in cases where action taken by officer in charge of the office inspected is contrary to definite rules and orders. But he should be very careful about the tone and language of the report particularly in cases where discretion vests in the Executive but has not, in the opinion of the Inspecting Officer, been exercised with the due regard to the financial interests of the Company. In such cases he should better confine himself to a statement of probability and ask for elucidation and should in no case comment upon the judgment exercised by the concerned officer. Whatever loss, the Inspecting Officer thinks, has occurred should be stated in a form so as to show that the matter requires elucidation and explanation and not in the shape of a final verdict by Audit.

A long report defeats its object merely by its lengths. The Inspection Report must, therefore, be precise and to the point. It should be sufficient to mention the rule/rules and to state how it/they has/have been infringed. The use of strong adverbs and adjectives like 'serious irregularities', 'highly irregular', 'special notice' etc., should be avoided as they serve no useful purpose, but merely irritate the officer incharge to the Office. Any comments,

which may be necessary, will be made by the Head Office after receiving the replies from departmental offices. It is only then that comments can be made effectively.

After the inspection is finished the report should be discussed with the officer incharge of the office. If the Inspecting Officer, as a result of discussion, deems it necessary to make any modification, he may do so and show the modified report to the Officer. In case of any difference of opinion between the Inspecting Officer and the Officer regarding any portion of the report, the Inspecting Officer and the officer are allowed to record their views in the margin of the report or on a separate sheet which may be appended to the report.

As per instructions of the Company of officer incharge of the office should discuss the inspection report in detail with the Inspecting Officer and properly verify the facts as mentioned in the Audit Objections noticed during the local inspection and record endorsement "Discussed and facts verified" on the Draft Inspection Reports.

4 Test Audit Notes

All minor points which can be settled finally by the officer should find a place in the Test Audit Note. It should be neatly written in duplicate and must not be more scribing. The Assistant Audit Officer should critically examine the portion contributed by his assistants and verify facts stated by him. The Inspecting Officer should carefully go through the whole of the Test Audit Note and satisfy himself that the objections taken are prima facie valid the Test Audit Note (in duplicate) after signature by the Assistant Audit Officer should be forwarded to the main office along with the Inspection Report. The Test Audit Note should be issued by the Audit Officer (Audit) (HQRs) to the concerned office for necessary replies after incorporating also such paras as were included by the Inspecting Officer in Part-II-B of the inspection Report but are decided to be transferred to Part-III Test Audit Note by the headquarter. (Authority: CAG's endorsement No. 740-Admin I/177-30 dated 10-04-1963 and CAG's endorsement No.120-CA III/69-81 dated 18-03-1988)

5 Issues of Inspection Report at Headquarters

The inspection report should be issued within three weeks i.e. 21 days of completion of the inspection at the latest. The following maximum periods are fixed for the several stages involved in the examination and typing of these reports.

Sr. No.	Subject	No. of Days
1.	Submission of report by the Inspection Officer and its receipt by the dealing auditor	3
2.	Examination of report in the section and its submission to the Dy. Accountant General for approval	6
3.	Time for getting the copies of the report typed	6
4.	Issue of the typed copies	6
	Total Days	21

In order to guard against the avoidable delays in issues of the inspection reports, a register should be maintained which should be put up to the Senior Audit Officer (HQ) monthly along with the Arrear report for further action.

The Assistant Audit Officer should ensure that all the draft paras attempted by the Inspecting Officer and approved by the Dy. Accountant General (Commercial) are passed on to CA-III section immediately for further action.

CHAPTER VIII

70. WORKING OF ECONOMIC SECTOR, HARYANA POWER SECTOR COMPANIES

The Economic Sector for the audit of Haryana Power Sector Companies; comprise two sections CA-III, & IV sections in the office of the Principal Accountant General (Audit) Haryana, Chandigarh. The CA-IV section is dealing with preparation and implementation of audit plan and processing of inspection reports of power sectors companies. The CA-III section is dealing with processing of draft paras and audit of annual accounts of the power sector companies. The working of each section is described briefly hereunder:

a) CA-III section (Draft Para Cell)

- i) Detailed scrutiny of material received from parties and audit section of the purpose of processing of draft paras for inclusion in State Report.
- ii) Detailed examination of draft financial reviews compiled by the inspection staff;
- iii) Compilation of draft commercial chapter relating to Haryana power Sector Companies for inclusion in the Conventional Audit Reports.
- iv) Taking up of paras relating to important financial irregularities in advances with the concerned authority of the power sector companies for the purpose of processing draft paras ultimately.
- v) Processing of draft paras for inclusion in the State Audit Report
- vi) Preparation of replies to the Comptroller and Auditor General of India's comments on draft paras and financial reviews.
- vii) Examination and issue of Draft Separate Report on Haryana Electricity Regulatory Commission and issue of final SAR to Govt./HERC
- viii) Critical examination of Annual Accounts and draft Audit Comments thereon and certification of annual accounts of Power sector Companies
- ix) Issue of final comments under section 619(4) of the Companies Act, 1956
- x) Finalisation of replies to Headquarters Office observation on DPs/Reviews

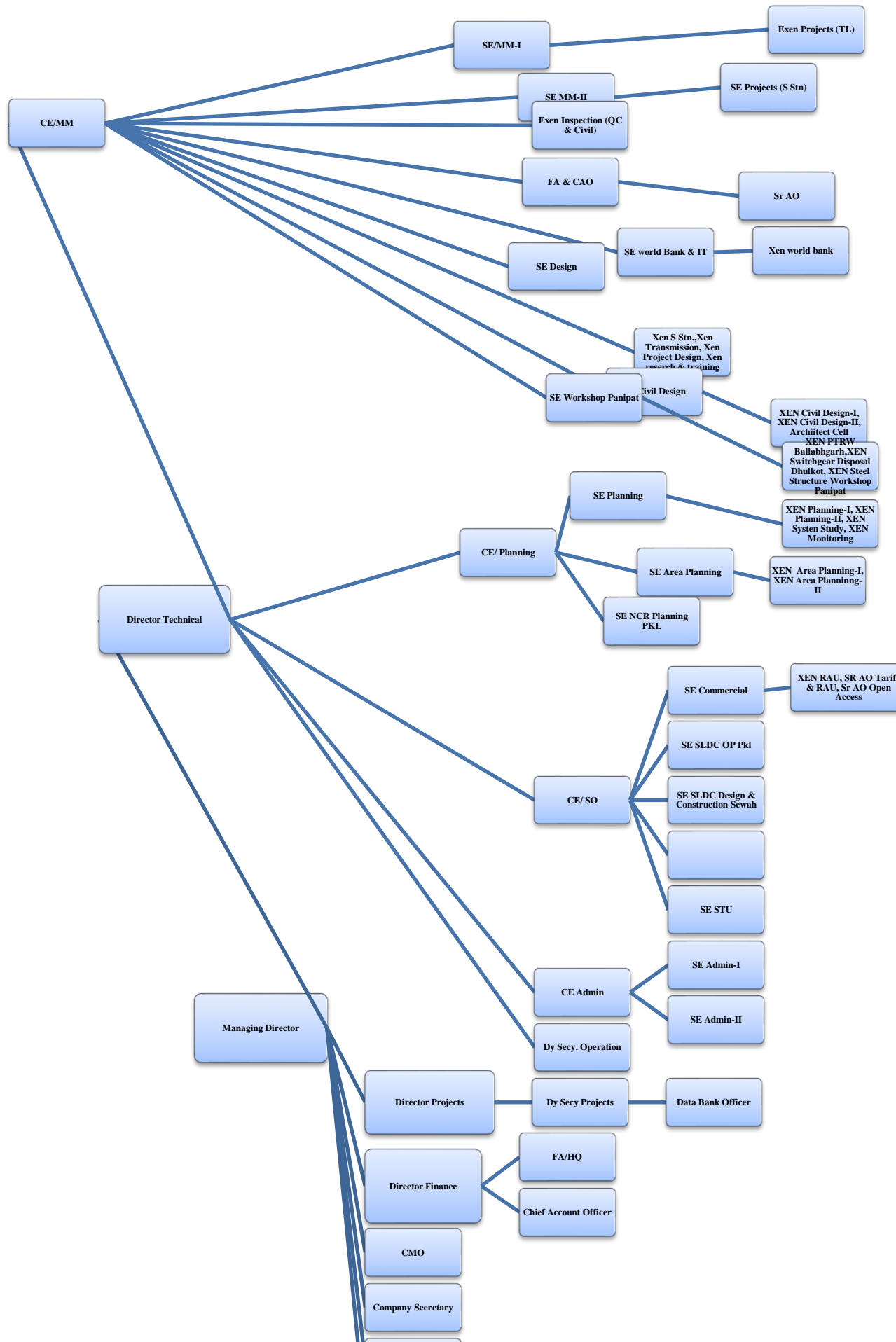
(b) CA-IV Section (Audit and Miscellaneous Works Section)

- i) Scrutiny, issue and pursuance of Inspection reports of various auditee units.
- ii) Critical examination of agenda notes and minutes of meetings of Board of Directors of Power sector Companies and Thermal standing Committee.
- iii) Grant of leave to staff and officers, posting and transfer
- iv) Assessment of total workload to be undertaken in the next financial year viz-a-viz availability of staff in audit parties, submission of proposals for additional staff if necessary.
- v) Preparation of quarterly tour programme of the field parties and inspecting officers.
- vi) Scrutiny of weekly diaries of the audit parties and verification of TA bills with reference to such diaries, tour programme, casual/ regular leave account.
- vii) Pursuance of outstanding Audit and Inspection Reports and paras with the Management and State Government.
- viii) Holding of Audit Committee Meetings for settlement of old IRs and paras.

APPENDIX-A

(Referred to in Paragraph 2)

Haryana Vidyut Prasaran Nigam Limited (HVPNL). organizational chart



Appendix-B

(Referred to in paragraph 2)

1. The Punjab State Electricity Board Rules, 1959
2. The Punjab State Electricity Board (Chairman's Powers) Rules, 1959
3. The Haryana Government Electrical Undertaking (Dues Recovery) Act, 1970
4. The Haryana Government Electrical Undertaking (Dues Recovery) Act, 1972
5. The Punjab State Electricity Board (Administration of Funds and Property) Regulations, 1960
6. The Punjab State Electricity Board (Conduct of meetings) Regulations, 1959
7. The Punjab State Electricity Board (Provident Fund) Regulations, 1960
8. The Punjab State Electricity Board Service of Engineers (Electrical) Regulations, 1965
9. The Haryana State Electricity Board (Legal Services) Regulations, 1991
10. The Punjab State Electricity Board Service of Engineers (Civil) Regulations, 1965
11. The Punjab State Electricity Board Employees Conduct Regulations, 1965
12. The Haryana State Electricity Board (Punishment and appeal) Regulations, 1990
13. The Haryana State Electricity Board Departmental Accounts Examination Regulations, 1998.
14. Regulation for making Advance to the Licensees by the Board under Section 23 of the Act and the manner of payment of such Advance.
15. Regulation for making Contributions by the Board to the Associations and societies under Section 24 of the Act.
16. The Haryana State Electricity Board Purchase Regulations 1974.
17. The Haryana State Electricity Board Schedule of Tariff for supply of energy.
18. Principles governing the terms and conditions and procedure in regard to supply of electricity to consumers other than Licensees.
19. The Punjab state Electricity Board Regulations of Business, 1960.
20. The Haryana State Electricity Board Allotment of Residential Accommodations regulation, 1980
21. The Punjab State Electricity Board (Sale of Electricity to the Licensees) Regulations, 1961.
22. Recruitment and promotion policies of various staff and wings.
23. The Haryana State Electricity Board Department Account Examination for Engineer Officers/Engineering Subordinate Regulations, 1998.

- 24 The Haryana State Electricity Board Ministerial Service (Head Office) Regulations, 1991.
- 25 The Haryana State Electricity Board Employees of Public relation Wing Regulations, 1991.
- 26 The Haryana State Electricity Board Delegation of Powers.
- 27 The Haryana State Electricity Board Employees Medical Services Regulations, 1991.
- 28 The Haryana State Electricity Board (Workshop organizations) Regulations, 1992.
- 29 The Electricity Act, 2003
- 30 HERC Regulations 20/2008
31. Tariff Order for the year 2012.
32. Haryana Electricity Reforms Act, 1997

APPENDIX –C

(Referred to in paragraph 3)

List of units to be Audited

Sr. No.	Field Units	Periodicity of Audit
1.	CE, MM (formerly known as D&P), Panchkula	A
2.	Chief Account Officer, Panchkula and Chief Engineer (Admn.-1) Panchkula	B
3.	FA (HQ) Panchkula	B
4.	SE, T/S,Hisar	B
5.	CE System Operations & Commercial, Panchkula	B
6.	SE, T/S Rohtak	B
7.	SE, T/S Karnal including Panipat Workshop Structure	B
8.	SE, T/S Faridabad including Ballabhgarh Workshop	B
9.	SE, T/S, Gurgaon	B
10.	SE, T/S, Panchkula	B
11.	CE, Planning & Design	B
12.	SE, Civil Construction, Karnal	C
13.	SE, Civil Construction, Hisar	C
14.	SE, M&P CC Dhulkote	C
15.	SE, M&P CC, Hisar	C
16.	Director Medical Health Services/ Chief Medical Officer, Panchkula	C
17.	IG Vigilance, Panchkula	C
18.	CE, T/S, Panchkula	C
19.	SE System 'OP' SLDC Circle, Sewah, Panipat	C
20.	CE, T/S Hisar	C
21.	L.A.O. Ambala	C

APPENDIX 'C' (i)

List of Accounts Records, Register and Ledger maintained in Divisional Office.

1. Cash Book (Main).
2. Register of works (Form-27).
3. Purchase order register and files.
4. S.M.B and E.M.B register.
5. All S.M.B and E.M.B (for census)
6. Register of capital assets of (a) Plant and Machinery (b) Land and Misc. Property
7. Register of sanctioned estimate and estimate file.
8. Register of Divisional Accountant Audit Objections.
9. File of inspection by CA & SE of Divisional Offices and by XEN of Sub Divnl. Offices.
10. Pension payment.
11. Pending M.A.S Accounts file.
12. Work order books.
13. Log Book & Maintenance register of vehicles.
14. Register of Muster Rolls.
15. Register of Accident cases.
16. Register of theft cases.
17. Register of receipt books.
18. Imprest registers.
19. Register of Local purchases.
20. Service Books with personal files.
21. Register of sanction to establishment.
22. Pay bills ledgers.
23. Rent register of staff quarters.
24. Register of visitors to Rest House.
25. Register of property taxes.
26. Register of tools and plant.
27. Register of stationary stock.

28. Register of Machinery and equipment.
29. Suspense schedules.
30. Electricity duty return.
31. Register of securities (staff)
32. Telephone and trunk call register.
33. Register of codes and other books of references.
34. Form IV and connected records of all AFM, JEs.
35. Records of sub-station viz. PTW book, Tripping charge, log sheet, dehydration set record.
36. Livery register.
37. Monthly trail balance.
38. Journal.
39. Subsidiary ledgers/personal ledgers.
40. Register of liabilities.
41. Register of claims lodged with various agencies.

APPENDIX 'C' (ii)

List of various records, maintained by M&P Divisions

1. Form-4 (Register of receipt and issues) or register of spares with connected records i.e. SRs, STWs, SRWs etc.
2. Monthly Accounts (Trail balance)
3. Estimate Sanction Register
4. Stationary register
5. Livery Register
6. T&P register
7. Index Register of files
8. Log Book with maintenance register
9. Cash Book
10. Register of CT/CT-PT check
11. Register of repair charges of meters and equipments
12. Service Book with personal files
13. Dispatch Register with stamp register
14. Register of meters surveyed off.
15. Progress register of meter repaired by the laboratory
16. Form-27(Works Register)
17. Machinery and Equipment Register
18. Imprest Register
19. Local Purchase Register
20. Purchase order register and file
21. Register of buildings and equipments on hire
22. Register of sanction of staff
23. Register of security (Deposited by employees)
24. Register of Books and Codes
25. Fault Register
26. Journal
27. Subsidiary Ledger/ Personal Ledgers
28. Register of Liabilities

29. Register of claims lodged with various agencies.

APPENDEX ‘C’ (iii)

List of Accounts Records, Register and Ledger maintained in circle Office.

1. Purchase Order register and file.
2. Register of contracts finalized.
3. Tender/quotations register.
4. Register of estimates.
5. Suspense registers.
6. Bill registers (Supplies).
7. Cash Book.
8. Service Books and Leave accounts.
9. Log Books and Maintenance register of vehicles.
10. Budget register.
11. Stock ledger.
12. Register of Tender documents sold
13. Register of registration of contracts.
14. Register of penalties.
15. Contingent expenditure vouchers.
16. Register of advances to suppliers.
17. Register of earnest money deposits.
18. Register of security deposits
19. Targets and achievements of constructions/release of connection.

APPENDEX ‘C’ (iv)

List of Accounts Records, Register and Ledger generally maintained in Store.

- 1 Register of Purchase Orders and files.
- 2 R.R. /G.R. register (Inward and Outward).
- 3 Register of challans.
- 4 Railway credit notes.
- 5 Survey report of vehicles.
- 6 Bill register.
- 7 General file of triplicate copies of bills.
- 8 Measurement Books.
- 9 Store verification reports.
- 10 Register of losses and claims.
- 11 Register of demurrages and wharage charges.
- 12 Store received books.
- 13 Store issue books.
- 14 Store ledger.
- 15 Store Requisition and S.R. Ws.
- 16 Bin Cards.
- 17 Gate Passes.
- 18 Store return warrants.
- 19 Monthly returns of tools and plants received/issued.
- 20 Log Books of vehicles.
- 21 Indent register,
- 22 Goods receipt notes.
- 23 Store abstract book (quantity).
- 24 Register of inter store transfers.
- 25 Register of unserviceable obsolete/surplus stores.
- 26 Defective/disputed material registers.
- 27 Sale order of stores.
- 28 Railway claims.
- 29 Insurance claims.

- 30 General scrutiny of non- moving /slow moving store items.
- 31 Index register of files.
- 32 Incoming and out going register of store and vehicles maintained by security staff.
- 33 Cash book.
- 34 Stamp and dispatch register.
- 35 Livery register.
- 36 Telephone and trunk call register.
- 37 Service books and leave accounts/personal files.
- 38 Monthly trial balance.
- 39 Journals.
- 40 Subsidiary ledgers/personal ledgers.
- 41 Register of liabilities.
- 42 Register of claims.

APPENDIX 'C' (v)

List of Accounts Records, Register and Ledger maintained in Headquarter Offices,

- 1 Cash Book.
- 2 Bank Pass Book.
- 3 Bank Reconciliation statement.
- 4 Register of investment and securities purchased.
- 5 Register of call deposits and short term deposits.
- 6 Register of Bonds issued by the Board including register of periodical investment to Bond holders.
- 7 Register of Loans received from various sources.
- 8 Block account of capital
- 9 Board's Agenda, notes and resolutions.
- 10 Sanction to expenditure.
- 11 Board's circulars.
- 12 Ledger cards for general/contributory provident funds.
- 13 Pay slips of the officers of the Board.
- 14 Claims Register.
- 15 Sanctions to secret expenditure.
- 16 Pay and allowances of employees of the Board.
- 17 Pay and allowances of officers of the Board.
- 18 Contingencies including payment of interest on Board's loan
- 19 Register of conveyance allowances.
- 20 Register of House building advances.
- 21 Register of festival advances.
- 22 Register of temporary advances.
- 23 Imprest cash account.
- 24 Register of pay, T.A. and medical advances.
- 25 Register of cheques issued or received.
- 26 Cash allocation register.
- 27 Pension payment orders including family pension, report on communication of pension and D.C.R.G. gratuity.

- 28 Accounts of receipt books.
- 29 Register of miscellaneous receipts.
- 30 Log books and maintenance register of vehicles.
- 31 Register of fixed charges and periodical payments.
- 32 Register of advances to supplier.
- 33 Supplier Bill Register.
- 34 Rent register for staff quarters including water charges.
- 35 Annual accounts and all connected schedules.
- 36 Register of losses written off.
- 37 Contingent register.
- 38 Purchase order register and files.
- 39 Livery register.
- 40 Dispensary records.
- 41 Library records.
- 42 School/sports records.
- 43 Records maintained by the public relation officer.
- 44 Records maintained by the Statistical officer.
- 45 Broad sheets of various suspense schedules.
- 46 Various records/registers maintained in the CAO's office.
- 47 Records maintained in the centralized payment cell.
- 48 Annual Financial statements.
- 49 G.P.F. recovery registers.
- 50 G.P.F. investment registers.
- 51 Register of payment to foreign supplier
- 52 Register of payment of customs duty.
- 53 Register of payment of port trust charges.
- 54 Register of refund of custom duty/ port trust charges.
- 55 Register of Property.
- 56 Register of land and building.
- 57 Register of furniture and office equipment.
- 58 Register of stationary stock/forms etc.

- 59 Any other record not specified herein.
- 60 Financial ledger.
- 61 Monthly Trail Balance.
- 62 Journal.
- 63 Subsidiary ledger/personal ledger.
- 64 Register of liabilities.
- 65 Register of claims.

APPENDIX 'C' (vi)

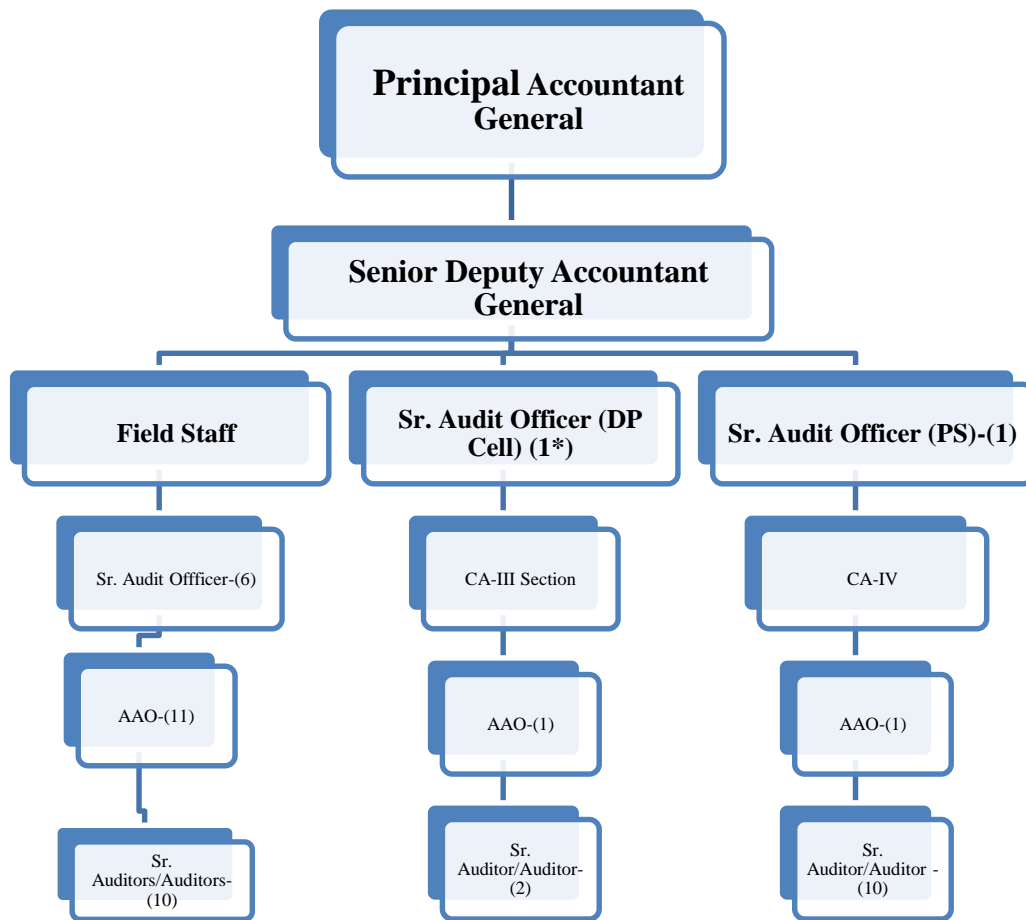
List of Accounts Records, Register and Ledger maintained by Store purchase section/Design Directorate of the Board

1. Requirement files
2. Register of tenders for stores and works
3. Sales of tenders specifications
4. Comparative statements of tenders received
5. Register of advances to suppliers
6. Register of earnest money deposited
7. Register of security deposits
8. Guard file of purchase orders/work orders
9. Retention money register
10. Bill Registers
11. Register of registration of suppliers/contractors
12. Register of penalties imposed and recovered
13. Deposit register for amounts transferred by Accounts Officer
14. Purchase orders/Sales order register
15. Supply Register
16. Court/arbitration cases
17. Defective material reports
18. Remittance Register
19. Sample Register
20. Any other records not specified above

APPENDIX- D

(Referred to in paragraph 5(vii))

Organisational Chart of Economic Sector (Power Sector).



(Sanctioned strength of power Sector)

*1 common Sr. Audit Officer for CA-II and III

APPENDIX-E

(Referred to in paragraph-6)

Quantum of Audit

Prescribed vide C. & Ar. G's letter No. 139/O & M (RC)/46-81 Dt. 15-10-81

Sr. No.	Name of the document to be checked	Process of check	Quantum prescribed	Remarks
1.	2.	3.	4.	5.
1.	Main Cash Book	Checking with relevant documents	Detailed check for one month one general review of the whole year	
2.	Audit of Vouchers	Vouching with reference to sanctions, contracts etc.	Detailed check for one month one general review of vouchers for remaining months	
3.	Register of cheques	Comparison of cheques received with entries in cash Book	Detailed check for one month one general review of vouchers for remaining months	
4.	Register of Cheque Books	Checking of receipts and issues cheque books with supply memo and requisition	-do-	
5.	Cash allocation Register	Check posting from Cash Book	One month	
6.	Imprest register	Checking of granting of temporary item imprest and recoupment thereof	General Review	
7.	Bank Pass Book	Compare with entries in cash Book and checking of reconciliation statement.	One month	
8.	Subsidiary Cash Book (one for each power house)	Check with B.C.R.Cs challans and imprest A/c	One month and general view	
9	Accounts of Receipts Books	Check issues with requisition and return of used-up Books & balance	General Review.	
10	Store Transactions Receipts	Check with S.R. Book and measurement book, trace,	100% for one month.	

	Issue Physical Inventory sheet	traceout etc. Necessary check with all the relevant record. Check Book balance reference to stock ledger Check of shortage and excesses and valuation.	100% for one month. General review at the end of the year.	
11	Register of transit losses	Check with claims raised on Insurance officer, Check valuation of the items.	All cases of loss over Rs. 10 thousand to be specifically reviewed. Out of the cases of below Rs. 10 thousand selecting of 5% cases to be made for review.	
12	Register of local purchases	Check with P.O's and power or Divisional Officer regarding purchases.	One month and general review.	
13	Scrutiny of tenders and quotations accepted by divisional officers.	Check with original quotation comparative statements sanctions etc.	25% of the tenders upto rs. 3000/- 50% of tenders above Rs. 3000/-	
14	Register of tenders issued	Trace and Receipts from sale for tender forms to Cash Book. Check estimates with	General Review.	
15	Register of sanction estimates	Check estimates with reference to schedule of rates etc.	-do-	
16.	(a) Works Abstract (b) Measurement Books	Checking of postings Check prescribed in PWD code.	One month. 100M in the case of works selected for analysis and general review.	
17.	Register of works	Check postings from works abstracts	General Review.	
18.	Contractor's Ledger	Check with R.A. and final bills check debits for materials supplied from the returns received from works.	One month	

19.	Service Book and Leave accounts	Check entries with rules and orders for pay fixation and increments .	5% of the total strength.	
20.	Register of sanction of establishment	Check the actual strength as per pay bills with sanctioned strength as per this register.	General review	
21.	Register of increments	Check of dates of increment	-do-	
22.	Pay Bill including over time register	Check with authority time cards etc.	-do-	
23.	Suspense register	To see that all suspense items are properly authorized ledger balance agree with the balance of the register.	One month	
24.	Register of capital assets	Checking of invoices addition through	One month and general review	
25.	Log books of Deptt. Vehicles	Check trips with requisition check, payment of patrols with receipts etc.	-do-	
26.	Reconciliation of remittance to treasury records, wherever they are having such arrangements	Compare entries in the monthly statements of remittances with entries regarding remittance in cash book etc.	One month	
27.	Rent register for staff quarters	See that rent is properly fixed and collected regularly.	-do-	
28.	Suppliers Bill register	See proper supplier wise records maintained and entries of receipt and payment made	-do-	
29.	Electricity consumption and power house performance reports.	Check with total energy generated and transmitted, scrutinize line losses; cost of generation etc.	-do-	
30.	Journal	Vouch with reference to JVs for adjustments, rectifications etc.	Detailed check for the month of March & final/supplementary and adjusting entries passed in connection with annual closing of accounts and general review of the rest of the	

			vouchers..	
31	Monthly returns to circle office/head office	Check with cash abstract register check totals under suspense account with S.A. register.	One month	
a	Cash abstracts			
b	Consumers general ledger abstracts	Check with consumers general ledger	One month	
c	Working fund reconciliation statements	Check with cash allocate on register and Remittances as per cash book note 40(a) (b) & (c)	-do-	
d	monthly return of receipts of stores	Check with stores receipts book	This may be done in case of returns received in circle office/head office. General review.	
e	monthly return of issues as per Bin cards	Check with requisition and returns from sub-stores	General review.	
f	monthly return of allocation of materials issued	Check with requisition and return from sub centers reconcile the total with total as per return and issue per bin	General review	
Circle Office Records				
1.	Cash Book	Same as shown for division	One month and general review of remaining	
2.	Audit of vouchers	-do-	-do-	
3.	Journals (one for each power house or scheme)	Vouch with monthly abstracts and returns received from Divisional office adjustments and rectification entries.	-do-	
4.	Main Ledger (one for each power house or scheme)	Check posting from journals and cash book	One month	
5.	Section Ledgers (one for each power house or	-do-	-do-	

	scheme)			
6.	Suspense register for suspense account	Same as shown for division	-do-	
7.	Stock ledger and other records connected with stores (where there is a store centre)	-do-	Receipts 100% for one month. Issues 10% for one month	
8.	Register for estimates	-do-	General Review	
9.	Register of contracts finalized in circle office	-do-	All tenders above Rs. 100,000 and 10% of rest	
10.	Budget (estimate) Register	Review the register to see if the actual expenditure has exceeded sanctioned limits.	General Review	
11.	Trail Balance sent to Head Office.	Check with ledger	One month	
12.	Log Book of Vehicles	Same as for Division	General Review	
13	Service books and leave accounts	-do-	5% of total strength	
Head Office Records				
1.	Cash Book Review	Same as for Division	One month and general review of remaining	
2.	Audit of period vouchers	-do-	Detailed check for one month and general review for the remaining period	
3.	Journals	-do-	Detailed check for the month of March and final supplementary & adjusting entries passed in connection with annual closing of accounts and general review of the rest of the vouchers.	
4.	Main Ledger	-do-	One month	
5.	Sectional Ledgers	-do-	-do-	
6.	Bank Pass Book	-do-	-do-	
7.	Reconciliation for remittance into treasury	Verification of remittance shown by Divisions and circles in their returns with reference to treasury Pass	-do-	

		Books received directly at Head Office		
8.	Monthly return of circles offices/Division offices	Check postings to H.O. Book	-do-	
9.	Register of investments and securities purchased	Check purchases & sales with reference to sanction by the Board and payment and receipts as per cash books verify receipts of interest on due dates	100%	
10.	Register of call deposit and short term deposit	-do-	-do-	
11.	Block account of capital accounts	Same as for division	One month and general review	
12.	Scrutiny of Board resolutions	Scrutinize with Electricity Act 2003, and Rule Govt. directives and with reference to propriety	100%	
13.	Scrutiny of sanctions to expenditure	Scrutinize with reference to regularity/ propriety etc.	General review	
14.	Scrutiny of B/S & Audit Department Circulars	Scrutinize w.r.t. principles of Financial Cost Accounting, resolution of Board etc.	100%	
15.	Annual financial statement	Scrutinize w.r.t. principles of Budgeting	General review	
16.	Schedule of Depreciation calculations	Check arithmetical accuracy scrutiny with provisions of the act, rules and Board's resolution	100%	
17.	Annual Accounts and all schedules connected with the same	Verification of assets liabilities	-do-	
18.	Register of losses written off	Scrutinize w.r.t. losses reported by the units sanctioned of the competent authority	-do-	
Store Purchase section				

19.	Scrutiny of tenders for stores and works	Scrutinize w.r.t. original tender papers, comparative statements, sanction of competent authority	All purchases/tenders finalized by the Board which are in excess of the powers of S.E.'s. 10%b of rest.	
20	Register of advance to suppliers	See that advances are paid in accordance with rules and that the same are settled without undue delay	One month and general review	
21.	Register of earnest money deposits.	See that all receipts are properly noted and all refunds properly authorized and noted against original entry of receipts	One month	
22.	Register of scrutiny deposits	Scrutinize w.r.t. condition of contract. See that proper notes are taken of receipts and refunds and made are satisfactory	-do-	
23.	Register tender document sold	Trace receipts to cash	-do-	
24.	Retention of money register	See that amount are as per contract conditions retained	-do-	
25.	Bill Register (Supplier wise)	See that proper record is kept	General review	
26.	Register of registration of contracts	Trace receipt of fees in Cash Book	-do-	
27.	Register of Penalties recovered from contractors	See that penalties have been levied as per rules	-do-	
28	G.P.F.. Investment Register	Check w.r.t. resolution of trustees and verify receipt of interest	100%	
Commercial Section				
29.	Statement of cost of generation of electricity	See that these are complied properly and that all item of cost are taken into accounts	General scrutiny	
30.	Scrutiny of tariff structure	Scrutinize w.r.t. provision of	100%	

		the Act and rules and cost structure		
31.	Scrutiny of contracts for Bulk Purchase of Power	Scrutinize w.r.t. connected correspondence and Board's resolution.	-do-	
32.	Compensation paid to licensee's on assumption of control by the Board	-do-	-do-	
33.	Achievement Audit	Scrutinize w.r.t. targets and actual results	General Review	
<i>Note:-</i> if there is a Division or a circle at Head Offices, the checks prescribed for the Division/Circle will be applicable				
1.	Physical verification of securities received from subordinate and contractors	Physical verification	General review of the register & obtaining a certificate from for a local management about the existence of the Boards & scrutinize listed in the register	
2.	Physical verification of security deposited received from consumers (Note:- percentage will be selected on rotation that all securities will be verified once in four years)	-do-	-do-	
3.	Disbursement Statement Furnished by Bank Appointed by Electricity Board for payment of periodical interest to bond holders.	—	5%	
I.	Pay and Allowances (Gazetted & Non – Gazetted)	—	—	
(a)	(i) Pay Bills (ii) T.A. Bills (iii) Medical Bills (iv) House Building,	—	One month	

	conveyance etc. advances			
(b)	Pay slips of Gazetted Officers	—	Detailed check to the extent of 50/3% and review of the remaining any slips issued.	
II.	Office contingencies not accounted for through main cash book	—	Detailed check of one month and general review of other month of transactions.	
III.	Pensions	-	One month and general review	
(a)	Verification Reports	-	Detailed check of one month and general review of remaining month vouchers	
(b)	Paid Vouchers	-	-do-	
IV.	General Provident Fund	-	Detailed check of one month and general review of the rest of the period 25% of total subscribers for one month	
(a)	Part of final with drawls	-	-do-	
(b)	Check of posting of ledger cards nominations and temporary with drawls	-	-do-	
(c)	Annual Interest calculations	-	Detailed check of 25/3% of transactions and general review of the remaining transactions.	
V.	Interest payment Warrants.	-	Detailed check of 5% of transactions and general review of the remaining transactions.	
Note:- Item I to V: It would be sufficient if audit of these items of works initially conducted by Auditors is reviewed generally by AAO and the Inspecting Officer, ensuring. Simultaneously that important item of work, like verification, reports of pension etc. are covered by AAO himself.				
VI.	Detailed checking analysis of works with interesting point noticed as a result of such review to the notice of State Legislature	-	One major and one minor work in each division in each year to be analyzed in detail.	

Appendix –F

(Referrd to in paragraph-6)

Copy of Confidential Circular DO No. 68A, Ar.G(C) 57/52 dated June 16 1972 from Shri R.P. Ranga, Chairman, Audit Board EX Office Auditor. Additional Deputy Comptroller and General (Commercial).

As you are all aware, planning has been adopted in our country as the basis for economic development in order to accelerate rate growth in desired directions. One of the areas receiving particular attention in successive plans has been the generation and distribution of power intended to be implemented mainly through the state Electricity Boards, the importance of power in the economic development would hardly need any emphasis if one looks at the allocation of more that Rs 1919 crores to power development in different state (excluding Central spending) out of the total public sector outlay or Rs. 6606 crores in states in the Fourth plan. The fourth plan envisaged increase in power capacity from 14.3 million Kw to 23 Million Kw in 1973-74. At the end of March, 1971, the capacity had reached 16.5 million Kw. And a short fall of 1.8 million Kw. By the end of the plan was apprehended by the planning Commission in its mid-term appraisal. "Power provides the infra-structure to agricultural, industrial and communication developments. Its importance on the overall plan development, therefore, transcends beyond the limits of more arithmetical dimensions. Its effect on other areas of economic development is quite significant. It is true that even today neither the entire generating capacity nor the entire ultimate distribution to the consumers is under the exclusive charges of the State Electricity Boards. 1st these Boards remain the most importance agencies to give material shape to the plan contemplations. The total capital investment in the various electricity boards as on 31 March 1971 was about Rs. 3180 crores which almost equivalent to 75% of the capital investment in our Central Govt Companies at that time in spite of this massive capital investment one hears frequent reports about power shortage load shedding and stoppage of production in various industries in the context the role of our audit, particularly as the sole Auditors of the State Electricity Boards, in the matters of objective appraisal of the performances of the Boards in this important field has been examined to take stock of what we have done and what should be right thing to do.

I take this opportunity of sharing with you our findings and the steps which we should take to change our approach and techniques of audit to make it more meaningful and constructive.

The overall financial analysis of the published accounts of the various State Electricity Boards for the year ending 31st March 1971 revealed the following :-

		Rupees in Crores
1)	Total Capital Investment	3180
2)	Total Capital work in Progress	853
3)	Total Capital Employed	2357
4)	Gross Revenue (as reduced by purchase price of power)	400
5)	Operating expenses inclusive of depreciation as reduced by cost of power purchase	268
6)	Surplus transferred to Consolidated revenue Accounts	132
7)	Gross Revenue expressed as percentage of capital investment	12.3%
8)	Operating expenses expressed as percentage of Gross revenue	67%
9)	Surplus as percentage of capital investment	4.1%
10)	Percentage of Gross Revenue of capital employed	17.2%
11)	Surplus expressed as percentage of Capital employed	5.7%

Note : this represents the overall average position of all States taken together. There is , however, wide difference between the position obtaining in different States.

According to three undertakings given to the World Bank the Boards have to achieve certain rate of return, the ultimate aim being attainment of rate of return of 11% on Capital. The overall percentage of 5.7% as mentioned above is not only below the rate of return expected but also far below the cost of capital (i.e) prevailing rate of interest. The reason for the low rate of return have to be thoroughly investigated with a view to improving the working of the electricity Boards Broadly speaking, either the cost may be too high or the tariff too low. This is however, an over simplification of the issue. It is therefore, considered necessary to analyse the various aspects to locate the real reasons for low rate of return.

Analysis of technical particulars as available in the subsidiary Statement No XI annexed to the Annual Accounts and study of various other reports (including the Audit Reports) revealed the following general reasons for low return of capital in the country as a whole :-

- (a) That the utilization of installed capacity was as low as 40% on average and
- (b) That the line loss on an average was as high as 20%

Here again, the position varies widely from State to State. It is true that installed generating capacity is the maximum rate of output of electricity, which can be attained under maximum continuous rating. However, there are always certain limitations on output imported by technical consideration, overhauling etc. Accordingly the firm capacity or maximum output capacity or practical plant capacity would be lower than the installed generating capacity. The relation between the installed capacity and the firm capacity depends on various factors like age of the generating set, inherent imbalance in the system etc. Although no indication is available about the firm capacity fixed by the Management in different States broadly speaking, it should not be less than 75% of the installed capacity. Even on that basis the electricity generated was about 53% of the firm capacity. Again, although quite a substantial portion of the electricity sold by the various Electricity Boards was in the form of bulk supply to distributing agencies or extra State supply in bulk, line loss as high as 20% of electricity generated. In other words the electricity available for sale constituted only about 42% of even the firm capacity. This is certainly one of the major

significant points of low return on capital as power generated by only about 40% of the total capacity set up to produce energy fetches revenue. That apart, it involves national loss in the form of non availability of power and consequent loss of production.

One of the general reasons for low utilization of capacity has been the lack of adequate transmission and distribution facilities, the other important reasons being the absence of adequate sustained load. It is true that the installed capacity should have relevance to the maximum demand will be drawn upon only at limited points of time not fetching substantial revenue to match the marginal cost of providing this capacity. There is already some provision in the tariff system for recovery of fixed charge for maximum demand. In order to find out how far phenomenon of absence of load attributed by the Management as one of the reasons for low utilization of capacity has a basis, it is necessary to quantify the "Load factor". The "Load factor" is represented by ratio expressed as percentage of (a) the number of units of electricity sent out to the supply system during a given period (b) the number of units which would have been sent out had the maximum demand on the system been maintained and supplied throughout the period. This study should also be made simultaneously with the study of consumer composition. By and large about 65% of the total supply to the system appears to be for use as industrial power, the next important class being agriculture/irrigation which is about 15% on average. The domestic and commercial consumption accounted for about 10% while public lighting and water sewerage for about 3.5% in some States supply to the railways traction was also significant. From 1971 onwards, there has also been extension of supply for rural electrification schemes. As auditors we might make an attempt to quantify the load factor and the cost of positioning capacity for the consumers contributing to the peak load demand. This will require study in depth of the growth of the load factor and identification of sub period loads at various points at time along with the analysis of the consumer contributing to the same. It will be useful to find out if for supplying electricity to certain selected consumers only at certain points of time additional capacity is to be positioned and maintained, leading to low utilization of capacity on account of absence of load at other points of time. In such a situation the marginal cost of positioning this capacity for certain consumers has to be considered with reference to the marginal revenue flowing from such consumers. It would, however, not be desirable to make

any audit comment suggesting recovery of the entire capacity cost from such consumers without close examination of all relevant points and specific prior approval of this office.

One of the important factors for low utilization of capacity as well as for high distribution loss might be the absence of a state grid system and location of generating plants at different geographical area to serve only those areas through the related distribution system. In the absence of suitable load dispatching stations, there might be occasion for loss of energy in some areas. While there may shortage in other pockets. The distribution system, therefore require careful examination to find out the pattern of generation vis-à-vis the pattern of demand with the ultimate aim of ascertaining if in view of the imbalance between the generation and distribution capacity or gap in the distribution system, there is loss of energy in some sectors, while shortage of power in other sectors.

Of late, there has been emphasis on rural electrification or/and energisation of irrigation pumps. This involves extensive transmission and distribution system. It would be worthwhile to find out the capital investment per route kilometer of the transmission line, the transmission and distribution cost per route kilometer, the number of consumers served by each route kilometers and the revenue earned from such consumers. This might throw up cases of disproportionate distribution cost including additional line loss occurring over a longer distance with reference to revenue earned there against. Objection from the straight cost revenue angle may not be warranted in view of the effect of power supply on agricultural production.

Again, if the growth of the load factor is studied alongwith study of using different generating plants, it should be possible to find out if the entire approach of the Management has been to make full use of high efficiency plants so that plant with higher fuel cost is brought into use only as the load increases.

In the case of thermal generation, Thermal efficiency is very important factor to find out the consumption of fuel. The “thermal efficiency” of the generation is the ratio expressed as a percentage, of (a) the amount of heat energy equivalent to the electricity sent out from the power Station to (b) the amount of heat energy contained in the fuel consumed in generation. Improvements in thermal efficiency make a valuable contribution to coal saving.

According analysis of thermal efficiency will be a very important factor in scrutinizing the cost of generation.

The ratio of capital work in progress to the capital employed, viz about 37% is another significant pointer to the need for making detailed analysis of the capital projects/programs to find out if the generation period in various works has been too long. The longer generation period loads to capitalization of interest during the period the work remains in progress apart from capitalization of pay and allowances to of construction staff. The location of the points of supply with references to generating stations might also indicate the additional capital cost incurred for transmission. The above reasons are likely to be most significant factors in over capitalization and consequently for very low rate of return, another general point warranting examination is the progress of physical achievement in regard to construction work (both generation and distribution) as against the plans targets.

The other aspects requiring examination will be cost analysis and finding out the areas of extravagance, including the system purchases, inventory control credit control, manpower analysis etc. Organisation structure, system of internal control and internal audit have also to be looked not find out any deficiency which serve as hindrance to the attainment of the objective of the Board.

3. It is true that per capita power consumption in India compares very unfavourable with the developed countries and there is scope for creation of further capacity to faster economic growth. At the same time, it has to be ensured that the capacity which has been set up by investing scared national resources are put to optimum use for the benefit of the society at large. With that end in view, the auditors must make detailed examination to get answers inter alia to the question given as an illustrative list (enclosed).

The questionnaire outlines only the basic frame work for directing out scrutiny to the working of the various State Electricity Boards. The condition will vary from State to State. These instructions are not intended to be substitute for exercising audit scrutiny in depth on the spot and altering the strategy of audit depending upon the circumstances prevailing in each case. Free and regular exchange of information between Principal Audit Officers of different Boards is also expected to enrich our experience and make the task easier and

effective. What CAO desires is that the system approach and techniques of audit should be so streamlined as to make really effective and meaningful. The general guidelines are not, therefore intended to inhibit the initiative of the officers in the field, the progress of audit should not also settle down to a routine. If you have any suggestion to make, please do not hesitate to write to me.

4. While the Reviews prepared on the above lines may or may not be included annually in the Conventional Audit Report, the system of annual or continues audit should be so geared that we are in a position to prepare a Review at any time without, much difficulty.

5. For your convenience I enclose 5 more copies of this circular letter for use in our office, you may direct your officers and staff to collect information on their own as far as possible (ie without sending the questionnaire to the Board)

6. Kindly acknowledge receipt.

Enclosure

Circular DO Letter No. 68-A, Ar C(C)/57/72 dated June 18 1972

- (i) How far the capacity installed has been utilized. What is its relation with the firm capacity maximum output capacity?
- (ii) What has been the extent of non-utilisation and loss of generation capacity on account of forced outages? How promptly was the action for repair initiated? Was there any case of Major held up on account of non availability of spares etc? Has case wise analysis of such outages been made from time to time and remedial measures including adequate preventive maintenance adopted? If so, with what result?
- (iii) How much of the power generated and sent out in the system has been sold or has ultimately reached the consumers?
- (iv) What has been the extent of transmission and distribution losses?
- (v) Has there been any case of imbalance between the generation capacity and distribution capacity in any area? Has the loss of estimated amount of energy on account of this imbalance been worked out?
- (vi) Has there been any major case of load reduction due to low frequency, reduction of voltage or load shedding in any particular area? Was it due to imbalance in the transmission system i.e whether it could be met by dispatch of load from other generating plants to this area? What is the estimated amount of potential additional demand in the area where load shedding was resorted to? Who are the major class of consumer (e.g industrial, domestic etc.), who suffered most? Has any scheme been undertaken or contemplated to augment the generating capacity or to remove the imbalance in distribution system to meet their demand?
- (vii) What has been the cost of fuel? Was there any scope for economy in this direction? What is the result of analysis of usage and price variance?
- (viii) What has been the thermal efficiency of generation?
- (ix) What has been the maximum demand on the system?
- (x) What has been the load factor?
- (xi) What has been the reason for the low load factor? Is it due to absence of load? If so what are the reasons for the absence of load? Was it on account of positioning of capacity to meet maximum demand at certain points of time in respect of certain consumers and absence of sustained demand

for the rest of the period? If so, has there been any study of sub period load at different hours of the day including the pattern of demand and the consumer's contribution to such demand? Who contributed to the peak load? What was the total revenue collected from them? How much was for the positioning the maximum demand? How the additional expenditure for positioning facility for meeting the maximum demand of these consumers compares with the total revenue earned from such consumers?

Note : No objection need to be raised on this point without prior approval of this office.

- (xii) Does the study of the growth of the load factor along with the study of use of the different generating plants indicate, that Management have made fuller user of higher fuel into use as and when the load increased? Was it not possible due to imbalance in the transmission and distribution system providing for dispatch of load from one station to the area served by another?
- (xiii) Has there been any deliberate case of discontinuance of bulk purchase from other generating authorities (as for example Central generating Units like Damodar Valley Corporation, Neyveli Lignite Corporation) inspite of lower cost in order to use the capacity of high cost generating plants of the Board itself? If so what is the impact on cost and working results?
- (xiv) What has been composition of supply to each class of consumer like domestic, commercial, industrial, public lighting, irrigation and agricultural, traction, public water and sewerage system, bulk supply to distribution licenses within the states and bulk supply outside the states?
- (xv) What has been the number of consumers in each category? What has been the number of units sold per consumer?
- (xvi) What has been the average price per unit sold to each class of consumer? How does it compare with generation cost generation and distribution cost/total cost?
- (xvii) What has been the average number of units sold per consumer to each class?
- (xviii) What has been the number of units generated per generation employee?
- (xix) What has been the number of units distributed per distribution employees?
- (xx) What has been the gross revenue per employee?
- (xxi) What has been the expenditure per employee in the form of salaries, wages, PF and other amenities?
- (xxii) What has been the transmission cost per unit?
- (xxiii) What has been the transmission cost per unit route kilometer?

Note: This may have to be examined in respect of each distinct distribution system where there is no grid.

- (xxiv) What has been the number of consumer per route kilometer?
- (xxv) What has been the revenue earned from the consumer per route kilometer?

Note I: Were the consumer live in a compact area such examination may not be necessary in depth. However where the consumer are dispersed over wide areas and particularly in rural electrification schemes, such examination might bring out the disproportionate cost of transmission in relation to the revenue earned.

Note II. No objection needs however be taken without prior approval of this office.

- (xxvi) What has been the billing collection and accounting cost per unit sold? What has been the general establishment charges per unit sold?
- (xxvii) Is a part of the loss on generation borne by any other generating authority from whom bulk purchase is made (as for example purchase from Neyveli Lignite Corporation which is sustaining loss on electricity generation)? How does the cost per unit of such bulk purchase compare with the average cost of generation of electricity by the Board from the compare source (vis-à-vis steam Hydel, etc)?
- (xxviii) Have the capital works progressed according to schedule? Or was there delay? What were the reasons for the delay? How did it affect cost of the Project?
- (xxix) What has been the result of analysis of selected capital works? Has there been escalation? What does the variance analysis in regard to usage, price and quantity reveal?
- (xxx) Is the purchase flow regularly or come by fits and starts? Are they made at the most economic prices and at the most opportune time? Do they move regularly? Is obsolescence creeping in with slower turnover? Is the cost of maintaining the present value of inventory prohibitive?
- (xxxi) Who are the major suppliers of the transformers? Is any price preference given to the local suppliers/manufactures. What is the additional cost incurred during the year for giving price preference to local suppliers/manufactures on major items of purchase?

Note : Here again objection need not be raised without prior approval of this office.

- (xxxii) Is the system of taking inventory sound? Has there been a major case of theft, shortage, etc?
- (xxxiii) What has been the trend of maintenance expenditure both of the generating plants as well as the distribution system? Has there been a frequent case of replacement of wires in particular areas/divisions in the transmission and distribution system?
- (xxxiv) What is the extent of slow moving and non moving stores spares etc? Are they insurance items? If not what action has been taken to dispose them off?
- (xxxv) Is the inventory in respect of spares etc of generating plants heavy on account of multiplicity of makes of the plants? How many of these plants are due for retirement within the next three years? What is their installed capacity?
- (xxxvi) Has delay in completion of certain capital works contributed to the delay in retirement of high cost plants? If so, what has been the effect on cost?

- (xxxvii) Was cash adequate to meet pay roll, invoices, loans etc? Must it have added to its borrowings? Where the time and mode of borrowing most opportune?
- (xxxviii) What was the time lag in billing? Could it be accelerated? What was the rate of collection of receivable?
- (xxxix) Is the rebate allowed attractive to consumers to make prompt payment? Are there cases of recurring payment of charges by certain major consumers only after the expiry of the rebate period? Do the Management keep separate consolidated records of nonpayment by due dates? Is prompt action taken to enforce payment by serving notice of or actual disconnection?
- (xl) Does the total receivable from direct supplies of energy of different class of consumers correspond to the total amount for which bills have been sent for the same period? Is such reconciliation statement prepared?
- (xli) What is the system of internal control in billing and collection of revenues? How many cases involving under charged has come to our notice? How effective is the system of collection of over dues? Who are the major defaulters and what is the amount involved?
- (xlii) Are the agreements for supply quite specific? Or do they leave scope for differences of opinion in the matter of interpretation leaving loop holes for loss of revenue?
- (xliii) Has there been any case of substantial remission of revenue?
- (xliv) Has there been any major case of concessional supply to any particular consumer? How does the rate compare with the average total cost of supply?
- (xlv) What is the rationale of the system of tariff? Have you any comments to offer on this rationale? Has there been any major case of supply to any industrial consumer below the cost of generation and / or distribution? What was the reasons for it? How much profit, if any, is being earned by such consumers? Is the Board earning adequate profit to absorb higher cost of electricity?

Note : No such suggestion need be made to the Board without prior approval of this office.

- (xlvi) How effective is the system of internal control and internal audit? At what level are the internal audit report considered? Are important points throughout by the internal audit brought to the notice of the Board? Is action taken on internal audit report promptly?
- (xlvii) Is there any system of technical evaluation of the performances of the generating plants and the distribution system? Are these reports considered by the Board? Is action taken on these reports promptly?
- (xlviii) Has the finance and accounts Branch been properly organised to carry out an effective scrutiny of proposal submitted to Chairman Board?

Sd/-

(A.N Mukhopadhyay)

Asst Comptroller & Auditor General (C)

Appendix –G

(Referred to in paragraph 17)

Copy of memo No. 192/Bd-37/L-G/74 dated 08 July 74 from Sec To Chief Engineer (OP) Chandigarh, All S.E.s in HSEB. All Xens in the HSEB, All S.D.O.s incharge of Sub Divisions in the HSEB & all JEs Incharge of sub offices in HSEB.

Subject: Dismantlement and replacement of copper conductor

Before copper conductor is dismantled from or replaced on any LT/HT Line, a proper estimate to indication the exact length, number of spans, size of conductor of different spans should be prepared and shown on a sketch compared with original estimate and or entries made in the Electrical Measurement Book at the time of initial construction (giving reference to page & EMB No.) S.D.O should then verify 100% quantities physically and record a certificate to this effect on the estimate. Similarly Executive Engineer should verify 10% of the quantities in the estimate and size. Actual work should be taken in hand after sanction of the estimates from the competent authority. Dismantlement work should be supervised by an official not below the rank of line Supdt, who will take measurement of the copper, so dismantled, indicating the spans etc from which the some has been dismantled and he will return the dismantled copper to the stores the same day or the following morning positively and get his measurement verified from the SDO, SDOs and XENs should also pay surprise visits to the site of the dismantlement work. If any, loss in transit/pilferage is detected, it will be recovered from the Line Supdt and the SDO Incharge in equal proportion.

S.Es should ensure that the above instructions are implemented strictly, any violation will entail serve/penalty.

This communication be acknowledged by all to whom it has been addressed above, within 3 days of its receipt.

Sd/-

Deputy Secretary/Tech
For Secretary H.S.E.B Chd

APPENDIX –H

(Referred to in paragraph 28)

Office of the Deputy Accountant General, Economic Sector (Commercial) Chandigarh

Scrutiny sheet of purchase cases leading to issue of purchase order(s) by the Chief Engineer, Material Management, HVPNL, Panchkula

(Placement)

1.
 - (a) Name of the Inspecting Officer :
 - (b) Name of the Section Officer / Asst Audit Officer :
2. Nomenclature of the material purchased :
3. Requirement (How assessed) :
 - a) Source of requirement :::
 - b) Whether for stock or works
 - c) Period for which material required
4. Tender Enquiry No. :
5. Date of issue of tender notice or its publication in news paper :
6. Date of opening of tenders :
7.
 - (a) Whether comparative statement was prepared by the management and checked in audit :
 - (b) No. and date of purchase proposal
8. When was placement of purchase order decided and by whom? :
9. No. and date of purchase order :

10. Name(s) of the supplier :
11. Value of purchase order issued :
12. Whether the purchase order was placed on the lowest Firm. If not, why? :
13. Whether earnest money/cash security was obtained from the supplier before and/or after placement. If not, why? :
14. Whether contract agreement signed by the supplier. :
15. Whether any price escalation or variation clause was included in the purchase order/contract agreement. If so, details thereof. :
16. Audit comments. :

Adr / Sr. Adr
Officer

Section Officer / Asst Auditor Officer

Sr Audit

APPENDIX –H (i)

(Referred to in paragraph 28)

Office of the Deputy Accountant General, Economic Sector (Commercial) Chandigarh

Scrutiny of purchase order

(Placement)

- | | | |
|-----|---|---|
| 1. | (a) Name of the Senior Audit Officer | : |
| | (b) Name of the Section Officer / Asst Audit Officer | : |
| 2. | No and date of the purchase order | : |
| 3. | Nomenclature of the material purchased | : |
| 4. | Name (s) of the supplier. | : |
| 5. | a) Rate of supply | : |
| | b) Value of purchase order | : |
| | c) Contract agreement/rate contract | : |
| 6. | Due date of delivery | : |
| 7. | Whether the material was supplied within the stipulated period and accepted by the consignee(s) in full. | : |
| 8. | (a) Escalation/variation claimed by the supplier | : |
| | (b) Was the claim admitted and paid? If so , on what grounds. | : |
| | (c) Did the Board, claim any refunds under price Variation Clause? If so, was it recovered from the supplier? | : |
| 9. | Penalty, if any, for belated supply | : |
| 10. | Whether any defect were pointed out by the consignee(s) after receipt of the material. | : |

11. Has the supplier been asked to replace or set right the defective material? If so, with what results? :
12. Has the earnest money/cash security of the supplier been released? :
13. Audit comments :

·
Adr / Sr. Adr
Officer

Section Officer / Asst Auditor Officer

Sr Audit

Appendix –I

(Referrd to in paragraph-35)

Subject : Material Management Creation of Sub divisional Stores in Operation Sub – division

It has been represented to the Board that the SDOs (Operation) have been feeling handicapped in the drawl of stores materials from the Central/Sub Stores and their proper accountal, because of the fact that the operation Sub divisions, which are not located at the same station where Central/Sub Stores are located, have had to draw materials from outstations very often against individual requisitions or alternatively they have been drawing materials in bulk to meet their demand for numerous works involving transfer of materials from one work to the other with the resultant difficulties in proper accountal. This problem has been under consideration of the Board for quite sometime past and it has now been decided that the sub Divisional Offices (Operation) may be provided with sub stores on the same lines on which the sub stores are functioning at the Div HQs at present. In other words, the Operational Sub Div will be maintaining Stores for quantity account only and that also forming part and parcel of the stock of Controller of stores, where the financial accounts in respect of all such stores shall be maintained as is being done for Central Stores / Sub Stores at Divisional Headquarters.

2. In this connection, the following detailed instructions are issued for compliance by all concerned meticulously.

(i) The existing sub Stores under the Controller of Stores shall be re-named as Divisional stores and the Stores being provided in Operation Sub Divisions shall be named as Sub Stores functioning under the Controller of Stores in addition to the existing Central Stores and Sub Stores (now re named as Div stores).

(ii) Wherever the Central Stores and the re-named Div Stores are existing, the operation. Sub divisions located at the same station will not operate Stores but those Sub-divisional shall continue to draw heir requirement of materials from the Central/Div Stores as heretofore. The SDO(Operation) of each Division shall draw materials from a particular

Divisional Stores with which the operation Division is tagged at present ie all the Sub Divisions of a particular Division shall draw materials for the sub Stores from the Central/Div Stores located at the HQ of the Operation Div. The stores materials shall be issued by the Central/Div Stores on stores challans in the same manner, as stores are at present being issued from one Central/Divisional stores to the other Divisional/Central Stores.

(iii) The SDO (Operation) shall be responsible for proper storage handling and maintenance of the Sub Stores. In each operation sub Division one of the Line Superintendents will be entrusted the charge of storage, handling the maintenances of stores.

As soon as materials are drawn from the respective Central Divisional Stores against Stores Challans, the Line Superintendents incharge of Stores in the Operation sub Division shall record measurement of such materials in Stock Measurement Book and shall enter them in red ink as receipt of stock cards to be maintained in every Sub Store. Copy of the Stock Measurement Book shall be submitted to the Controller of Stores immediately and another copy thereof at the close of the month alongwith stock Accounts.

(iv) Necessary entries relating to issue of such materials shall be recorded. In value ledgers of the issuing Central/Divisional Stores maintained in the office of the Controller of stores on the basis of Store Challans received from the issuing Central/Divisional Stores and receipt of materials in the Sub Stores should be watched as "Transfer within Stores". Necessary entries of receipt of materials should be recorded only on the authority of the Stock Measurement Book (pages) in the respective value ledgers of the receiving Sub Stores maintained by the Controller of Stores.

(v) With regard to the issue of materials against requisitions by Sub Store, the instructions already issued by the Controller of Stores in the matter of periodical submission of such stores requisitions to the controller of Stores shall continue to be implemented. The Controller of Stores will reiterate there instructions to all SDOs (Operation) regarding periodical submission of stores requisitions. Measurement Book Pages and monthly submission of Stock Account prescribing the particular dates on which such documents are to be submitted.

(vi) The Controller of stores shall circulate standard price for issue of materials whether through Stores Challans or through Stores requisitions. This would facilitate evaluation of

stores challans/requisitions and pairing of the corresponding remittance transactions. Likewise SDOs (Operation) though not maintaining Value Ledgers or Value Accounts shall evaluate the Stores requisition on the basis of standard issue prices fixed by the Controller of stores so as to account for the cost of materials issued to works, in the works account of the same month in which materials are drawn from Sub stores against works in the Sub Division for submission to the Operation Division. As the total amount of material issued in a particular month would have been already determined the Controller of Stores after posting such stores requisitions in the value Ledger of the particular Sub Stores shall raise debit for the said amount and both the item of credit by the Operation Divisions and debit by the controller of stores will appear in the same monthly account for the same amount which would result easy pairing at the HQ Office, in addition to the advantage that works will take cognizance of the expenditure for the issue of materials in the same month in which materials are drawn from the Sub stores.

(vii) The Chief Engineer (Operation) will lay down quantitative ceiling limits upto which particular items of materials could be stored in each Sub Store keeping in view their requirements for the execution of works for a period of two months and with the further provision that the total value of such materials on the basis of standard issue prices shall not exceed Rs. 3 lakh for each Sub Store at any one time.

(viii) while drawing materials from the respective Central/Divisional Stores, the SDO(Operation) Sub Store will indicate the existing balance of each item of materials being requisitioned for the Sub Stores so that it will be responsibility of the XEN/SDO Central /Divisional Stores to ensure that the ceiling limit for each item of material fixed by the Chief Engineer(Operation) is not exceeded. At the item of establishing such stores SDO(Operation) will ensure that all material already drawn for various works and lying unutilized with the Line Superintendents (Operation) are returned to the Sub Store through proper stores return warrants and this fact is confirmed to the XEN, SDO, Central/Divisional stores at the time of drawl of stores first on the occasion.

(ix) The Controller and Stores will ensure periodical verification of stores lying in Sub Stores in accordance with the existing instructions as are applicable to other Central/Divisional Stores.

(x) The SDO(Operation) shall try to accommodate the Sub Stores in the existing buildings and if in any particular case, it is not possible to do so, the minimum accommodation required for stocking the stores may be hired with the prior approval of the competent authority.

(xi) The SDOs (Operation) will manage handling and maintenance of such stores without employing any extra staff either on work charged or on daily basis nor shall they operate any stock storage estimates nor employ any Store Munishi for the purpose. Likewise the Controller of Stores shall also have to manage the work with the existing staff and no demand for extra staff under the above arrangements will be entertained from any quarter.

3. The above instructions shall be applicable with immediate effect from the commencement of the financial year 1981-82.

Authority: Secretary, Haryana State electricity Board, Chandigarh memo No CAO/CAC/B-21IV)/1066/1166 dated 15.4.1981.

APPENDIX -J

(Referred to paragraph- 57)

WORLD BANK FUNDED PROJECTS

Sr. No.	Detail of Works
Package G-01	
1.	400 kV sub-station Nuhiawali (Sirsa) with 2 X 315 MVA, 400/220 kV , 2X100 MVA, 220/132 kV, 1X16/20MVA132/11KV transformers
2.	400 kV sub-station Nawada (Faridabad) with 2 X 315 MVA, 400/220 kV , 2X100 MVA, 220/66 kV,1X100MVA,220/33KV transformers,
Package G-02	
1.	220 kV Rangala Rajpur (Firozpurzirkha) with 1X100 MVA, 220/66 kV + 1X100 MVA, 220/33 kV transformers
2.	220 kV Samain (Tohana) with 1X100 MVA, 220/132 kV + 1X100 MVA, 220/33 kV transformers
Package G-03	
1.	LILO of 1 Ckt. of 400 kV D/c Hisar TPS –Fatehabad (PGCIL) line at 400 kV sub-station Nuhiyawali (Sirsa) with Twin ACSR (Moose)- 85 km
Package G-04	
1.	220 kV D/C line for Kirori (Fatehabad) to Samain (Tohana) with 0.5 sq. " ACSR (Moose) 35 km
2.	220 kV D/C line from Samain (Tohana) to Masudpur (Hansi) with 0.5 sq." ACSR (Moose) 47 km
3.	220 kV D/C Palwal – Rangala Rajpur (Firojpurzirkha) with 0.4 sq. " ACSR Conductor (Zebra) 51 km

4.	Const. of a new 220 kV D/C line with 0.5 sq. “ ACSR (Moose) from A-3 Palla (Faridabad) to A-5 Faridabad. 14 km
5.	LILO of 1 ckt. Of 220 kV D/C A-3 Palla (Faridabad) to A-5 line at proposed 220 kV sub-station A-4 Faridabad. (Zebra)- 1Km
Package G-05	
1	220 kV Masudpur (Hansi) with 1X100 MVA, 220/ 132 kV + 1X100 MVA, 220/33 kV transformers
2	220 kV A-5 Faridabad (Upgradation of 66 kV) with 2x100MVA 220/66KV S/Stn Transformer
3	220 kV Sangwan(Tosham) with 1X 100 MVA, 220/33 + 1x100 MVA 220/132 kV transformers
4	220 kV Raiwali (Panchkula) with 2X100 MVA, 220/66 kV transformers
Package G-06	
1	220KV D/C Sector-72 Gurgaon to Rangla Rajpur (Firojpurzirka) line with 0.5 Sq inch ACSR (Moose) via Nuh. 80Km
2	Const. of 220 kV D/C line with 0.5 sq. “ ACSR (Moose) from proposed 400 kV sub-station Nawada (Faridabad) to 220 kV sub-station A-5 Faridabad. 6km
3	LILO of both circuits of existing 220 KV D/C 400 KV Mayar(PGCIL Hisar) S/Stn to Isherwal S/Stn. at 220 KV S/Stn. Sangwan (Tosham) with 0.4 sq. “ ACSR (Zebra) 2 X 20 = 40 KM.
4	220KV D/C line from 400KV S/Stn PKL to 220KV S/Stn Raiwali (Panchkula) with 0.5 Sq inch ACSR (Moose). 15Km
5	LILO of one circuit of 220 kV D/C Panchkula – Tapla line at 220 KV S/Stn Raiwali (Panchkula) with 0.4 sq. “ ACSR (Zebra) 10km
Package G-07	

1	132 kV Sataundi (Gharaunda) (upgradatin from 33 kV level) with 2X20/25 MVA, 132/33 kV transformers
2	132 kV Kairu (Bhiwani) with 1X20/25 MVA, 132/33 kV transformers
3	132 kV Kabri (Panipat) with 1X20/25 MVA, 132/33 transformers
4	132 kV Nangal Mohanpur (Mohindergarh) with 2X20/25 MVA, 132/33 kV sub-stations
5	132 kV Pali (Gurgaon) with 2X20/25 MVA, 132/33 kV transformers
Package G-08	
1	220 kV A-4 Faridabad (Upgradation of 66 kV sub-station) GIS with 2X100 MVA, 220/66 kV transformers
2	66 kV Sector-5 Panchkula (GIS) with 2X25/31.5 MVA, 66/11 kV transformer
Package G-09	
1	220 kV Panchkula (new) with 1X100 MVA, 220/66 kV + 1X100 MVA, 220/33 kV transformer
2	220 kV Gignow (Loharu) with 1X 100 MVA, 220/33 + 1x100 MVA 220/132 kV transformers
3	220 kV Ganour (Sonepat) with 1X100 MVA 220/132 kV + 1 X 100 MVA 220/33 kV transformers
4	220 kV Rai (Sonepat) with 1X100 MVA 220/132 kV + 1 X 100 MVA 220/33 kV transformers
5	220 kV Pinjore (Panchkula) with 1X100 MVA 220/66kV + 1 X 100 MVA 220/132 kV transformers
Package G-10	
1	220kV D/C Panchkula – Panchkula (new) line with 0.4 sq ACSR (Zebra).

	15 km
2	220 kV D/C Pinjore (Panchkula) – Panchkula (new) line with 0.4 sq.” ACSR (Zebra) 10 km
3	220 kV D/C fro 220KV S/Stn Dhanonda (Mohindergarh) – to 220KV S/Stn Gignow (Loharu) line with 0.4 sq.” ACSR (Zebra) 65 km
4	220KV D/C Isherwal-Gignow(loharu) line with 0.5 Sq ”ACSR (Moose) 30Km
5	220 kV D/C Ganaur – Israna line with 0.4 sq.”ASCR (Zebra) 20 km
6	220 kV D/C Sonapat (PGCIL) – Ganaur line with 0.4 sq.”ACSR (Zebra) 20 km
7	220kV D/C Sonapat (HVPN) – Rai (Sonapat) line with 0.4 sq.”ACSR (Zebra) 15 km
8	220 kV D/C Panchkula – Pinjore (Panchkula) line with 0.4 sq.”ACSR (Zebra) 20 km
9	220 kV D/C Pinjore (Panchkula) – Panchkula (PGCIL) line with 0.4 sq.” ACSR (Zebra) 20 km
Package G-11	
1	220 kV A-2 Faridabad (Upgradation of 66 kV) with 2x100MVA 220/66KV S/Stn Transformer (GIS)
2	220 kV Jansui (Ambala) with 2X100 MVA, 220/33 kV transformers
3	220 kV Ratia (Fatahabad) with 2X100 MVA, 220/33 kV transformers
4	66 kV Sector-17 Gurgaon (GIS) with 2X25/31.5 MVA, 66/11 kV transformer
Package G-12	
1	LILO of 220 kV D/C Cheeka – Durala at Jansui (Ambala) with 0.4 sq.”ACSR (Zebra) 20 km

2	220 kV D/C Fatahabad – Ratia line with 0.4 sq."ACSR (Zebra). 30 km
3	LILO of 220 kV Hisar (PGCIL) – Fatehabad at Adampur with 0.4 sq."ACSR (Zebra) 20 km.
4	220 kV D/C Manesar (Gurgaon) (PGCIL) - Pahrai (Pataudi) line with 0.5 sq."ACSR (Moose) 30 km
5	220 kV D/C Pahari (Pataudi) – Mau line with 0.4 sq."ACSR (Zebra) 15 km
6	LILO of 220 kV Sampla – Mohana at Kharkhoda (Sonapat) line with 0.4 sq."ACSR (Zebra) 10 km
7	220 KV D/C Sec 72- Sec 48, Gurgaon line with 0.5 sq. " ACSR (Moose) 2 km
Package G-13	
1	220 kV Adampur (Fatahabad) with 2X100 MVA, 220 /33 kV transformers
2	220 kV Pahari (Pataudi) with 2X100 MVA, 220/33 kV transformers
3	220 kV Kharkhoda (Sonapat) with 2X100 MVA, 220/33 kV transformers
4	220 kV Sector-48 Gurgaon with 2X100 MVA, 220/33 kV transformers
Package G-14	
1	Extension of SCADA/EMS for HVPNL

Appendix J (i)

GUIDELINES PROCUREMENT UNDER IBRD LOANS AND IDA CREDITS

(May 2004 Revised October 1, 2006 & May 1, 2010)

I. Introduction

Purpose

1.1 The purpose of these Guidelines is to inform those carrying out a project that is financed in whole or in part by a loan from the International Bank for Reconstruction and Development (IBRD) or a credit or grant from the International Development Association (IDA)¹, of the policies that govern the procurement of goods, works, and services (other than consultant services)² required for the project. The Loan Agreement governs the legal relationships between the Borrower and the Bank, and the Guidelines are made applicable to procurement of goods and works for the project, as provided in the agreement. The rights and obligations of the Borrower and the providers of goods and works for the project are governed by the bidding³ documents, and by the contracts signed by the Borrower with the providers of goods and works, and not by these Guidelines or the Loan Agreements. No party other than the parties to the Loan Agreement shall derive any rights there from or have any claim to loan proceeds.

General Considerations

1.2 The responsibility for the implementation of the project, and therefore for the award and administration of contracts under the project, rests with the Borrower⁴. The Bank, for its part, is required by its Articles of Agreement to “ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and

¹Procurement requirements of IBRD and IDA are identical, and references in these Guidelines to the Bank include both IBRD and IDA, and references to loans include IBRD Loans as well as IDA credits or grants and project preparation advances (PPAs). References to Loan Agreement includes Development Credit Agreement, Development Financing Agreement, Development Grant Agreement, and Project Agreement. References to “Borrower” include the recipient of an IDA Grant.

²References to “goods” and “works” in these Guidelines include related services such as transportation, insurance, installation, commissioning, training, and initial maintenance. “Goods” includes commodities, raw material, machinery, equipment, and industrial plant. The provisions of these Guidelines also apply to services which are bid and contracted on the basis of performance of a measurable physical output, such as drilling, mapping, and similar operations. These Guidelines do not refer to Consultants’ services, to which the current *Guidelines: Selection and Employment of Consultants by World Bank Borrowers* apply (referred to herein as Consultant Guidelines).

³ For the purposes of these Guidelines, the words “bid” and “tender” shall have the same meaning.

⁴ In some cases, the Borrower acts only as an intermediary, and the project is carried out by another agency or entity. References in these Guidelines to the Borrower include such agencies and entities, as well as Sub-Borrowers under on-lending arrangements.

efficiency and without regard to political or other non-economic influences or considerations,”⁵ and it has established detailed procedures for this purpose. While in practice the specific procurement rules and procedures to be followed in the implementation of a project depend on the circumstances of the particular case, four considerations generally guide the Bank’s requirements:

- (a) the need for economy and efficiency in the implementation of the project, including the procurement of the goods and works involved;
- (b) the Bank’s interest in giving all eligible bidders from developed and developing countries ⁶ the same information and equal opportunity to compete in providing goods and works financed by the Bank;
- (c) the Bank’s interest in encouraging the development of domestic contracting and manufacturing industries in the borrowing country; and
- (d) the importance of transparency in the procurement process.

1.3 Open competition is the basis for efficient public procurement. Borrowers shall select the most appropriate method for the specific procurement. In most cases, International Competitive Bidding (ICB), properly administered, and with the allowance for preferences for domestically manufactured goods and, where appropriate, for domestic contractors⁷ for works under prescribed conditions is the most appropriate method. In most cases, therefore, the Bank requires its Borrowers to obtain goods, works and services through ICB open to eligible suppliers and contractors.⁸ Section II of these Guidelines describes the procedures for ICB.

1.4 Where ICB is not the most appropriate method of procurement, other methods of procurement may be used. Section III describes these other methods of procurement and the circumstances under which their application would be more appropriate. The particular methods that may be followed for procurement under a given project are provided for in the Loan Agreement. The specific contracts to be financed under the project, and their method of procurement, consistent with the Loan Agreement, are specified in the Procurement Plan as indicated in paragraph 1.16 of these Guidelines.

⁵ The Bank’s Articles of Agreement; Article III, Section 5(b) and IDA’s Articles of Agreement; Article V, Section 1(g)

⁶ See para. 1.6, 1.7, and 1.8.

⁷ For purposes of these Guidelines, “Contractor” refers only to a firm providing construction services.

⁸ See para. 1.6, 1.7, and 1.8.

Applicability of Guidelines

1.5 The procedures outlined in these Guidelines apply to all contracts for goods and works financed in whole or in part from Bank loans.⁹ For the procurement of those contracts for goods and works not financed from a Bank loan, the Borrower may adopt other procedures. In such cases the Bank shall be satisfied that the procedures to be used will fulfill the Borrower's obligations to cause the project to be carried out diligently and efficiently, and that the goods and works to be procured:

- (a) are of satisfactory quality and are compatible with the balance of the project;
- (b) will be delivered or completed in timely fashion; and
- (c) are priced so as not to affect adversely the economic and financial viability of the project.

Eligibility

1.6 To foster competition the Bank permits firms and individuals from all countries to offer goods, works, and services for Bank-financed projects. Any conditions for participation shall be limited to those that are essential to ensure the firm's capability to fulfill the contract in question¹⁰.

1.7 In connection with any contract to be financed in whole or in part from a Bank loan, the Bank does not permit a Borrower to deny pre- or post-qualification to a firm for reasons unrelated to its capability and resources to successfully perform the contract; nor does it permit a Borrower to disqualify any bidder for such reasons. Consequently, Borrowers should carry out due diligence on the technical and financial qualifications of bidders to be assured of their capabilities in relation to the specific contract.

1.8 As exceptions to the foregoing:

- (a) Firms of a country or goods manufactured in a country may be excluded if, (i) as a matter of law or official regulation, the Borrower's country prohibits commercial relations with that country, provided that the Bank is satisfied that such exclusion does not preclude effective competition for the supply of goods or works required, or (ii) by an act of compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of

⁹ This includes those cases where the Borrower employs a procurement agent under para. 3.10.

¹⁰ The Bank permits firms and individuals from Taiwan, China, to offer goods, works, and services for Bank-financed projects.

the United Nations, the Borrower's country prohibits any import of goods from, or payments to, a particular country, person, or entity. Where the Borrower's country prohibits payments to a particular firm or for particular goods by such an act of compliance, that firm may be excluded.

(b) A firm which has been engaged by the Borrower to provide consulting services for the preparation or implementation of a project, and any of its affiliates, shall be disqualified from subsequently providing goods, works, or services resulting from or directly related to the firm's consulting services for such preparation or implementation. This provision does not apply to the various firms (consultants, contractors, or suppliers) which together are performing the contractor's obligations under a turnkey or design and build contract.¹¹

(c) Government-owned enterprises in the Borrower's country may participate only if they can establish that they (i) are legally and financially autonomous, (ii) operate under commercial law, and (iii) are not dependent agencies of the Borrower or Sub-Borrower.¹²

(d) A firm sanctioned by the Bank in accordance with subparagraph (d) of paragraph 1.14 of these Guidelines or in accordance with the World Bank Group Anti-Corruption policies and sanction procedures¹³ shall be ineligible to be awarded a Bank-financed contract or to benefit from a Bank-financed contract, financially or otherwise, during the period of time determined by the Bank.

Advance Contracting and Retroactive Financing

1.9 The Borrower may wish to proceed with the initial steps of procurement before signing the related Bank loan. In such cases, the procurement procedures, including advertising, shall be in accordance with the Guidelines in order for the eventual contracts to be eligible for Bank financing, and the Bank shall review the process used by the Borrower. A Borrower undertakes such advance contracting at its own risk, and any concurrence by the Bank with the procedures, documentation, or proposal for award does not commit the Bank to make a

¹¹ See para. 2.5.

¹² Other than Force Account units, as permitted under para. 3.8.

¹³For purposes of this sub-paragraph, the relevant World Bank Group Anti-Corruption policies are set forth in the Guidelines On Preventing and Combating Fraud and Corruption in Projects financed by IBRD Loans and IDA Credits and Grants, and in the Anti-corruption Guidelines for IFC, MIGA, and World Bank Guarantee Transactions. The Bank's sanctions procedures are publicly disclosed on its external website

loan for the project in question. If the contract is signed, reimbursement by the Bank of any payments made by the Borrower under the contract prior to loan signing is referred to as retroactive financing and is only permitted within the limits specified in the Loan Agreement.

Joint Ventures

1.10 Any firm may bid independently or in joint venture confirming joint and several liability, either with domestic firms and/or with foreign firms, but the Bank does not accept conditions of bidding which require mandatory joint ventures or other forms of mandatory association between firms.

Bank Review

1.11 The Bank reviews the Borrower's procurement procedures, documents, bid evaluations, award recommendations, and contracts to ensure that the procurement process is carried out in accordance with the agreed procedures. These review procedures are described in Appendix 1. The Procurement Plan approved by the Bank¹⁴ shall specify the extent to which these review procedures shall apply in respect of the different categories of goods and works to be financed, in whole or in part, from the Bank loan.

Misprocurement

1.12 The Bank does not finance expenditures for goods and works which have not been procured in accordance with the agreed provisions in the Loan Agreement and as further elaborated in the Procurement Plan.¹⁵ In such cases, the Bank will declare misprocurement, and it is the policy of the Bank to cancel that portion of the loan allocated to the goods and works that have been misprocured. The Bank may, in addition, exercise other remedies provided for under the Loan Agreement. Even once the contract is awarded after obtaining a "no objection" from the Bank, the Bank may still declare misprocurement if it concludes that the "no objection" was issued on the basis of incomplete, inaccurate, or misleading information furnished by the Borrower or the terms and conditions of the contract had been modified without Bank's approval.

References to Bank

¹⁴ See paragraphs 1.16.

¹⁵ See paragraph 1.16

1.13 If the Borrower wishes to refer to the Bank in procurement documents, the following language shall be used:

“(name of Borrower) has received (or in appropriate cases „has applied for“) a [loan] from the [International Bank for Reconstruction and Development] (the “Bank”) in an amount equivalent to USD toward the cost of (name of project), and intends to apply a portion of the proceeds of this [loan] to eligible payments under this contract. Payment by the Bank will be made only at the request of (name of Borrower or designate) and upon approval by the Bank, and will be subject, in all respects, to the terms and conditions of the [Loan] Agreement. The [Loan] Agreement prohibits a withdrawal from the [Loan] Account for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations¹⁶. No party other than (name of Borrower) shall derive any rights from the Loan Agreement or have any claim to the proceeds of the [loan].”¹⁷

Fraud and Corruption

1.14 It is the Bank’s policy to require that Borrowers (including beneficiaries of Bank loans), as well as bidders, suppliers, and contractors and their agents (whether declared or not), personnel, subcontractors, sub-consultants, service providers or suppliers, under Bank-financed contracts, observe the highest standard of ethics during the procurement and execution of such contracts.¹⁸ In pursuance of this policy, the Bank:

(a) defines, for the purposes of this provision, the terms set forth below as follows:

¹⁶IBRD’s General Conditions Applicable to Loans and Guarantee Agreements; Article V; Section 5.01 and IDA’s General Conditions Applicable to Development Credit Agreements; Article V; Section 5.01

¹⁷Substitute “credit,” “International Development Association,” and “Credit Agreement,” as appropriate.

¹⁸In this context, any action taken by a bidder, supplier, contractor, or any of its personnel, or its agents, or its sub-consultants, sub-contractors, service providers, suppliers and/or their employees to influence the procurement process or contract execution for undue advantage is improper.

- (i) “corrupt practice”¹⁹ is the offering, giving, receiving or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party;
- (ii) “fraudulent practice”²⁰ is any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation;
- (iii) “collusive practice”²¹ is an arrangement between two or more parties designed to achieve an improper purpose, including to influence improperly the actions of another party;
- (iv) “coercive practice”²² is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party;
- (v) “obstructive practice” is
 - (aa) deliberately destroying, falsifying, altering or concealing of evidence material to the investigation or making false statements to investigators in order to materially impede a Bank investigation into allegations of a corrupt, fraudulent, coercive or collusive practice; and/or threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation, or
 - (bb) acts intended to materially impede the exercise of the Bank’s inspection and audit rights provided for under par. 1.14 (e) below.
- (b) will reject a proposal for award if it determines that the bidder recommended for award has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for the contract in question;

¹⁹For the purpose of these Guidelines, “another party” refers to a public official acting in relation to the procurement process or contract execution]. In this context, “public official” includes World Bank staff and employees of other organizations taking or reviewing procurement decisions.

²⁰For the purpose of these Guidelines, “party” refers to a public official; the terms “benefit” and “obligation” relate to the procurement process or contract execution; and the “act or omission” is intended to influence the procurement process or contract execution.

²¹For the purpose of these Guidelines, “parties” refers to participants in the procurement process (including public officials) attempting to establish bid prices at artificial, non competitive levels.

²²For the purpose of these Guidelines, “party” refers to a participant in the procurement process or contract execution.

(c) will cancel the portion of the loan allocated to a contract if it determines at any time that representatives of the Borrower or of a beneficiary of the loan engaged in corrupt, fraudulent, collusive, or coercive practices during the procurement or the execution of that contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur;

(d) will sanction a firm or individual, at any time, in accordance with prevailing Bank's sanctions procedures,^A including by publicly declaring such firm or individual ineligible, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; and (ii) to be a nominated^B sub-contractor, consultant, manufacturer or supplier, or service provider of an otherwise eligible firm being awarded a Bank-financed contract;

(e) will have the right to require that a provision be included in bidding documents and in contracts financed by a Bank loan, requiring bidders, suppliers and contractors to permit the Bank to inspect their accounts and records and other documents relating to the bid submission and contract performance and to have them audited by auditors appointed by the Bank.

1.15. With the specific agreement of the Bank, a Borrower may introduce, into bid forms for large contracts financed by the Bank, an undertaking of the bidder to observe, in competing for and executing a contract, the country's laws against fraud and corruption (including bribery), as listed in the bidding documents.²³ The Bank will accept the introduction of such undertaking at the request of the Borrowing country, provided the arrangements governing such undertaking are satisfactory to the Bank.

Procurement Plan

^A A firm or an individual may be declared ineligible to be awarded a Bank-financed contract upon completion of the Bank's sanctions proceedings as per its sanctions procedures, including inter alia: (i) temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding; (ii) cross-debarment as agreed with other International Financial Institutions, including Multilateral Development Banks; and (iii) the World Bank Group corporate administrative procurement sanctions procedures for fraud and corruption.

^B A nominated sub-contractor, consultant, manufacturer or supplier, or service provider (different names are used depending on the particular bidding document) is one which has: (i) either been included by the bidder in its pre-qualification application or bid because it brings specific and critical experience and know-how that allow the bidder to meet the qualification requirements for the particular bid; or (ii) appointed by the Borrower

²³ As an example, such an undertaking might read as follows: "We undertake that, in competing for (and, if the award is made to us, in executing) the above contract, we will strictly observe the laws against fraud and corruption in force in the country of the [Purchaser] [Employer], as such laws have been listed by the [Purchaser] [Employer] in the bidding documents for this contract."

1.16. As part of the preparation of the project the Borrower shall prepare and, before loan negotiations, furnish to the Bank for its approval, a Procurement Plan²⁴ acceptable to the Bank setting forth: (a) the particular contracts for the goods, works, and/or services required to carry out the project during the initial period of at least 18 months; (b) the proposed methods for procurement of such contracts that are permitted under the Loan Agreement, and (c) the related Bank review procedures²⁵. The Borrower shall update the Procurement Plan annually or as needed throughout the duration of the project. The Borrower shall implement the Procurement Plan in the manner in which it has been approved by the Bank.

²⁴ If the Project includes the selection of consulting services, the Procurement Plan should also include the methods for selection of consulting services in accordance with the Guidelines: Selection and Employment of Consultants by World Bank Borrowers. The Bank will disclose the initial Procurement Plan to the public after the related loan has been approved; additional updates will be disclosed after the Bank has approved them.

²⁵ See Appendix 1

II. International Competitive Bidding

A. General

Introduction

2.1 The objective of International Competitive Bidding (ICB), as described in these Guidelines, is to provide all eligible prospective bidders²⁶ with timely and adequate notification of a Borrower's requirements and an equal opportunity to bid for the required goods and works.

Type and Size of Contracts

2.2 The bidding documents shall clearly state the type of contract to be entered into and contain the proposed contract provisions appropriate therefor. The most common types of contracts provide for payments on the basis of a lump sum, unit prices, reimbursable cost plus fees, or combinations thereof. Reimbursable cost contracts are acceptable to the Bank only in exceptional circumstances such as conditions of high risk or where costs cannot be determined in advance with sufficient accuracy. Such contracts shall include appropriate incentives to limit costs.

2.3 The size and scope of individual contracts will depend on the magnitude, nature, and location of the project. For projects requiring a variety of goods and works, separate contracts generally are awarded for the supply and/or installation of different items of equipment and plant²⁷ and for the works.

2.4 For a project requiring similar but separate items of equipment or works, bids may be invited under alternative contract options that would attract the interest of both small and large firms, which could be allowed, at their option, to bid for individual contracts (slices) or for a group of similar contracts (package). All bids and combinations of bids shall be received by the same deadline and opened and evaluated simultaneously so as to determine the bid or combination of bids offering the lowest evaluated cost to the Borrower.²⁸

²⁶ See para. 1.6, 1.7 and 1.8.

²⁷ For purposes of these Guidelines, "plant" refers to installed equipment, as in a production facility.

²⁸ See paras. 2.49-2.54 for the bid evaluation procedures.

2.5 In certain cases the Bank may accept or require a turnkey contract under which the design and engineering, the supply and installation of equipment, and the construction of a complete facility or works are provided under one contract. Alternatively, the Borrower may remain responsible for the design and engineering, and invite bids for a single responsibility contract for the supply and installation of all goods and works required for the project component. Design and build, and management contracting ²⁹ contracts are also acceptable where appropriate.³⁰

Two-Stage Bidding

2.6 In the case of turnkey contracts or contracts for large complex facilities or works of a special nature or complex information and communication technology, it may be undesirable or impractical to prepare complete technical specifications in advance. In such a case, a two-stage bidding procedure may be used, under which first unpriced technical proposals on the basis of a conceptual design or performance specifications are invited, subject to technical as well as commercial clarifications and adjustments, to be followed by amended bidding documents³¹ and the submission of final technical proposals and priced bids in the second stage.

Notification and Advertising

2.7 Timely notification of bidding opportunities is essential in competitive bidding. For projects that include ICB the Borrower is required to prepare and submit to the Bank a draft General Procurement Notice. The Bank will arrange for its publication in *UN Development Business online (UNDB online)* and in the *Development Gateway's dgMarket*).³² The Notice

²⁹ In construction, a management contractor usually does not perform the work directly but contracts out and manages the work of other contractors, taking on the full responsibility and risk for price, quality, and timely performance. Conversely, a construction manager is a consultant for, or agent of, the Borrower, but does not take on such risks. (If financed by the Bank, the services of the construction manager should be procured under the Consultant Guidelines. See footnote 2.)

³⁰ Also see paras. 3.14 and 3.15 for performance-based contracting.

³¹ In revising the bidding documents in the second stage the Borrower should respect the confidentiality of the bidders' technical proposals used in the first stage, consistent with requirements of transparency and intellectual property rights.

³² UNDB is a publication of the United Nations. Subscription information is available from: Development Business, United Nations, GCPO Box 5850, New York, NY 10163-5850, USA (Website: www.devbusiness.com; e-

shall contain information concerning the Borrower (or prospective Borrower), amount and purpose of the loan, scope of procurement under ICB, and the name, telephone (or fax) number, and address of the Borrower's agency responsible for procurement and the address of the Website where specific procurement notices will be posted. If known, the scheduled date for availability of prequalification or bidding documents should be indicated. The related prequalification or bidding documents, as the case may be, shall not be released to the public earlier than the date of publication of the General Procurement Notice.

2.8 Invitations to prequalify or to bid, as the case may be, shall be advertised as Specific Procurement Notices in at least one newspaper of national circulation in the Borrower's country (or in the official gazette, or in an electronic portal with free access). Such invitations shall also be published in *UNDB online* and in *dgMarket*. Notification shall be given in sufficient time to enable prospective bidders to obtain prequalification or bidding documents and prepare and submit their responses.³³

Prequalification of Bidders

2.9 Prequalification is usually necessary for large or complex works, or in any other circumstances in which the high costs of preparing detailed bids could discourage competition, such as custom-designed equipment, industrial plant, specialized services, some complex information and technology and contracts to be let under turnkey, design and build, or management contracting. This also ensures that invitations to bid are extended only to those who have adequate capabilities and resources. Prequalification shall be based entirely upon the capability and resources of prospective bidders to perform the particular contract satisfactorily, taking into account their (a) experience and past performance on similar contracts, (b) capabilities with respect to personnel, equipment, and construction or manufacturing facilities, and (c) financial position.³⁴

2.10 The invitation to prequalify for bidding on specific contracts or groups of similar contracts shall be advertised and notified as described in paragraphs 2.7 and 2.8 above. The

mail: dbsubscribe@un.org); Development Gateway Market is an electronic portal of Development Gateway Foundation, 1889 F Street, N.W. Washington, DC 20006, USA (Website: www.dgmarket.com).

³³ See para. 2.44.

³⁴ The Bank has prepared a Standard Prequalification Document for use by its Borrowers, where appropriate.

scope of the contract and a clear statement of the requirements for qualification shall be sent to those who responded to the invitation. All such applicants that meet the specified criteria shall be allowed to bid. Borrowers shall inform all applicants of the results of prequalification. As soon as prequalification is completed, the bidding documents shall be made available to the qualified prospective bidders. For prequalification for groups of contracts to be awarded over a period of time, a limit for the number or total value of awards to any one bidder may be made on the basis of the bidder's resources. The list of prequalified firms in such instances shall be updated periodically. Verification of the information provided in the submission for prequalification shall be confirmed at the time of award of contract, and award may be denied to a bidder that is judged to no longer have the capability or resources to successfully perform the contract.

B. Bidding Documents

General

2.11 The bidding documents shall furnish all information necessary for a prospective bidder to prepare a bid for the goods and works to be provided. While the detail and complexity of these documents may vary with the size and nature of the proposed bid package and contract, they generally include: invitation to bid; instructions to bidders; form of bid; form of contract; conditions of contract, both general and special; specifications and drawings; relevant technical data (including of geological and environmental nature); list of goods or bill of quantities; delivery time or schedule of completion; and necessary appendices, such as formats for various securities. The basis for bid evaluation and selection of the lowest evaluated bid shall be clearly outlined in the instructions to bidders and/or the specifications. If a fee is charged for the bidding documents, it shall be reasonable and reflect only the cost of their printing and delivery to prospective bidders, and shall not be so high as to discourage qualified bidders. The Borrower may use an electronic system to distribute bidding documents, provided that the Bank is satisfied with the adequacy of such system. If bidding documents are distributed electronically, the electronic system shall be secure to avoid modifications to the bidding documents and shall not restrict the access of Bidders to the bidding documents. Guidance on critical components of the bidding documents are given in the following paragraphs.

2.12 Borrowers shall use the appropriate *Standard Bidding Documents* (SBDs) issued by the Bank with minimum changes, acceptable to the Bank, as necessary to address project-specific conditions. Any such changes shall be introduced only through bid or contract data sheets, or through special conditions of contract, and not by introducing changes in the standard wording of the Bank's SBDs. Where no relevant standard bidding documents have been issued, the Borrower shall use other internationally recognized standard conditions of contract and contract forms acceptable to the Bank.

Validity of Bids and Bid Security

2.13 Bidders shall be required to submit bids valid for a period specified in the bidding documents which shall be sufficient to enable the Borrower to complete the comparison and evaluation of bids, review the recommendation of award with the Bank (if required in the Procurement Plan), and obtain all the necessary approvals so that the contract can be awarded within that period.

2.14 Borrowers have the option of requiring a bid security. When used, the bid security shall be in the amount and form specified in the bidding documents³⁵ and shall remain valid for a period of four weeks beyond the validity period for the bids, in order to provide reasonable time for the Borrower to act if the security is to be called. Bid security shall be released to unsuccessful bidders once the contract has been signed with the winning bidder. In place of a bid security, the Borrower may require bidders to sign a declaration accepting that if they withdraw or modify their bids during the period of validity or they are awarded the contract and they fail to sign the contract or to submit a performance security before the deadline defined in the bidding documents, the bidder will be suspended for a period of time from being eligible for bidding in any contract with the Borrower.

Language

2.15 Prequalification and bidding documents and the bids shall be prepared in one of the following languages, selected by the Borrower: English, French, or Spanish. The contract

³⁵ The format of the bid security shall be in accordance with the standard bidding documents and shall be issued by a reputable bank or financial institution selected by the bidder. If the institution issuing the security is located outside the country of the Borrower, it shall have a correspondent financial institution located in the country of Borrower to make it enforceable.

signed with the winning bidder shall be written in the language so selected for the bidding documents, and this language shall be the one that governs the contractual relations between the Borrower and the winning bidder. In addition to being prepared in English, French, or Spanish, the prequalification and bidding documents may, at the Borrower's option, also be prepared in the national language of the Borrower's country (or the language used nationwide in the borrower's country for commercial transactions).³⁶ If the prequalification and bidding documents are prepared in two languages, bidders shall be permitted to submit their bids in either of these two languages. In such case, the contract signed with the winning bidder shall be written in the language in which its bid was submitted, in which case this language shall be the one that governs the contractual relations between the Borrower and the winning bidder. If the contract is signed in a language other than English, French, or Spanish, and the contract is subject to Bank's prior review, the Borrower shall provide the Bank with a translation of the contract in the internationally used language in which the bidding documents were prepared. Bidders shall not be required nor permitted to sign contracts in two languages.

Clarity of Bidding Documents

2.16 Bidding documents shall be so worded as to permit and encourage international competition and shall set forth clearly and precisely the work to be carried out, the location of the work, the goods to be supplied, the place of delivery or installation, the schedule for delivery or completion, minimum performance requirements, and the warranty and maintenance requirements, as well as any other pertinent terms and conditions. In addition, the bidding documents, where appropriate, shall define the tests, standards, and methods that will be employed to judge the conformity of equipment as delivered, or works as performed, with the specifications. Drawings shall be consistent with the text of the specifications, and an order of precedence between the two shall be specified.

2.17 The bidding documents shall specify any factors, in addition to price, which will be taken into account in evaluating bids, and how such factors will be quantified or otherwise evaluated. If bids based on alternative designs, materials, completion schedules, payment

³⁶ The Bank shall be satisfied with the language to be used.

terms, etc., are permitted, conditions for their acceptability and the method of their evaluation shall be expressly stated.

2.18 All prospective bidders shall be provided the same information, and shall be assured of equal opportunities to obtain additional information on a timely basis. Borrowers shall provide reasonable access to project sites for visits by prospective bidders. For works or complex supply contracts, particularly for those requiring refurbishing existing works or equipment, a pre-bid conference may be arranged whereby potential bidders may meet with the Borrower representatives to seek clarifications (in person or online). Minutes of the conference shall be provided to all prospective bidders with a copy to the Bank (in hard copy or sent electronically). Any additional information, clarification, correction of errors, or modifications of bidding documents shall be sent to each recipient of the original bidding documents in sufficient time before the deadline for receipt of bids to enable bidders to take appropriate actions. If necessary, the deadline shall be extended. The Bank shall receive a copy (in hard copy format or sent electronically) and be consulted for issuing a “no objection” when the contract is subject to prior review.

Standards

2.19 Standards and technical specifications quoted in bidding documents shall promote the broadest possible competition, while assuring the critical performance or other requirements for the goods and/or works under procurement. As far as possible, the Borrower shall specify internationally accepted standards such as those issued by the International Standards Organization with which the equipment or materials or workmanship shall comply. Where such international standards are unavailable or are inappropriate, national standards may be specified. In all cases, the bidding documents shall state that equipment, material, or workmanship meeting other standards, which promise at least substantial equivalence, will also be accepted.

Use of Brand Names

2.20 Specifications shall be based on relevant characteristics and/or performance requirements. References to brand names, catalog numbers, or similar classifications shall be avoided. If it is necessary to quote a brand name or catalog number of a particular manufacturer to clarify an otherwise incomplete specification, the words “or equivalent”

shall be added after such reference. The specification shall permit the acceptance of offers for goods which have similar characteristics and which provide performance at least substantially equivalent to those specified.

Pricing

2.21 Bids for goods shall be invited on the basis of CIP³⁷ (place of destination) for all goods manufactured abroad, including those previously imported, and EXW³⁸ (ex works, ex factory, or off-the-shelf) plus cost of inland transportation and insurance to the place of destination for goods manufactured or assembled in the country of the Borrower. Bidders shall be allowed to arrange for ocean and other transportation and related insurance from any eligible source.³⁹ Where installation, commissioning, or other similar services are required to be performed by the bidder, as in the case of “supply and installation” contracts, the bidder shall be required to quote for these services, in addition.

2.22 In the case of turnkey contracts, the bidder shall be required to quote the price of the installed plant at site, including all costs for supply of equipment, marine and local transportation and insurance, installation, and commissioning, as well as associated works and all other services included in the scope of contract such as design, maintenance, operation, etc. Unless otherwise specified in the bidding documents, the turnkey price shall include all duties, taxes, and other levies.⁴⁰

2.23 Bidders for works contracts shall be required to quote unit prices or lump sum prices for the performance of the works, and such prices shall include all duties, taxes, and other levies.

³⁷ Refer to *INCOTERMS 2000* for further definitions. Published by the International Chamber of Commerce, 38 Cours Albert 1er, 75008 Paris, France. CIP is carriage and insurance paid to (named place of destination). This term may be used irrespective of the mode of transport, including multimodal transport. CIP term is for custom duties and other import taxes unpaid, payment for which is the responsibility of the Borrower, either for goods previously imported or that will be imported. For previously imported goods, the quoted CIP price shall be distinguishable from the original import value of these goods declared to customs and shall include any rebate or mark-up of the local agent or representative and all local costs except import duties and taxes, which will be paid by the purchaser.

³⁸ The EXW price shall include all duties, sales, and other taxes already paid or payable for the components and raw materials used in the manufacture or assembly of the equipment, offered in the bid.

³⁹ See para. 1.6, 1.7 and 1.8.

⁴⁰ Goods in bids for turnkey contracts may be invited on the basis of DDP (named place of destination) and Bidders should be free to choose the best arrangement between imported goods or goods manufactured in the country of the Borrower, in the preparation of their bids.

Bidders shall be allowed to obtain all inputs (except for unskilled labor) from any eligible source so that they may offer their most competitive bids.

Price Adjustment

2.24 Bidding documents shall state either that (a) bid prices will be fixed or (b) that price adjustments will be made to reflect any changes (upwards or downwards) in major cost components of the contract, such as labor, equipment, materials, and fuel. Price adjustment provisions are usually not necessary in simple contracts involving delivery of goods or completion of works within eighteen months, but shall be included in contracts which extend beyond eighteen months. However, it is normal commercial practice to obtain firm prices for some types of equipment regardless of the delivery time and, in such cases, price adjustment provisions are not needed.

2.25 Prices may be adjusted by the use of a prescribed formula (or formulae) which breaks down the total price into components that are adjusted by price indices specified for each component or, alternatively, on the basis of documentary evidence (including actual invoices) provided by the supplier or contractor. The use of the formula method of price adjustment is preferable to that of documentary evidence. The method to be used, the formula (if applicable), and the base date for application shall be clearly defined in the bidding documents. If the payment currency is different from the source of the input and corresponding index, a correction factor shall be applied in the formula, to avoid incorrect adjustment.

Transportation and Insurance

2.26 Bidding documents shall permit suppliers and contractors to arrange transportation and insurance from any eligible source. Bidding documents shall state the types and terms of insurance to be provided by the bidder. The indemnity payable under transportation insurance shall be at least 110 percent of the contract amount in the currency of the contract or in a freely convertible currency to enable prompt replacement of lost or damaged goods. For works, a contractor's All Risk form of policy usually shall be specified. For large projects with several contractors on a site, a "wrap-up" or total project insurance arrangement may be obtained by the Borrower, in which case the Borrower shall seek competition for such insurance.

2.27 As an exception, if a Borrower wishes to reserve transportation and insurance for the import of goods to national companies or other designated sources, bidders shall be asked to quote FCA (named place) or CPT (named place of destination)⁴¹ prices in addition to the CIP (place of destination) price specified in paragraph 2.21. Selection of the lowest evaluated bid shall be on the basis of the CIP (place of destination) price, but the Borrower may sign the contract on FCA or CPT terms and make its own arrangement for transportation and/or insurance. Under such circumstances, the contract shall be limited to the FCA or CPT cost. If the Borrower does not wish to obtain insurance coverage in the market, evidence shall be provided to the Bank that resources are readily available for prompt payment in a freely convertible currency of the indemnities required to replace lost or damaged goods.

Currency Provisions

2.28 Bidding documents shall state the currency or currencies in which bidders are to state their prices, the procedure for conversion of prices expressed in different currencies into a single currency for the purpose of comparing bids, and the currencies in which the contract price will be paid. The following provisions (paragraphs 2.29-2.33) are intended to (a) ensure that bidders have the opportunity to minimize any exchange risk with regard to the currency of bid and of payment, and hence may offer their best prices; (b) give bidders in countries with weak currencies the option to use a stronger currency and thus provide a firmer basis for their bid price; and (c) ensure fairness and transparency in the evaluation process.

Currency of Bid

2.29 Bidding documents shall state that the bidder may express the bid price in any currency. If the bidder wishes to express the bid price as a sum of amounts in different foreign currencies, they may do so, provided the price includes no more than three foreign currencies. Furthermore, the Borrower may require bidders to state the portion of the bid price representing local costs incurred in the currency⁴² of the country of the Borrower.

⁴¹ *INCOTERMS 2000* for free carrier (named place) and for carriage paid to (named place of destination), respectively.

⁴² Referred to hereafter as local currency.

2.30 In bidding documents for works, the Borrower may require bidders to state the bid price entirely in the local currency, along with the requirements for payments in up to three foreign currencies of their choice for expected inputs from outside the Borrower's country, expressed as a percentage of the bid price, together with the exchange rates used in such calculations.

Currency Conversion for Bid Comparison

2.31 The bid price is the sum of all payments in various currencies required by the bidder. For the purpose of comparing prices, bid prices shall be converted to a single currency selected by the Borrower (local currency or fully convertible foreign currency) and stated in the bidding documents. The Borrower shall make this conversion by using the selling (exchange) rates for those currencies quoted by an official source (such as the Central Bank) or by a commercial bank or by an internationally circulated newspaper for similar transactions on a date selected in advance, such source and date to be specified in the bidding documents, provided that the date shall not be earlier than four weeks prior to the deadline for the receipt of bids, nor later than the original date for the expiry of the period of bid validity.

Currency of Payment

2.32 Payment of the contract price shall be made in the currency or currencies in which the bid price is expressed in the bid of the successful bidder.

2.33 When the bid price is required to be stated in the local currency but the bidder has requested payment in foreign currencies expressed as a percentage of the bid price, the exchange rates to be used for purposes of payments shall be those specified by the bidder in the bid, so as to ensure that the value of the foreign currency portions of the bid is maintained without any loss or gain.

Terms and Methods of Payment

2.34 Payment terms shall be in accordance with the international commercial practices applicable to the specific goods and works.

(a) Contracts for supply of goods shall provide for full payment on the delivery and inspection, if so required, of the contracted goods except for contracts involving installation and commissioning, in which case a portion of the payment may be made after the Supplier

has complied with all its obligations under the contract. The use of letters of credit is encouraged so as to assure prompt payment to the supplier. In major contracts for equipment and plant, provision shall be made for suitable advances and, in contracts of long duration, for progress payments during the period of manufacture or assembly.

(b) Contracts for works shall provide in appropriate cases for mobilization advances, advances on contractor's equipment and materials, regular progress payments, and reasonable retention amounts to be released upon compliance with the Contractor's obligations under contract.

2.35 Any advance payment for mobilization and similar expenses, made upon signature of a contract for goods or works, shall be related to the estimated amount of these expenses and be specified in the bidding documents. Amounts and timing of other advances to be made, such as for materials delivered to the site for incorporation in the works, shall also be specified. The bidding documents shall specify the arrangements for any security required for advance payments.

2.36 Bidding documents shall specify the payment method and terms offered, whether alternative payment methods and terms will be allowed and, if so, how the terms will affect bid evaluation.

Alternative Bids

2.37 The bidding documents shall clearly indicate when bidders are allowed to submit alternative bids, how alternative bids should be submitted, how bid prices should be offered and the basis on which alternative bids shall be evaluated.

Conditions of Contract

2.38 The contract documents shall clearly define the scope of work to be performed, the goods to be supplied, the rights and obligations of the Borrower and of the supplier or contractor, and the functions and authority of the engineer, architect, or construction manager, if one is employed by the Borrower, in the supervision and administration of the contract. In addition to the general conditions of contract, any special conditions particular to the specific goods or works to be procured and the location of the project shall be included. The conditions of contract shall provide a balanced allocation of risks and liabilities.

Performance Security

2.39 Bidding documents for works shall require security in an amount sufficient to protect the Borrower in case of breach of contract by the Contractor. This security shall be provided in an appropriate form and amount, as specified by the Borrower in the bidding document⁴³. The amount of the security may vary, depending on the type of security furnished and on the nature and magnitude of the works. A portion of this security shall extend sufficiently beyond the date of completion of the works to cover the defects liability or maintenance period up to final acceptance by the Borrower; alternatively, contracts may provide for a percentage of each periodic payment to be held as retention money until final acceptance. Contractors may be allowed to replace retention money with an equivalent security after provisional acceptance.

2.40 In contracts for the supply of goods, the need for performance security depends on the market conditions and commercial practice for the particular kind of goods. Suppliers or manufacturers may be required to provide a guarantee to protect against nonperformance of the contract. Such security in an appropriate amount may also cover warranty obligations or, alternatively, a percentage of the payments may be held as retention money to cover warranty obligations, and any installation or commissioning requirements. The security or retention money shall be reasonable in amount.

Liquidated Damages and Bonus Clauses

2.41 Provisions for liquidated damages or similar provisions in an appropriate amount shall be included in the conditions of contract when delays in the delivery of goods, completion of works or failure of the goods or works to meet performance requirements would result in extra cost, or loss of revenue or loss of other benefits to the Borrower. Provision may also be made for a bonus to be paid to suppliers or contractors for completion of works or delivery of goods ahead of the times specified in the contract when such earlier completion or delivery would be of benefit to the Borrower.

⁴³The format of the performance security shall be in accordance with the standard bidding documents and shall be issued by a reputable bank or financial institution selected by the bidder. If the institution issuing the security is located outside the country of the Borrower, it shall have a correspondent financial institution located in the country of Borrower to make it enforceable.

Force Majeure

2.42 The conditions of contract shall stipulate that failure on the part of the parties to perform their obligations under the contract will not be considered a default if such failure is the result of an event of force majeure as defined in the conditions of contract.

Applicable Law and Settlement of Disputes

2.43 The conditions of contract shall include provisions dealing with the applicable law and the forum for the settlement of disputes. International commercial arbitration has practical advantages over other methods for the settlement of disputes. Therefore, the Bank recommends that Borrowers use this type of arbitration in contracts for the procurement of goods and works. The Bank shall not be named arbitrator or be asked to name an arbitrator.⁴⁴ In case of works contracts, supply and installation contracts, and turnkey contracts, the dispute settlement provision shall also include mechanisms such as dispute review boards or adjudicators, which are designed to permit a speedier dispute settlement.

C. Bid Opening, Evaluation, and Award of Contract

Time for Preparation of Bids

2.44 The time allowed for the preparation and submission of bids shall be determined with due consideration of the particular circumstances of the project and the magnitude and complexity of the contract. Generally, not less than six weeks from the date of the invitation to bid or the date of availability of bidding documents, whichever is later, shall be allowed for ICB. Where large works or complex items of equipment are involved, this period shall generally be not less than twelve weeks to enable prospective bidders to conduct investigations before submitting their bids. In such cases, the Borrower is encouraged to convene pre-bid conferences and arrange site visits. Bidders shall be permitted to submit bids by mail or by hand. Borrowers may also use electronic systems permitting bidders to submit bids by electronic means, provided the Bank is satisfied with the adequacy of the system, including, inter alia, that the system is secure, maintains the confidentiality and authenticity of bids submitted, uses an electronic signature system or equivalent to keep bidders bound to

⁴⁴ It is understood, however, that officials of the International Centre for Settlement of Investment Disputes (ICSID) shall remain free to name arbitrators in their capacity as ICSID officials.

their bids, and only allows bids to be opened with due simultaneous electronic authorization of the bidder and the Borrower. In this case, bidders shall continue to have the option to submit their bids in hard copy. The deadline and place for receipt of bids shall be specified in the invitation to bid.

Bid Opening Procedures

2.45 The time for the bid opening shall be the same as for the deadline for receipt of bids or promptly⁴⁵ thereafter, and shall be announced, together with the place for bid opening, in the invitation to bid. The Borrower shall open all bids at the stipulated time and place. Bids shall be opened in public; bidders or their representatives shall be allowed to be present (in person or online, when electronic bidding is used). The name of the bidder and total amount of each bid, and of any alternative bids if they have been requested or permitted, shall be read aloud (and posted online when electronic bidding is used) and recorded when opened and a copy of this record shall be promptly sent to the Bank and to all bidders who submitted bids in time. Bids received after the time stipulated, as well as those not opened and read out at bid opening, shall not be considered.

Clarifications or Alterations of Bids

2.46 Except as otherwise provided in paragraphs 2.63 and 2.64 of these Guidelines, bidders shall not be requested or permitted to alter their bids after the deadline for receipt of bids. The Borrower shall ask bidders for clarification needed to evaluate their bids but shall not ask or permit bidders to change the substance or price of their bids after the bid opening. Requests for clarification and the bidders' responses shall be made in writing, in hard copy or by an electronic system satisfactory to the Bank.⁴⁶

Confidentiality

2.47 After the public opening of bids, information relating to the examination, clarification, and evaluation of bids and recommendations concerning awards shall not be disclosed to bidders or other persons not officially concerned with this process until the publication of contract award.

⁴⁵ To allow sufficient time to take the bids to the place announced for public bid opening.

⁴⁶ See paragraph 2.44

Examination of Bids

2.48 The Borrower shall ascertain whether the bids (a) meet the eligibility requirements specified in paragraph 1.6, 1.7 and 1.8 of these Guidelines, (b) have been properly signed, (c) are accompanied by the required securities or required declaration signed as specified in paragraph 2.14 of the Guidelines, (d) are substantially responsive to the bidding documents, and (v) are otherwise generally in order. If a bid is not substantially responsive, that is, it contains material deviations from or reservations to the terms, conditions, and specifications in the bidding documents, it shall not be considered further. The bidder shall not be permitted to correct or withdraw material deviations or reservations once bids have been opened.⁴⁷

Evaluation and Comparison of Bids

2.49 The purpose of bid evaluation is to determine the cost to the Borrower of each bid in a manner that permits a comparison on the basis of their evaluated cost. Subject to paragraph 2.58, the bid with the lowest evaluated cost,⁴⁸ but not necessarily the lowest submitted price, shall be selected for award.

2.50 The bid price read out at the bid opening shall be adjusted to correct any arithmetical errors. Also, for the purpose of evaluation, adjustments shall be made for any quantifiable nonmaterial deviations or reservations. Price adjustment provisions applying to the period of implementation of the contract shall not be taken into account in the evaluation.

2.51 The evaluation and comparison of bids shall be on CIP (place of destination) prices for the supply of imported goods⁴⁹ and EXW prices, plus cost of inland transportation and insurance to the place of destination, for goods manufactured within the Borrower's country,

⁴⁷ See para. 2.50 regarding corrections.

⁴⁸ See para. 2.52.

⁴⁹ Borrowers may ask for prices on a CIF basis (and bids compared on that same basis) only when the goods are carried by sea and the goods are not containerized. CIF shall not be used for anything other than sea transport. In the case of manufactured goods, it is unlikely that the choice of CIF will be appropriate, because these goods are usually containerized. CIP can be used for any mode of transport, including sea and multimodal transport.

together with prices for any required installation, training, commissioning, and other similar services.⁵⁰

2.52 Bidding documents shall also specify the relevant factors in addition to price to be considered in bid evaluation and the manner in which they will be applied for the purpose of determining the lowest evaluated bid. For goods and equipment, other factors may be taken into consideration including, among others, payment schedule, delivery time, operating costs, efficiency and compatibility of the equipment, availability of service and spare parts, and related training, safety, and environmental benefits. The factors other than price to be used for determining the lowest evaluated bid shall, to the extent practicable, be expressed in monetary terms, or given a relative weight in the evaluation provisions in the bidding documents.

2.53 Under works and turnkey contracts, contractors are responsible for all duties, taxes, and other levies,⁵¹ and bidders shall take these factors into account in preparing their bids. The evaluation and comparison of bids shall be on this basis. Bid evaluation for works shall be strictly in monetary terms. Any procedure under which bids above or below a predetermined assessment of bid values are automatically disqualified is not acceptable. If time is a critical factor, the value of early completion to the Borrower may be taken into account according to criteria presented in the bidding documents, only if the conditions of contract provide for commensurate penalties for noncompliance.

2.54 The Borrower shall prepare a detailed report on the evaluation and comparison of bids setting forth the specific reasons on which the recommendation is based for the award of the contract.

Domestic Preferences

2.55 At the request of the Borrower, and under conditions to be agreed under the Loan Agreement and set forth in the bidding documents, a margin of preference may be provided in the evaluation of bids for:

⁵⁰ The evaluation of bids shall not take into account: (a) customs duties and other taxes levied on imported goods quoted CIP (which are excluded of custom duties); (b) sales and similar taxes levied in connection with the sale or delivery of the goods

⁵¹ Unless bidding documents specify otherwise for some turnkey contracts (see para. 2.22).

- (a) goods manufactured in the country of the Borrower when comparing bids offering such goods with those offering goods manufactured abroad; and
- (b) works in member countries below a specified threshold of GNP⁵² per capita, when comparing bids from eligible domestic Contractors with those from foreign firms.

2.56 Where preference for domestically manufactured goods or for domestic Contractors is allowed, the methods and stages set forth in Appendix 2 to these Guidelines shall be followed in the evaluation and comparison of bids.

Extension of Validity of Bids

2.57 Borrowers shall complete evaluation of bids and award of contract within the initial period of bid validity so that extensions are not necessary. An extension of bid validity, if justified by exceptional circumstances, shall be requested in writing from all bidders before the expiration date. The extension shall be for the minimum period required to complete the evaluation, obtain the necessary approvals, and award the contract. In the case of fixed price contracts, requests for second and subsequent extensions will be permissible only if the request for extension provides for an appropriate adjustment mechanism of the quoted price to reflect changes in the cost of inputs for the contract over the period of extension. Whenever an extension of bid validity period is requested, bidders shall not be requested or be permitted to change the quoted (base) price or other conditions of their bid. Bidders shall have the right to refuse to grant such an extension. If the bidding documents require a bid security, bidders may exercise their right to refuse to grant such an extension without forfeiting their bid security, but those who are willing to extend the validity of their bid shall be required to provide a suitable extension of bid security.

Post qualification of Bidders

2.58 If bidders have not been prequalified, the Borrower shall determine whether the bidder whose bid has been determined to offer the lowest evaluated cost has the capability and resources to effectively carry out the contract as offered in the bid. The criteria to be met shall be set out in the bidding documents, and if the bidder does not meet them, the bid shall

⁵² Gross national product as defined annually by the Bank.

be rejected. In such an event, the Borrower shall make a similar determination for the next-lowest evaluated bidder.

Award of Contract

2.59 The Borrower shall award the contract, within the period of the validity of bids, to the bidder who meets the appropriate standards of capability and resources and whose bid has been determined (i) to be substantially responsive to the bidding documents and (ii) to offer the lowest evaluated cost.⁵³ A bidder shall not be required, as a condition of award, to undertake responsibilities for work not stipulated in the bidding documents or otherwise to modify the bid as originally submitted.

Publication of the Award of Contract

2.60 Within two weeks of receiving the Bank's "no objection" to the recommendation of contract award, the Borrower shall publish in *UNDB online* and in *dgMarket* the results identifying the bid and lot numbers and the following information: (a) name of each bidder who submitted a bid; (b) bid prices as read out at bid opening; (c) name and evaluated prices of each bid that was evaluated; (d) name of bidders whose bids were rejected and the reasons for their rejection; and (e) name of the winning bidder, and the price it offered, as well as the duration and summary scope of the contract awarded.

Rejection of All Bids

2.61 Bidding documents usually provide that Borrowers may reject all bids. Rejection of all bids is justified when there is lack of effective competition, or bids are not substantially responsive or when bid prices are substantially higher than existing budget. Lack of competition shall not be determined solely on the basis of the number of bidders. Even when only one bid is submitted, the bidding process may be considered valid, if the bid was satisfactorily advertised and prices are reasonable in comparison to market values. Borrowers may, after the Bank's prior approval, reject all bids. If all bids are rejected, the Borrower shall review the causes justifying the rejection and consider making revisions to the conditions of contract, design and specifications, scope of the contract, or a combination of these, before inviting new bids.

⁵³ Referred to as "lowest evaluated bidder" and "lowest evaluated bid," respectively.

2.62 If the rejection of all bids is due to lack of competition, wider advertising shall be considered. If the rejection is due to most or all of the bids being nonresponsive, new bids may be invited from the initially prequalified firms, or with the agreement of the Bank from only those that submitted bids in the first instance.

2.63 All bids shall not be rejected and new bids invited on the same bidding and contract documents solely for the purpose of obtaining lower prices. If the lowest evaluated responsive bid exceeds the Borrower's pre-bid cost estimates by a substantial margin, the Borrower shall investigate causes for the excessive cost and consider requesting new bids as described in the previous paragraphs. Alternatively, the Borrower may negotiate with the lowest evaluated bidder to try to obtain a satisfactory contract through a reduction in the scope and/or a reallocation of risk and responsibility which can be reflected in a reduction of the contract price. However, substantial reduction in the scope or modification to the contract documents may require rebidding.

2.64 The Bank's prior approval shall be obtained before rejecting all bids, soliciting new bids, or entering into negotiations with the lowest evaluated bidder.

Debriefing

2.65 In the publication of Contract Award referred to in paragraph 2.60 the Borrower shall specify that any bidder who wishes to ascertain the grounds on which its bid was not selected, should request an explanation from the Borrower. The Borrower shall promptly provide an explanation of why such bid was not selected, either in writing and/or in a debriefing meeting, at the option of the Borrower. The requesting bidder shall bear all the costs of attending such a debriefing.

D. Modified ICB

Operations Involving a Program of Imports⁵⁴

2.66 Where the loan provides financing for a program of imports, ICB with simplified advertising and currency provisions may be used for large-value contracts, as defined in the Loan Agreement.⁵⁵

⁵⁴ Also see para 3.11.

2.67 The simplified provisions for notification of ICB procurement do not require a General Procurement Notice. Specific Procurement Notices shall be inserted in at least one newspaper of national circulation in the Borrower's country (or in the official gazette, if any, or in an electronic portal with free access) in addition to *UNDB online* and *dgMarket*. The period allowed for submission of bids may be reduced to four weeks. Bidding and payment may be limited to one currency widely used in international trade.

Procurement of Commodities

2.68 Market prices of commodities, such as grain, animal feed, cooking oil, fuel, fertilizer, and metals, fluctuate, depending upon the demand and supply at any particular time. Many are quoted in established commodity markets. Procurement often involves multiple awards for partial quantities to assure security of supply and multiple purchases over a period of time to take advantage of favorable market conditions and to keep inventories low. A list of prequalified bidders may be drawn up to whom periodic invitations are issued. Bidders may be invited to quote prices linked to the market price at the time of or prior to the shipments. Bid validities shall be as short as possible. A single currency in which the commodity is usually priced in the market, may be used for bidding and payment. The currency shall be specified in the bidding document. Bidding documents may permit telexed or faxed bids or bids submitted by electronic means, and in such cases either no bid security is required, or standing bid securities valid over a specified period of time have been submitted by prequalified bidders. Standard contract conditions and forms consistent with market practices shall be used.

⁵⁵ Procurement of smaller contracts is normally carried out in accordance with procedures followed by the private or public entity handling the imports, or other established commercial practices acceptable to the Bank, as described in para. 3.12.

III. Other Methods of Procurement

General

3.1 This Section describes the methods of procurement that can be used where ICB would not be the most economic and efficient method of procurement, and where other methods are deemed more appropriate.⁵⁶ The Bank's policies with respect to margins of preference for domestically manufactured goods and works contracts do not apply to methods of procurement other than ICB. Paragraphs 3.2 to 3.7 describe the generally used methods in descending order of preference and the remaining paragraphs the methods used in specific circumstances.

Limited International Bidding

3.2 Limited International Bidding (LIB) is essentially ICB by direct invitation without open advertisement. It may be an appropriate method of procurement where (a) there is only a limited number of suppliers, or (b) other exceptional reasons may justify departure from full ICB procedures. Under LIB, Borrowers shall seek bids from a list of potential suppliers broad enough to assure competitive prices, such list to include all suppliers when there are only a limited number. Domestic preferences are not applicable in the evaluation of bids under LIB. In all respects other than advertisement and preferences, ICB procedures shall apply, including the publication of the Award of Contract as indicated in paragraph 2.60.

National Competitive Bidding

3.3 National Competitive Bidding (NCB) is the competitive bidding procedure normally used for public procurement in the country of the Borrower, and may be the most appropriate way of procuring goods or works which, by their nature or scope, are unlikely to attract foreign competition. To be acceptable for use in Bank-financed procurement, these procedures shall be reviewed and modified⁵⁷ as necessary to assure economy, efficiency, transparency, and broad consistency with the provisions included in Section I of these Guidelines. NCB may be the most appropriate method of procurement where foreign bidders are not expected to be

⁵⁶ Contracts shall not be divided into smaller units in order to make them less attractive for ICB procedures; any proposal to divide a contract into smaller packages shall require the prior approval of the Bank.

⁵⁷ Any such modification shall be reflected in the Loan Agreement.

interested because (a) the contract values are small, (b) works are scattered geographically or spread over time, (c) works are labor intensive, or (d) the goods or works are available locally at prices below the international market. NCB procedures may also be used where the advantages of ICB are clearly outweighed by the administrative or financial burden involved.

3.4 Advertising may be limited to the national press or official gazette, or a free and open access website. Bidding documents may be only in a national language of the borrower's country (or the language used nation-wide in the borrower's country for commercial transactions), and the currency of the country of the Borrower is generally used for the purposes of bidding and payment. In addition, the bidding documents shall provide clear instructions on how bids should be submitted, how prices should be offered, and the place and time for submission of bids. Adequate response time for preparation and submission of bids shall be provided. The procedures shall provide for adequate competition in order to ensure reasonable prices, and methods used in the evaluation of bids and the award of contracts shall be objective and made known to all bidders in the bidding documents and not be applied arbitrarily. The procedures shall also include public opening of bids, publication of results of evaluation and of the award of contract and provisions for bidders to protest. If foreign firms wish to participate under these circumstances, they shall be allowed to do so.

Shopping

3.5 Shopping is a procurement method based on comparing price quotations obtained from several suppliers (in the case of goods) or from several contractors (in the case of civil works), with a minimum of three, to assure competitive prices, and is an appropriate method for procuring readily available off-the-shelf goods or standard specification commodities of small value, or simple civil works of small value. Requests for quotations shall indicate the description and quantity of the goods or specifications of works, as well as desired delivery (or completion) time and place. Quotations may be submitted by letter, facsimile or by electronic means. The evaluation of quotations shall follow the same principles as of open bidding. The terms of the accepted offer shall be incorporated in a purchase order or brief contract.

Direct Contracting

3.6 Direct contracting is contracting without competition (single source) and may be an appropriate method under the following circumstances:

- (a) An existing contract for goods or works, awarded in accordance with procedures acceptable to the Bank, may be extended for additional goods or works of a similar nature. The Bank shall be satisfied in such cases that no advantage could be obtained by further competition and that the prices on the extended contract are reasonable. Provisions for such an extension, if considered likely in advance, shall be included in the original contract.
- (b) Standardization of equipment or spare parts, to be compatible with existing equipment, may justify additional purchases from the original Supplier. For such purchases to be justified, the original equipment shall be suitable, the number of new items shall generally be less than the existing number, the price shall be reasonable, and the advantages of another make or source of equipment shall have been considered and rejected on grounds acceptable to the Bank.
- (c) The required equipment is proprietary and obtainable only from one source.
- (d) The Contractor responsible for a process design requires the purchase of critical items from a particular Supplier as a condition of a performance guarantee.
- (e) In exceptional cases, such as in response to natural disasters.

3.7 After the contract signature, the Borrower shall publish in *UNDB online* and in *dgMarket* the name of the contractor, price, duration, and summary scope of the contract. This publication may be done quarterly and in the format of a summarized table covering the previous period.

Force Account

3.8 Force account, that is, construction by the use of the Borrower's own personnel and equipment,⁵⁸ may be the only practical method for constructing some kinds of works. The use of force account may be justified where:

- (a) quantities of work involved cannot be defined in advance;
- (b) works are small and scattered or in remote locations for which qualified construction firms are unlikely to bid at reasonable prices;
- (c) work is required to be carried out without disrupting ongoing operations;
- (d) risks of unavoidable work interruption are better borne by the Borrower than by a Contractor; and
- (e) there are emergencies needing prompt attention.

Procurement from United Nations Agencies

3.9 There may be situations in which procurement directly from specialized agencies of the United Nations (UN), acting as suppliers, pursuant to their own procedures, may be the most appropriate way of procuring: (a) small quantities of off-the-shelf goods, primarily in the fields of education and health; and (b) specialized products where the number of suppliers is limited such as for vaccines or drugs.

Procurement Agents

3.10 Where Borrowers lack the necessary organization, resources, and experience, Borrowers may wish (or be required by the Bank) to employ, as their agent, a firm specializing in handling procurement. The agent shall follow all the procurement procedures provided for in the Loan Agreement and as further elaborated in the Procurement Plan approved by the Bank on behalf of the Borrower, including use of Bank SBDs, review procedures, and documentation. This also applies in cases where UN agencies act as procurement agents.⁵⁹

⁵⁸ A government-owned construction unit that is not managerially and financially autonomous shall be considered a force account unit. "Force account" is otherwise known as "direct labor," "departmental forces," or "direct work."

⁵⁹ The Consultant Guidelines shall apply for the selection of procurement and inspection agents. The cost or fee of the procurement or inspection agent is eligible for financing from the Bank loan, if so provided in the Loan Agreement and in the Procurement Plan, and provided the terms and conditions of selection and employment are acceptable to the Bank.

Management Contractors may be employed in a similar manner for a fee to contract for miscellaneous works involving reconstruction, repairs, rehabilitation, and new construction in emergency situations, or where large numbers of small contracts are involved. **Inspection Agents**

3.11 Preshipment inspection and certification of imports is one of the safeguards for the Borrower, particularly where the country has a large import program. The inspection and certification usually covers quality, quantity, and reasonableness of price. Imports procured through ICB procedures shall not be subject to price verification, but only verification for quality and quantity. However, imports not procured through ICB may additionally be subjected to price verification. The inspection agents are ordinarily paid for on a fee basis levied on the value of the goods. Costs for certification of imports shall not be considered in the evaluation of bids under ICB.

Procurement in Loans to Financial Intermediaries

3.12 Where the loan provides funds to an intermediary institution such as an agricultural credit institution or a development finance company, to be re-lent to beneficiaries such as individuals, private sector enterprises, small and medium enterprises, or autonomous commercial enterprises in the public sector for the partial financing of subprojects, the procurement is usually undertaken by the respective beneficiaries in accordance with established private sector or commercial practices, which are acceptable to the Bank. However, even in these situations, ICB may be the most appropriate procurement method for the purchase of large single items or in cases where large quantities of like goods can be grouped together for bulk purchasing.

Procurement under BOO/BOT/BOOT, Concessions and Similar Private Sector Arrangements

3.13 Where the Bank is participating in financing the cost of a project procured under a BOO/BOT/ BOOT,⁶⁰ concessions or similar type of private sector arrangement, either of the following procurement procedures shall be used, as provided for in the Loan Agreement and further elaborated in the Procurement Plan approved by the Bank:

⁶⁰ BOO: Build, Own, Operate; BOT: Build, Operate, Transfer; BOOT: Build, Own, Operate, Transfer.

(a) The concessionaire or entrepreneur under the BOO/BOT/ BOOT or similar type of contract⁶¹ shall be selected under ICB procedures acceptable to the Bank, which may include several stages in order to arrive at the optimal combination of evaluation criteria, such as the cost and magnitude of the financing offered, the performance specifications of the facilities offered, the cost charged to the user or purchaser, other income generated for the Borrower or purchaser by the facility, and the period of the facility's depreciation. The said entrepreneur selected in this manner shall then be free to procure the goods, works, and services required for the facility from eligible sources, using its own procedures. In this case, the Project Appraisal Document , and the Loan Agreement shall specify the type of expenditures incurred by the said entrepreneur towards which Bank financing will apply. Or,

(b) If the said concessionaire or entrepreneur has not been selected in the manner set forth in subparagraph (a) above, the goods, works, or services required for the facility and to be financed by the Bank shall be procured in accordance with ICB procedures defined in Section II.

Performance-Based Procurement

3.14 Performance Based Procurement,⁶² also called Output-Based Procurement, refers to competitive procurement processes (ICB or NCB) resulting in a contractual relationship where payments are made for measured outputs instead of the traditional way where inputs are measured. The technical specifications define the desired result and which outputs will be measured including how they will be measured. Those outputs aim at satisfying a functional need both in terms of quality, quantity and reliability. Payment is made in accordance with the quantity of outputs delivered, subject to their delivery at the level of quality required. Reductions from payments (or retentions) may be made for lower-quality level of outputs and, in certain cases, premiums may be paid for higher quality level of outputs. The bidding documents do not normally prescribe the inputs, nor a work method for the contractor. The contractor is free to propose the most appropriate solution, based on mature and well proven

⁶¹ For projects such as toll roads, tunnels, harbors, bridges, power stations, waste disposal plants, and water distribution systems.

⁶² The use of Performance Based Procurement in Bank financed projects should be the result of the satisfactory technical analysis of the different options available and should be either included in the PAD or subject to prior approval by the Bank for incorporation into the procurement plan.

experience and shall demonstrate that the level of quality specified in the bidding documents will be achieved.

3.15 Performance Based Procurement (or Output Based Procurement) can involve: (a) the provision of services to be paid on the basis of outputs; (b) design, supply, construction (or rehabilitation) and commissioning of a facility to be operated by the borrower; or (c) design, supply, construction (or rehabilitation) of a facility and provision of services for its operation and maintenance for a defined period of years after its commissioning . ⁶³For the cases where design, supply and/or construction are required, prequalification is normally required and the use of Two-Stage Bidding as indicated in paragraph 2.6 shall apply.

Procurement under Loans Guaranteed by the Bank

3.16 If the Bank guarantees the repayment of a loan made by another lender, the goods and works financed by the said loan shall be procured with due attention to economy and efficiency and in accordance with procedures which meet the requirements of paragraph 1.5.

Community Participation in Procurement

3.17 Where, in the interest of project sustainability, or to achieve certain specific social objectives of the project, it is desirable in selected project components to (a) call for the participation of local communities and/or nongovernmental organizations (NGOs) in the delivery of services, or (b) increase the utilization of local know-how and materials, or (c) employ labor-intensive and other appropriate technologies, the procurement procedures, specifications, and contract packaging shall be suitably adapted to reflect these considerations, provided these are efficient and are acceptable to the Bank. The procedures proposed and the project components to be carried out by community participation shall be outlined in Loan Agreement and further elaborated in the Procurement Plan or the relevant project implementation document approved by the Bank.

⁶³ Examples of such type of procurement are: (i) for the case of procurement of services: provision of medical services, i.e. payments for specific services, like office visits, or defined laboratory tests, etc. ; (ii) for the case of procurement of a facility: Design, Procurement, Construction, and Commissioning of a thermal power plant to be operated by the borrower; (iii) for the case of procurement of a facility and services: Design, Procurement, Construction (or Rehabilitation) of a road and operation and maintenance of the road for 5 years after construction.

Appendix 1: Review by the Bank of Procurement Decisions

Scheduling of Procurement

1. The Bank shall review the procurement arrangements proposed by the Borrower in the Procurement Plan for its conformity with the Loan Agreement and these Guidelines. The Procurement Plan shall cover an initial period of at least 18 months. The Borrower shall update the Procurement Plan on an annual basis or as needed always covering the next 18 months period of project implementation. Any revisions proposed to the Procurement Plan shall be furnished to the Bank for its prior approval.

Prior Review

2. With respect to all contracts⁶⁴ which are subject to the Bank's prior review:

(a) In cases where prequalification is used, the Borrower shall, before prequalification submissions are invited, furnish the Bank with the draft documents to be used, including the text of the invitation to prequalify, the prequalification questionnaire, and the evaluation methodology, together with a description of the advertising procedures to be followed, and shall introduce such modifications in said procedure and documents, as the Bank shall reasonably request. The report evaluating the applications received by the Borrower, the list of proposed prequalified bidders, together with a statement of their qualifications and of the reasons for the exclusion of any applicant for prequalification, shall be furnished by the Borrower to the Bank for its comments before the applicants are notified of the Borrower's decision, and the Borrower shall make such additions to, deletions from, or modifications in the said list as the Bank shall reasonably request.

(b) Before bids are invited, the Borrower shall furnish to the Bank for its comments, draft bidding documents, including the invitation to bid; instructions to bidders, including the basis of bid evaluation and contract award; and the conditions of contract and specifications for the civil works, supply of goods, or installation of equipment, etc., as the case may be, together with a description of the advertising procedures to be followed for the bidding (if

⁶⁴ For contracts procured on the basis of direct contracting under paras 3.6 and 3.7, the Borrower shall furnish to the Bank for its approval, prior to contract execution, a copy of the specifications and the draft contract. The contract shall be executed only after the Bank has given its approval, and the provisions in (h) of this paragraph shall apply with respect to the executed contract.

prequalification has not been used), and shall make such modifications in the said documents as the Bank shall reasonably request. Any further modification shall require the Bank's approval before it is issued to the prospective bidders.

(c) After bids have been received and evaluated, the Borrower shall, before a final decision on the award is made, furnish to the Bank, in sufficient time for its review, a detailed report (prepared, if the Bank shall so request, by experts acceptable to the Bank), on the evaluation and comparison of the bids received, together with the recommendations for award and such other information as the Bank shall reasonably request. The Bank shall, if it determines that the intended award would be inconsistent with the Loan Agreement and/or the Procurement Plan, promptly inform the Borrower and state the reasons for such determination. Otherwise, the Bank shall provide its no objection to the recommendation for contract award. The Borrower shall award the contract only after receiving the "no objection" from the Bank.

(d) If the Borrower requires an extension of bid validity to complete the process of evaluation, obtain necessary approvals and clearances, and to make the award, it should seek the Bank's prior approval for the first request for extension, if it is longer than four weeks, and for all subsequent requests for extension, irrespective of the period.

(e) If after publication of the results of evaluation, the Borrower receives protests or complaints from bidders, a copy of the complaint and a copy of the Borrower's response shall be sent to the Bank for information.

(f) If as result of analysis of a protest the borrower changes its contract award recommendation, the reasons for such decision and a revised evaluation report shall be submitted to the Bank for no objection. The Borrower shall provide a republication of the contract award in the format of paragraph 2.60 of these Guidelines.

(g) The terms and conditions of a contract shall not, without the Bank's prior approval, materially differ from those on which bids were asked or prequalification of Contractors, if any, was invited.

(h) One conformed copy of the contract shall be furnished to the Bank promptly after its execution and prior to delivery to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract. Where payments for the contract are to be

made out of a Special Account (SA), a copy of the contract shall be furnished to the Bank prior to the making of the first payment out of the SA in respect of such contract.

(i) All evaluation reports shall be accompanied by a summary of the procurement on a form provided by the Bank. The description and amount of the contract, together with the name and address of the successful bidder, shall be subject to release by the Bank upon receipt of the signed copy of the contract.

3. *Modifications.* In the case of contracts subject to prior review, before granting a material extension of the stipulated time for performance of a contract, agreeing to any modification or waiver of the conditions of such contract, including issuing any change order or orders under such contract (except in cases of extreme urgency) which would in aggregate increase the original amount of the contract by more than 15 percent of the original price, the Borrower shall seek the Bank's no objection to the proposed extension, modification, or change order. If the Bank determines that the proposal would be inconsistent with the provisions of the Loan Agreement and/or Procurement Plan, it shall promptly inform the Borrower and state the reasons for its determination. A copy of all amendments to the contract shall be furnished to the Bank for its record.

4. *Translations.* If a contract awarded under ICB procedures is subject to prior-review and is written in the national language,⁶⁵ (or the language used nation-wide in the borrower's country for commercial transactions) a certified translation of the contract in the internationally used language specified in the bidding documents (English, French, or Spanish) shall be furnished to the Bank together with the conformed copy of the contract. Such certified translations shall also be furnished to the Bank, for any subsequent modifications of such contracts.

Post Review

5. The Borrower shall retain all documentation with respect to each contract not governed by paragraph two during Project implementation and up to two years after the closing date of the Loan Agreement. This documentation would include, but not be limited to, the signed original of the contract, the analysis of the respective proposals, and recommendations for

⁶⁵ Refer to para. 2.15.

award, for examination by the Bank or by its consultants. The Borrower shall also furnish such documentation to the Bank upon request. If the Bank determines that the goods, works or services were not procured in accordance with the agreed procedures, as reflected in the Loan Agreement and further detailed in the Procurement Plan approved by the Bank or that the contract itself is not consistent with such procedures, it may declare misprocurement as established in paragraph 1.12 of the Guidelines. The Bank shall promptly inform the Borrower the reasons for such determination.

Appendix 2: Domestic Preferences

Preference for Domestically Manufactured Goods

1. The Borrower may, with the agreement of the Bank, grant a margin of preference in the evaluation of bids under ICB procedures to bids offering certain goods manufactured in the country of the Borrower, when compared to bids offering such goods manufactured elsewhere. In such cases, bidding documents shall clearly indicate any preference to be granted to domestic manufactured goods and the information required to establish the eligibility of a bid for such preference. The nationality of the manufacturer or Supplier is not a condition for such eligibility. The methods and stages set forth hereunder shall be followed in the evaluation and comparison of bids.

2. For comparison, responsive bids shall be classified in one of the following three groups:

(a) Group A: bids exclusively offering goods manufactured in the country of the Borrower if the bidder establishes to the satisfaction of the Borrower and the Bank that (i) labor, raw material, and components from within the country of the Borrower will account for 30 percent or more of the EXW price of the product offered, and (ii) the production facility in which those goods will be manufactured or assembled has been engaged in manufacturing/assembling such goods at least since the time of bid submission.

(b) Group B: all other bids offering goods manufactured in the country of the Borrower.

(c) Group C: bids offering goods manufactured abroad that have been already imported or that will be directly imported.

3. The price quoted for goods in bids of Groups A and B shall include all duties and taxes paid or payable on the basic materials or components purchased in the domestic market or imported, but shall exclude the sales and similar taxes on the finished product. The price quoted for goods in bids of Group C shall be on CIP (place of destination), which is exclusive of customs duties and other import taxes already paid or to be paid.

4. In the first step, all evaluated bids in each group shall be compared to determine the lowest bid in each group. Such lowest evaluated bids shall be compared with each other and if, as a result of this comparison, a bid from Group A or Group B is the lowest, it shall be selected for the award.

5. If as a result of the comparison under paragraph four above, the lowest evaluated bid is a bid from Group C, the lowest evaluated bid from Group C shall be further compared with the lowest evaluated bid from Group A after adding to the evaluated price of goods offered in the bid from Group C, for the purpose of this further comparison only, an amount equal to 15 percent of the CIP bid price. The lowest evaluated bid determined from this last comparison shall be selected.

6. In the case of single responsibility or turnkey contracts for the supply of a number of discrete items of equipment as well as major installation and/or construction services no margin of preference shall apply.⁶⁶ However, with Bank's "no objection", bids for such contracts may be invited and evaluated on the basis of DDP⁶⁷ (named place of destination) prices for goods manufactured abroad.

Preference for Domestic Contractors

7. For contracts for works to be awarded on the basis of ICB, eligible Borrowers may, with the agreement of the Bank, grant a margin of preference of 7.5 percent to domestic contractors,⁶⁸ in accordance with, and subject to, the following provisions:

(a) Contractors applying for such preference shall be asked to provide, as part of the data for qualification,⁶⁹ such information, including details of ownership, as shall be required to determine whether, according to the classification established by the Borrower and accepted by the Bank, a particular contractor or group of contractors qualifies for a domestic

⁶⁶ This does not refer to the supply of goods with supervision of installation in the same contract which is considered a contract for the supply of goods, and therefore eligible for the application of domestic preference in the goods component.

⁶⁷ DDP is the INCOTERM which stands for "Delivered Duty Paid" where the seller delivers the goods to the buyer, cleared for import, and not unloaded from any arriving means of transport at the named place of destination. The seller has to bear all the costs and risks involved in bringing the goods thereto including, where applicable, any duty for import in the country of destination, and unloading at final destination as part of the turn-key contract. In countries that exempt bidders on imports under contracts financed by the Bank, comparison shall be made on the basis of non-exemption of duties and taxes on importation of goods manufactured abroad and the bidding documents may indicate that, before contract signature, the purchaser and the winning bidder will identify the amount of taxes payable for importation of the goods offered resulting from that exemption. However, the contract amount to be signed will not include the identified total amount of exempted duties and taxes

⁶⁸ Preference for domestic Contractors is applicable only in countries which qualify.

⁶⁹ At the prequalification and/or at the bidding stage.

preference. The bidding documents shall clearly indicate the preference and the method that will be followed in the evaluation and comparison of bids to give effect to such preference.

(b) After bids have been received and reviewed by the Borrower, responsive bids shall be classified into the following groups:

- (i) Group A: bids offered by domestic contractors eligible for the preference.
- (ii) Group B: bids offered by other contractors.

For the purpose of evaluation and comparison of bids, an amount equal to 7.5 percent of the bid amount shall be added to bids received from Contractors in Group B.

Appendix 3: Guidance to Bidders

Purpose

1. This Appendix provides guidance to potential bidders wishing to participate in Bank-financed procurement.

Responsibility for Procurement

2. The responsibility for the implementation of the project, and therefore for the payment of goods, works, and services under the project, rests solely with the Borrower. The Bank, for its part, is required by its Articles of Agreement to ensure that funds are paid from a Bank loan only as expenditures are incurred. Disbursements of the proceeds of a loan are made only at the Borrower's request. Supporting evidence that the funds are used in accordance with the Loan Agreement and/or the Procurement Plan shall be submitted with the Borrower's withdrawal application. Payment may be made (a) to reimburse the Borrower for payment(s) already made from its own resources, (b) directly to a third party (usually to a supplier or contractor), or (c) to a commercial bank for expenditures against a World Bank Special Commitment covering a commercial bank's letter of credit.⁷⁰ As emphasized in paragraph 1.2 of the Guidelines, the Borrower is legally responsible for the procurement. It invites, receives, and evaluates bids, and awards the contract. The contract is between the Borrower and the supplier or contractor. The Bank is not a party to the contract.

Bank's Role

3. As stated in paragraph 1.11 of the Guidelines, the Bank reviews the procurement procedures, documents, bid evaluations, award recommendations, and the contract to ensure that the process is carried out in accordance with agreed procedures, as required in the Loan Agreement. In the case of major contracts, the documents are reviewed by the Bank prior to their issue, as described in Appendix 1. Also, if, at any time in the procurement process (even after the award of contract), the Bank concludes that the agreed procedures were not followed in any material respect, the Bank may declare misprocurement, as described in paragraph 1.12. However, if a Borrower has awarded a contract after obtaining the Bank's

⁷⁰ A complete description of the Bank's disbursement procedures is provided in the Disbursement Handbook (available on the Bank's website at <http://www.worldbank.org/projects>).

“no objection,” the Bank will declare misprocurement only if the “no objection” was issued on the basis of incomplete, inaccurate, or misleading information furnished by the Borrower. Furthermore, if the Bank determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of the bidder, the Bank may impose the applicable sanctions set forth in paragraph 1.14 of the Guidelines.

4. The Bank has published *Standard Bidding Documents* (SBDs) for various types of procurement. As stated in paragraph 2.12 of the Guidelines, it is mandatory for the Borrower to use these documents, with minimum changes to address country- and project-specific issues. The prequalification and bidding documents are finalized and issued by the Borrower.

Information on Bidding

5. Information on bidding opportunities under ICB may be obtained from the General Procurement Notice and the Specific Procurement Notices as described in paragraphs 2.7 and 2.8 of the Guidelines. General guidance on participation, as well as advance information on business opportunities in upcoming projects, may be obtained from the World Bank website⁷¹ as well as from the Infoshop.⁷² Project Appraisal Documents (PAD) are also available from the Infoshop and on the Bank’s website upon approval of the loan.

Bidder’s Role

6. Once a bidder receives the prequalification or bidding document, the bidder should study the documents carefully to decide if it can meet the technical, commercial, and contractual conditions, and if so, proceed to prepare its bid. The bidder should then critically review the documents to see if there is any ambiguity, omission, or internal contradiction, or any feature of specifications or other conditions which are unclear or appear discriminatory or restrictive; if so, it should seek clarification from the Borrower, in writing, within the time period specified in the bidding documents for seeking clarifications.

⁷¹ <http://www.worldbank.org>

⁷² The Infoshop address is the World Bank address at 1818 H Street, N.W., Washington, D.C., 20433, U.S.A. The Project Database is available at: <http://www.worldbank.org/projects/>.

7. The criteria and methodology for selection of the successful bidder are outlined in the bidding documents, generally under Instructions to Bidders and Specifications. If these are not clear, clarification should be similarly sought from the Borrower.

8. In this connection it should be emphasized that the specific bidding documents issued by the Borrower govern each procurement, as stated in paragraph 1.1 of the Guidelines. If a bidder feels that any of the provisions in the documents are inconsistent with the Guidelines, it should also raise this with the Borrower.

9. It is the responsibility of the bidder to raise any issue of ambiguity, contradiction, omission, etc., prior to the submission of its bid, to assure submission of a fully responsive and compliant bid, including all the supporting documents requested in the bidding documents. Noncompliance with critical (technical and commercial) requirements will result in rejection of the bid. If a bidder wishes to propose deviations to a noncritical requirement, or propose an alternative solution, the bidder should quote the price for the fully compliant bid and then separately indicate the adjustment in price that can be offered if the deviation is accepted. Alternative solutions should be offered only when authorized in the bidding documents. Once bids are received and publicly opened, bidders will not be required or permitted to change the price or substance of a bid.

Confidentiality

10. As stated in paragraph 2.47 of the Guidelines, the process of bid evaluation shall be confidential until the publication of contract award. This is essential to enable the Borrower and Bank reviewers to avoid either the reality or perception of improper interference. If at this stage a bidder wishes to bring additional information to the notice of the Borrower, the Bank, or both, it should do so in writing.

Action by the Bank

11. Bidders are free to send copies of their communications on issues and questions with the Borrower to the Bank or to write to the Bank directly, when Borrowers do not respond promptly, or the communication is a complaint against the Borrower. All such communications should be addressed to the Task Team Leader for the project, with a copy to

the Country Director for the borrowing country and to the Regional Procurement Adviser. Names of Task Team Leaders are available in the PAD.

12. References received by the Bank from potential bidders, prior to the closing date for submission of the bids, will, if appropriate, be referred to the Borrower with the Bank's comments and advice, for action or response.

13. Communication received from bidders after the opening of the bids, will be handled as follows. In the case of contracts not subject to prior review by the Bank, the communication will be sent to the Borrower for due consideration and appropriate action, if any, and these will be reviewed during subsequent supervision of the project by Bank staff. In the cases of contracts subject to the prior review process, the communication will be examined by the Bank, in consultation with the Borrower. If additional data is required to complete this process, these will be obtained from the Borrower. If additional information or clarification is required from the bidder, the Bank will ask the Borrower to obtain it and comment or incorporate it, as appropriate, in the evaluation report. The Bank's review will not be completed until the communication is fully examined and considered.

14. Except for acknowledgment, the Bank will not enter into discussion or correspondence with any bidder during the evaluation and review process of the procurement, until award of the contract is published.

Debriefing

15. As stated in paragraph 2.65, if, after notification of award, a bidder wishes to ascertain the grounds on which its bid was not selected, it should address its request to the Borrower. If the bidder is not satisfied with the explanation given and wishes to seek a meeting with the Bank, it may do so by addressing the Regional Procurement Adviser for the borrowing country, who will arrange a meeting at the appropriate level and with the relevant staff. In this discussion, only the bidder's bid can be discussed and not the bids of competitors.

Appendix-L
(Referred to paragraph-58)
(Depreciation Schedule)

Sr No	Description of Assets	Fair life (years)	Depreciation at the value of the assets (90% of value – residual value)	Depreciation Rate %
A	Land (owned)	Infinity	-	-
	Land (leased)	Period of lease		
B	Plant and machinery in generating stations/including plant foundations			
i)	Hydro-electric	35	90	2.57
ii)	Thermal-electric/waste heat recovery ancillaries and plant	25	90	3.60
iii)	Liquid fuel/diesel/gas plants	15	90	6.00
b.	Cooling towers and circulating water systems	25	90	3.60
c.	Hydraulic works forming part of Hydroelectric systems including:			
i)	Dams, spillways, weirs, canals, reinforced concrete flumes and siphons	50	90	1.80
ii)	Reinforced concrete pipelines and surge tanks, steel pipelines, sluice gates, steel surge (tanks) hydraulic control valves and other hydraulic works	35	90	2.57
d.	Building & civil engineering works of permanent character excluding those mentioned above (including plant foundations)			
i)	Transformers (including foundations) having a rating of 100 kilo volt amperes and over	25	90	3.60
ii)	Others	25	90	3.60
f.	Switchgear including cable connections	25	90	3.60
g.	Lightning arrestors			
i)	Station type	25	90	3.60
ii)	Pole type	15	90	6.00

iii)	Synchronous condenser	35	90	2.57
h.	Batteries	5	90	18.00
i)	Underground cable including joint boxes and disconnected boxes	35	90	2.57
ii)	Cable duct system	50	90	1.80
i.	Overhead lines including supports:			
i)	Lines on fabricated steel operating at nominal voltages higher than 66 kv	35	90	2.57
ii)	Lines on steel supports operating at nominal voltages higher than 13.2 kilovolts but not exceeding 66 kilovolts	25	90	3.60
iii)	Lines on steel or reinforced concrete supports	25	90	3.60
iv)	Lines on treated wood supports	25	90	3.60
j.	Meters	15	90	6.00
k)	Self propelled vehicles	5	90	18.00
l.	Air conditioning plants			
i)	Static	15	90	6.00
ii)	Portable	5	90	18.00
m. i)	Office furniture and fittings	15	90	6.00
ii)	Office equipments	15	90	6.00
iii)	Internal wiring including fittings and apparatus	15	90	6.00
iv)	Street light fittings	15	90	6.00
n.	Apparatus let on hire			
i)	Other than motors	5	90	18.00
ii)	Motors	15	90	6.00
o.	Communication equipment			
i)	Radio and high frequency carrier system	15	90	6.00
ii)	Telephone lines and telephones	15	90	6.00
p.	Assets by way of transfer schemes or not otherwise mentioned in the above schedule	Reasonable period as determined by the commission on a case to case basis having regard to the nature, age and condition of		

		the assets at the time of its acquisition by Generating company/licensee
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APPENDIX-K

(Referred to paragraph -60)

(Annual Accounts)

CHECKLIST FOR COMPLIANCE OF ACCOUNTING STANDARDS

1. Disclosure of accounting policies (AS-1)

Sr.No	Check List	Yes	No	N/A	Remarks
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)

Sr.No	Check List	Yes	No	N/A	Remarks
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)

Sr.No	Check List	Yes	No	N/A	Remarks
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)

Sr.No	Check List	Yes	No	N/A	Remarks
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)

Sr.No	Check List	Yes	No	N/A	Remarks
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 its calculate, impact on current year profit and if material on subsequent year profit.				
8.	Refer these changes in Audit Report, if material.				

6. Depreciation accounting (AS-6)

Sr.No	Check List	Yes	No	N/A	Remarks
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. Check whether depreciation on all the assets of the company has been correctly worked out as per rates notified by regulator (HERC). The rates notified by HERC is given in Appendix L .				
4.	If yes, see the disclosure in accounting notes and mention in it 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)

Sr.No	Check List	Yes	No	N/A	Remarks
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)

Sr.No	Check List	Yes	No	N/A	Remarks
1.	Check in case of sales whether the seller has transferred all significant risk and rewards of ownership to the buyer and no effective control on the goods transferred is 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)

Sr.No	Check List	Yes	No	N/A	Remarks
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 any 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)

Sr.No	Check List	Yes	No	N/A	Remarks
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 operation.				
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. Accounting for Government grants (AS-12)

Sr.No	Check List	Yes	No	N/A	Remarks
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 is credited to profit and loss account and disclosed as an extra-ordinary item.				

12. Accounting for investments (AS-13)

Sr.No	Check List	Yes	No	N/A	Remarks
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)

Sr.No	Check List	Yes	No	N/A	Remarks
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 transfer or 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)

Sr.No	Check List	Yes	No	N/A	Remarks
1	Check type of enterprise-Level I or more than 50 employee or less than 50 employee				
2	Check short-term employment 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 disclosures requirements are complied with AS-15				
9	Check whether termination benefits (VRS) is expensed or if incurred upto 31-3-2009 is accordance with accounting policy.				

15. Borrowing costs (AS-16)

Sr.No	Check List	Yes	No	N/A	Remarks
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 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)

Sr.No	Check List	Yes	No	N/A	Remarks
1	Check whether AS-17 is applicable.				
2	If yes, ask enterprise to mark				

	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 asset, 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)

Sr.No	Check List	Yes	No	N/A	Remarks
1	See whether AS-18 is applicable				
2	If yes, follow the audit procedure prescribed in AAS-23				
3	Classify the related parties in to 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)

Sr.No	Check List	Yes	No	N/A	Remarks
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1	Check lease agreement				
2	Verify the Accounting policy as regards lease.				
3	Classify the lease to be financial or operation				
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)

Sr.No	Check List	Yes	No	N/A	Remarks
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 earning per share.				

20. Consolidated financial statements (AS-21)

Sr.No	Check List	Yes	No	N/A	Remarks
1	If company under and audit is holding and is listed, AS-21 applies				
2	Check whether the company is covered by exceptions prescribes 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)

Sr.No	Check List	Yes	No	N/A	Remarks
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 certainly while creating deferred tax asset for an absorbed depreciation and carry forward losses.				
7	Review deferred tax asset				
8	Apply transitional provision if applicable				
9	Present deferred asset and deferred tax liability in balance sheet after investment and unsecured loan respectively.				
10	Disclosure 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)

Sr.No	Check List	Yes	No	N/A	Remarks
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 enterprise.				

23. Discontinuing operations (AS-24)

Sr.No	Check List	Yes	No	N/A	Remarks
1	Whether the enterprise has entered into agreement or approval/announced to sell the substantially in its entirety or in piece-meal 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
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)

Sr.No	Check List	Yes	No	N/A	Remarks
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	Formal 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.No	Check List	Yes	No	N/A	Remarks
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				
8	Intangible asset to be recognized on disposal or when no further benefit 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)

Sr.No	Check List	Yes	No	N/A	Remarks
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 venture 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 to Level-II and Level-III enterprises.				

27. Impairment of assets (AS-28)

Sr.No	Check List	Yes	No	N/A	Remarks
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 (GCU)				
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 1-4-08 for Level-III enterprises.				

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

Sr.No	Check List	Yes	No	N/A	Remarks
1	Check whether there is present obligations a result of past event not recorded in books				
2	If yes, is it probable				
3	Can the amount be estimated reliability				
4	If yes, recognize the provision				
5	If there is possible obligation or amount cannot be estimated reliably disclose the contingent liability				
6	Ensure that happening of ever should not be remote for contingent liability				

7	Ensure that happening of ever should not be remote for contingent liability				
8	Contingent asset neither recognize nor disclosed.				
9	Few disclosure requirements are not applicable for Level- II and Level-III enterprises.				

APPENDIX-K(I)

(Referred to paragraph -61)

1. ISSAI 1000 General Introduction to the INTOSAI Financial Audit Guidelines

The INTOSAI Financial Audit Guidelines provide guidance for conducting financial audits of public sector entities. The INTOSAI Financial Audit Guidelines represent the fourth level (Auditing Guidelines) of the International Standards of Supreme Audit Institutions (ISSAI) Framework, where the Founding Principles constitute the first level, the Principles and Guidelines for SAIs constitute the second level and the Fundamental Auditing Principles (the INTOSAI Auditing Standards) constitute the third level.

The INTOSAI Financial Audit Guidelines include the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB). INTOSAI contributes to the development of those standards by participating in the IAASB Task Forces responsible for developing new standards or revising existing standards.

Practice Notes (PN), which are included in the INTOSAI Financial Audit Guidelines, provide relevant guidance on applying each ISA in financial audits of public sector entities in addition to that provided in the corresponding ISA.

In applying the INTOSAI Financial Audit Guidelines in financial audits of public sector entities, Supreme Audit Institutions recognize that the ISAs and the PNs together form the guidance. If referring in the auditor's report to the fact that the audit was conducted in accordance with the ISSAIs, public sector auditors comply with all the ISSAIs relevant to the audit, as explained in the section on authority

By comparison with the objectives of an audit of financial statements in accordance with the ISAs (i.e. to express an opinion whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework), the objectives of a financial audit of public sector entities may include additional audit and reporting responsibilities. For example, public sector auditors may be required to report on: a public sector entity's compliance or non-compliance with authorities, including budget and

accountability; the effectiveness of internal control over financial reporting; or on the economy, efficiency and effectiveness of programs, projects and activities.

The audit mandate for a Supreme Audit Institution, or the obligations for public sector entities arising from legislation, regulation, ministerial directives, government policy requirements,

The INTOSAI Financial Audit Guidelines do not contain detailed guidance on audit and reporting responsibilities relating to compliance with authorities. Such guidance is contained in the Compliance Audit Guidelines. The Financial Audit Guidelines, when applied together with the Compliance Audit Guidelines, are intended to provide public sector auditors with a comprehensive set of guidance for audits of financial statements in the public sector, when compliance with authorities is included in the objective.

2. ISSAI 1003 Glossary of Terms to the INTOSAI Financial Audit Guidelines

Accountability – The principle that individuals, organizations and the community are responsible for their use of public resources and may be required to explain the use of public resources to others.

Appropriation of funds – An authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority

Audit mandate – The auditing authority, responsibilities, discretions and duties conferred on a Supreme Audit Institution under the constitution or other lawful authority of a state.

Audit objective – The objectives of a financial audit in the public sector are often broader than expressing an opinion on whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework

Audit organization – An entity of professional accountants and other audit specialized professionals. In the private sector, the organizations may be a sole practitioner, partnership or corporation; in the public sector the organization may be a Supreme Audit Institution.

Audited entity – An organization, program, activity or function subject to audit.

Auditor General – The head of a Supreme Audit Institution constituted under the Auditor General Model.

Authorities – Relevant acts or resolutions of the legislature or other statutory instruments, directions and guidance issued by public sector bodies with powers provided for in statute, with which the audited entity is expected to comply.

Business risk – Refers to the risk that activities – including relevant programs, program strategies, and objectives will not be completed or achieved. In addition, risks related to issues such as the political climate, public interest, and program sensitivity or potential noncompliance with legislation or proper authority are relevant in the public sector context.

Compliance audit – Compliance audit deals with the degree to which the audited entity follows rules,

- 1 laws and regulation, policies, established codes, or agreed upon terms and conditions etc. Compliance auditing may cover a wide range of subject matters.

- 2 In performing compliance audits in the context of the INTOSAI Fundamental Auditing Principles, there are two concepts of significant relevance:

- (a) Regularity- the concept that activities, transactions and information which are reflected in the financial statements of an audited entity are in accordance with authorizing legislation, regulations issued under governing legislation and other relevant, laws, regulations and agreements, including budgetary laws and are properly sanctioned; and

- (b) Propriety- general principles of sound public sector financial management and conduct of public sector officials.

Comptroller General –The role of Auditor General may be combined with that of Comptroller. The Comptroller function is one of control rather than audit and is performed in advance of expenditure being incurred.

Engagement partner –The partner or other person in the audit organization who is responsible for the engagement and its performance, and for the report that is issued on behalf of the audit organization, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

Financial audit – An independent assessment, resulting in a reasonable assurance opinion, of whether an entity's reported financial condition, results, and use of resources are presented fairly in accordance with the financial reporting framework.

Government business enterprises –have all the following characteristics:

- (a) Is an entity with the power to contract in its own name;

- (b) Has been assigned the financial and operational authority to carry on a business;

- (c) Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;

- (d) Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and

- (e) Is controlled by a public sector entity.

Government entities – a governmental office, unit, agency, bureau, department, ministry, or a consolidated group of such entities.

Internal control – The whole system of financial and other controls, including the organizational structure, methods, procedures and internal audit, established by management within its corporate goals, to assist in conducting the business of the audited entity in a regular economic, efficient and effective manner; ensuring adherence to management policies; safeguarding assets and resources; securing the accuracy and completeness of accounting records; and producing timely and reliable financial and management information. *Jurisdiction* – The right and power to interpret and apply the law.

Legislature – An officially elected or otherwise selected body of people vested with the responsibility and power to make laws for a sovereign unit, such as a state or nation.

Legislation – A law or set of laws proposed by a government and made official by a parliament.

Performance audit – An audit of the economy, efficiency and effectiveness with which the audited entity uses its resources in carrying out its responsibilities, also known as Value for Money audit.

Practice Note – Included in the INTOSAI Financial Audit Guidelines. The Practice Note explains how to apply the ISA in a financial audit in the public sector. They also contain guidance relevant to audits of public sector entities in addition to what is provided for in the ISA.

Public sector auditor – A person or persons appointed under statute or agreement, a person or persons acting as the agent of a national audit agency or a Court of Accounts composed of judges.

Regularity audit – According to ISSAI 1005 regularity audit embraces:

- (a) attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements;
- (b) attestation of financial accountability of the government administration as a whole;
- (c) audit of financial systems and transactions, including evaluation of compliance with applicable statutes and regulations;
- (d) audit of internal control and internal audit functions;
- (e) audit of the probity and propriety of administrative decisions taken within the audited entity; and
- (f) reporting of any other matters arising from or relating to the audit that the Supreme Audit

Statutory – Decided or controlled by law.

Supreme Audit Institution – The public body of a State which, however designated, constituted or organized, exercises by virtue of law, the highest public auditing function of that State.

3. ISSAI 1200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing

This International Standard on Auditing (ISA) deals with the independent auditor's overall responsibilities when conducting an audit of financial statements in accordance with ISAs. In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an ISA. In such circumstances, the auditor shall perform alternative audit procedures to achieve the aim of that requirement. The need for the auditor to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective in achieving the aim of the requirement.

If an objective in a relevant ISA cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs, to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA 230.

4. ISSAI 1210 Agreeing the Terms of Audit Engagements

This International Standard on Auditing (ISA) deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, those charged with governance. The auditor is to accept or continue an audit engagement only when the preconditions for an audit (i.e acceptable financial reporting framework, internal control necessary to enable the preparation of financial statements that are free from material misstatement, provide the auditor with Access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters) are present; and confirming that there is a common understanding between the auditor and management. If the preconditions for an audit are not present the auditor shall not accept the proposed audit engagement. The auditor shall agree the terms of the audit engagement with management, the agreed terms of the audit engagement shall be recorded in an audit engagement letter and shall include:

- (a) The objective and scope of the audit of the financial statements;

- (b) The responsibilities of the auditor;
- (c) The responsibilities of management;
- (d) Identification of the applicable financial reporting framework for the preparation of the financial statements; and
- (e) Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.

The auditor shall not agree to a change in the terms of the audit engagement where there is no reasonable justification for doing so. If the terms of the audit engagement are changed, the auditor and management shall agree on and record the new terms of the engagement in an engagement letter or other suitable form of written agreement.

5. ISSAI 1220 Quality Control for an Audit of Financial Statements

This International Standard on Auditing (ISA) deals with the specific responsibilities of the auditor regarding quality control procedures for an audit of financial statements. The audit firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that the firm and its personnel comply with professional standards and applicable legal and regulatory requirements and the reports issued by the firm or engagement partners are appropriate in the circumstances. The engagement partner shall remain alert, for evidence of non-compliance with relevant ethical requirements by members of the engagement team. If matters come to attention that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action. The engagement partner shall evaluate the threat to independence for the audit engagement and take appropriate action for eliminate such threats or reduce them to an acceptable level by applying safeguards. The engagement partner shall be satisfied that the engagement team, collectively have the appropriate competence and capabilities to perform the audit engagement in accordance with professional standards and applicable legal and regulatory requirements. The engagement partner shall take responsibility for the direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements. On or before the date of the auditor's report, the engagement partner shall, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been

obtained to support the conclusions reached and for the auditor's report to be issued. The auditor shall include in the audit documentation issues identified with respect to compliance with relevant ethical requirements and conclusions reached.

6. ISSAI 1230: Audit Documentation

This International Standard on Auditing (ISA) deals with auditor's responsibilities to prepare Audit documentation for an audit of financial statements. The auditor shall document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place. The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of auditor's report. In circumstances, the auditor finds it necessary to modify existing audit documentation or add new documentation after the assembly of final audit file has been completed; the auditor shall, regardless of the nature of the modifications or additions, document:

- (a) The specific reasons for making them; and
- (b) When and whom they were made and reviewed.

7. ISSAI 1240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to fraud in an audit of financial statements, specifically, material misstatements due to fraud. Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional. Two types of intentional misstatements are relevant to the auditor – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. An auditor conducting an audit in accordance with ISAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement caused by fraud or error. The risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud. The auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist. Where responses to inquiries

of management or those charged with governance are inconsistent, the auditor shall investigate the inconsistencies.

8. ISSAI 1250 Consideration of Laws and Regulations in an Audit of Financial Statements

The requirements in this ISA are designed to assist the auditor in identifying material misstatement of the financial statements due to non-compliance with laws and regulations. Non-compliance may involve conduct designed to conceal it, such as collusion, forgery, deliberate failure to record transactions, management override of controls or intentional misrepresentations being made to the auditor. However, the auditor is not responsible for preventing non-compliance and cannot be expected to detect noncompliance with all laws and regulations.

The auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error. In conducting an audit of financial statements, the auditor takes into account the applicable legal and regulatory framework. A public sector auditor may be obliged to report on instances of non-compliance to the legislature or other governing body or to report them in auditor's report.

9. ISSAI 1260 Communication with Those Charged with Governance

This International Standard on Auditing (ISA) deals with the auditor's responsibility to communicate with those charged with governance in an audit of financial statements. Although the auditor is responsible for communicating, the management also has a responsibility to communicate matters of governance interest to those charged with governance. The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate.

The auditor shall communicate in writing at appropriate time the auditor's views about significant qualitative aspects of the entity's accounting practices, accounting policies, accounting estimates, financial disclosures and significant difficulties, if any, encountered during the audit with those charged with governance. The auditor shall evaluate whether the two-way communication between the auditor and those charged with governance has been adequate for the purpose of the audit. If it has not, the auditor shall evaluate the effect, if any,

on the auditor's assessment of the risks of material misstatement and ability to obtain sufficient appropriate audit evidence, and shall take appropriate action.

10. ISSAI-1265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management

This International Standard on Auditing (ISA) deals with the auditor's responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements. The auditor shall determine whether on the basis of audit work performed the auditor has identified one or more deficiencies in internal control which constitute significant deficiencies individually or in combination. The auditor shall communicate in writing significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis.

11. ISSAI 1300 Planning an Audit of Financial Statements

This standard deals with the auditor's responsibility to plan audit of financial statements. The auditor shall make plan and strategy to carry out the overall audit. The engagement partner and other key members of the audit team on the basis of experience should be involved in planning the audit to enhance overall effectiveness and efficiency of audit. The audit plans and strategy should be well documented and if significant change is made in audit plan and strategy the auditor should record the reasons for the same.

12. ISSAI 1315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment

This International Standard on Auditing (ISA) deals with the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements, through understanding the entity and its environment, including the entity's internal control. The auditor shall obtain an understanding of internal control relevant to the audit. If the auditor identifies risks of material misstatement that management failed to identify, the auditor shall evaluate whether there was an underlying risk of a kind that the auditor expects would have been identified by the entity's risk assessment process. If the auditor has determined that a significant risk exists, the auditor shall obtain an understanding of the entity's controls, including control activities, relevant to that risk. The auditor shall include in the audit

documentation the sources of information from which the understanding was obtained; and the risk assessment procedures performed.

13. ISSAI 1320 Materiality in planning and performing an audit

This International Standard on Auditing (ISA) deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements. Misstatements, including omissions, are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. When establishing the overall audit strategy the auditor shall determine materiality for the financial statement as a whole. In case of public sector entity legislature and regulator are often the primary users of the financial statements. Determination of the materiality for the financial statement as a whole is therefore influenced by law, regulation or other authorities and by the financial information needs of legislature and public. In the audit of public sector entity total cost or net cost may be appropriate benchmarks for programme activities.

14. ISSAI 1330 Auditor's Responses to Assessed Risks

This International Standard on Auditing (ISA) deals with the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement.

When evaluating the operating effectiveness of relevant controls, the auditor shall evaluate whether misstatements that have been detected by substantive procedures indicate that controls are not operating effectively. If there is significant risk, the auditor shall perform substantive procedures that are specifically responsive to that risk. The auditor shall consider the reasons for the assessment given to the risk of material misstatement at the assertion level for each class of transactions, account balance, and disclosure and obtain more persuasive audit evidence. When the approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details. The auditor shall perform audit procedures to evaluate whether the overall presentation of the financial statements, including the related disclosures, is in accordance with the applicable financial reporting framework.

15. ISSAI 1402 Audit Considerations Relating to an Entity Using a Service Organization

This International Standard on Auditing (ISA) deals with the user auditor's responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organizations. Services provided by a service organization are relevant to the audit of a user entity's financial statements, when those services and the controls over them are part of the user entity's information system. This ISA does not apply to services provided by financial institutions that are limited to processing for an entity's account held at the financial institution and the audit of transactions arising from proprietary financial interests in other entities such as partnerships, corporations and joint ventures.

The user auditor shall determine whether a sufficient understanding of the nature and significance of the services provided by the service organization and their effect on the user entity's internal control relevant to the audit has been obtained to provide a basis for the identification and assessment of risks of material misstatement. The user auditor shall evaluate the sufficiency and appropriateness of the evidences. The user auditor is unable to obtain sufficient appropriate audit evidence he should modify the opinion in the user auditor's report.

The user auditor shall not refer to the work of a service auditor in the user auditor's report containing an unmodified opinion unless required by law or regulation to do so. If reference to the work of a service auditor is relevant to an understanding of a modification to the user auditor's opinion, the user auditor's report shall indicate that such reference does not diminish the user auditor's responsibility for that opinion.

16. ISSAI 1450 Evaluation of Misstatements Identified during the Audit

This International Standard on Auditing (ISA) deals with the auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements. The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial and determine whether the overall audit strategy and audit plan need to be revised. The auditor shall communicate to the management all misstatements noticed during the audit with the request to correct them. The auditor shall evaluate the effect of uncorrected misstatements on entity's actual financial results. The auditor shall include in the audit documentation all misstatements accumulated

during the audit and conclusion as to whether uncorrected misstatements are material, and the basis for that conclusion.

17. ISSAI 1500 Audit Evidence

This standard deals with the auditor's responsibility to obtain sufficient and appropriate audit evidences to draw reasonable conclusions. The auditors shall design and perform procedures for obtaining audit evidences. It should be ensured that:

- a) Relevant, credible, accurate and complete audit evidence has been obtained;
- b) If evidence has been prepared using the work of a management expert, the auditor shall evaluate the appropriateness of that expert's work as audit evidence.
- c) If the evidence obtained from one source is inconsistent with that obtained from another source or the auditor has doubt over the reliability over the information to be used as audit evidence, audit procedure for collecting evidence shall be modified and the effect of the matter, if any, on other aspect of the audit shall be determined by the auditor.

18. ISSAI 1501 Audit Evidence –Specific Considerations for Selected Items

This Standard deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence in accordance with respect to certain aspects of inventory, litigation and claims involving the entity and segment information in an audit of financial statements. The auditor shall design and perform audit procedures to obtain sufficient appropriate audit evidence regarding:

- (a) Existence and condition of inventory;
- (b) Completeness of litigation and claims involving the entity; and
- (c) Presentation and disclosure of segment information in accordance with the applicable financial reporting framework.

If the auditor assesses a risk of material misstatement regarding litigation or claims that have been identified, the auditor shall seek direct communication with the entity's external legal counsel. The auditor shall obtain sufficient appropriate audit evidence regarding the presentation and disclosure of segment information in accordance with the applicable financial reporting framework.

19. ISSAI 1505 External Confirmation

This International Standard on Auditing (ISA) deals with the auditor's use of external confirmation procedures to obtain audit evidence. The auditor, when using external confirmation procedures, is to design and perform such procedures to obtain relevant and

reliable audit evidence. The auditor shall determine the information to be confirmed and collect the information from the appropriate party by sending requests. The auditor shall evaluate whether the results of the external confirmation procedures provide relevant and reliable audit evidence, or whether further audit evidence is necessary. If management refuse to allow the auditor to send a confirmation request and the auditor on the basis of evidence concludes that management's refusal to allow the auditor to send a confirmation request is unreasonable, or the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures, the auditor shall communicate with those charged with governance. The auditor shall evaluate whether the results of the external confirmation procedures provide relevant and reliable audit evidence, or whether further audit evidence is necessary.

20. ISSAI 1510 Initial Audit Engagement

This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to opening balances in an initial audit engagement. The auditor is to obtain sufficient appropriate audit evidence about misstatements that materially affect the opening balances of the current period's financial statements and appropriate accounting policies have been consistently applied or changes thereto are appropriately accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework. If the auditor concludes that the opening balances contain a misstatement that materially affects the current period's financial statements or the current period's accounting policies are not consistently applied in relation to opening balances or is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements, as appropriate.

21. ISSAI 1520 Analytical Procedures

This International Standard on Auditing (ISA) deals with the auditor's use of analytical procedures as substantive procedures. The auditor shall determine the suitability of particular substantive analytical procedures taking account of the assessed risks of material misstatement and evaluate the reliability of data taking account of source, comparability, relevance of information available and evaluate whether a misstatement that individually or when aggregated with other misstatements may cause the financial statements to be materially misstated and determine the amount of any difference of recorded amounts from

expected values that is acceptable without further investigation. The auditor shall design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

22. ISSAI 1530 Audit Sampling

This International Standard on Auditing (ISA) applies when the auditor has decided to use audit sampling in performing audit procedures. It deals with the auditor's use of statistical and non-statistical sampling. When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn. The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level. The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection. The auditor shall evaluate the results of the sample; and the use of audit sampling to provide a reasonable basis for conclusions about the population that has been tested.

23. ISSAI 1540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

This standard deals with auditor's responsibility relating to accounting estimates and disclosure in audit of financial statements. The auditor shall understand the process of making accounting estimates by management and the data on the base of which they are framed. The auditor shall identify and assess the risk of material misstatement associated with accounting estimates and evaluate whether accounting estimates are either reasonable or misstated in the context of applicable reporting framework. The auditor shall ensure that the accounting estimates that give rise to significant disclosure in the financial statements are included in their report. The auditors shall make documentation of the evidences of the auditor's conclusion about reasonableness of accounting estimates and their disclosure that give rise to significant risks.

24. ISSAI 1550 Related Parties

This standard deals with the auditor's responsibilities towards related party relationship and transactions. The auditor shall perform the audit procedures and related activities to obtain information relevant to identifying the risks of material misstatement due to error or fraud associated with related party relationship and transactions. Unless all of those charged with

governance are involved in managing the entity, the auditor shall communicate significant matters arising during the audit with those charged with governance. The auditor shall evaluate whether identified related party relationship and transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework.

25. ISSAI 1560 Subsequent events

This standard deals with the auditor's responsibility relating to subsequent events that require adjustment in audit of financial statements. The auditor shall perform the audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and date of the auditor's report that require adjustment or disclosure in the financial statements have been identified. If, as a result of the procedures performed the auditor identifies events that require adjustment of, or disclosure in, the financial statements, the auditor shall determine whether each such event is appropriately reflected in those financial statements in accordance with the applicable financial reporting framework. If, despite such notification, management or those charged with governance do not take these necessary steps, the auditor shall take appropriate action to seek to prevent reliance on the auditor's report.

26. ISSAI 1570 Going Concern

This standard deals with auditor's responsibility relating to management's use of the going concern assumption. The auditor shall obtain sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern assumption in the preparation of the financial statements. Based on the audit evidence obtained if a material uncertainty exists, the auditor shall determine whether the financial statements adequately describe the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions and disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and therefore that it may be unable to realize its assets and discharge its liabilities in the normal course of business. If adequate disclosure is not made in the financial statements, the auditor shall express a qualified opinion or adverse opinion in the auditor's report that there is a material

uncertainty that may cast significant doubt about the entity's ability to continue as a going concern.

27. ISSAI 1580 Written representation

This International Standard on Auditing (ISA) deals with the auditor's responsibility to obtain written representations from management and where appropriate, those charged with governance in an audit of financial statements. The auditor shall request management to provide a written representation that it has fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, as set out in the terms of the audit engagement. The date of the written representations shall be as near as practicable to, but not after, the date of the auditor's report. If written representations are inconsistent with other audit evidence, the auditor shall perform audit procedures to attempt to resolve the matter. If the matter remains unresolved, the auditor shall reconsider the assessment of the competence, integrity, ethical values or diligence of management, or of its commitment to or enforcement of these, and shall determine the effect that this may have on the reliability of representations and audit evidence in general and the auditor shall include the possible effects on the opinion in the auditor's report.

28. ISSAI 1600 Special considerations- audit of group financial statements (including the work of component auditors).

This ISA deals with special considerations that apply to group audits, in particular those that involve component auditors. A component auditor may be required by statute, regulation or for another reason, to express an audit opinion on the financial statements of a component. In that case, the group engagement team shall request group management to inform component management of any matter of which the group engagement team becomes aware that may be significant to the financial statements of the component, but of which component management may be unaware. If group management refuses to communicate the matter to component management, the group engagement team shall discuss the matter with those charged with governance of the group. If the matter remains unresolved, the group engagement team, subject to legal and professional confidentiality considerations, shall consider whether to advise the component auditor not to issue the auditor's report on the financial statements of the component until the matter is resolved.

29. ISSAI 1610 Using the Work of Internal Auditors

This International Standard on Auditing (ISA) deals with the external auditor's responsibilities relating to the work of internal auditors when the external auditor has determined the internal audit function is likely to be relevant to the audit. This ISA does not deal with instances when individual internal auditors provide direct assistance to the external auditor in carrying out audit procedures. The external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the external auditor's use of the work of the internal auditors. The objectives of the external auditor, where the entity has an internal audit function that the external auditor has determined is likely to be relevant to the audit, are:

- (a) To determine whether, and to what extent, to use specific work of the internal auditors; and
- (b) If using the specific work of the internal auditors, to determine whether that work is adequate for the purposes of the audit.

In determining whether the work of the internal auditors is likely to be adequate for purposes of the audit, the external auditor shall evaluate:

- (a) The objectivity of the internal audit function;
- (b) The technical competence of the internal auditors;
- (c) Whether the work of the internal auditors is likely to be carried out with due professional care; and
- (d) Whether there is likely to be effective communication between the internal auditors and the external auditor.

In determining the planned effect of the work of the internal auditors on the nature, timing or extent of the external auditor's procedures, the external auditor shall consider:

- (a) The assessed risks of material misstatement at the assertion level for particular classes of transactions, account balances, and disclosures; and
- (b) The degree of subjectivity involved in the evaluation of the audit evidence gathered by the internal auditors in support of the relevant assertions.

30. ISSAI 1620 Using the work of auditor's expert

This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to the work of an individual or organization in a field of expertise other than accounting or auditing, when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence. If auditor's expert has the necessary competence, capabilities and objectivity for the auditor's purposes the auditor shall agree, in writing about the nature, timing and extent of communication between the auditor and that expert, including the form

of any report to be provided by that expert. If the auditor makes reference to the work of an auditor's expert in the auditor's report because such reference is relevant to an understanding of a modification to the auditor's opinion, the auditor shall indicate in the auditor's report that such reference does not reduce the auditor's responsibility for that opinion.

31. ISSAI 1700 Forming an Opinion and Reporting on Financial Statements

This International Standard on Auditing deals with the auditor's responsibility to form an opinion on the financial statements. In order to form opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud or error. It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements.

The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

If the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement or has obtained audit evidence that the financial statements as a whole are not free from material misstatement, the auditor shall modify the opinion in the auditor's report.

Auditor's Report Prescribed by Law or Regulation

If the auditor is required by law or regulation of a specific jurisdiction to use a specific layout or wording of the auditor's report, the auditor's report shall refer to International Standards on Auditing only if the auditor's report includes, at a minimum, each of the following elements:

- (a) A title;
- (b) An addressee,
- (c) An introductory paragraph that identifies the financial statements audited;
- (d) A description of the responsibility of management for the preparation of the financial statements;
- (e) A description of the auditor's responsibility to express an opinion on the financial statements and the scope of the audit;
- (f) An opinion paragraph containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements
- (g) The auditor's signature;

- (h) The date of the auditor's report; and
- (i) The auditor's address.

32. ISSAI 1705

This International Standard on Auditing (ISA) deals with the auditor's responsibility to issue an appropriate report in circumstances when the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary.

The auditor shall modify the opinion in the auditor's report when the auditor concludes that the financial statements as a whole are not free from material misstatement; or the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

The auditor shall express a qualified opinion when the auditor concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

The auditor shall express an adverse opinion when the auditor concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

The auditor shall disclaim an opinion when the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

33. ISSAI 1706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

The objective of the auditor, having formed an opinion on the financial statements, is to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report, to:

(a) A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements; or

(b) As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:

(a) Include it immediately after the Opinion paragraph in the auditor's report;

(b) Use the heading "Emphasis of Matter," or other appropriate heading;

(c) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements.

If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report and this is not prohibited by law or regulation, the auditor shall do so in a paragraph in the auditor's report, with the heading "Other Matter," or other appropriate heading.

34. ISSAI 1710: Comparative Information- Corresponding Figures and Comparative Financial Statements

This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to Comparative Information in audit of Financial Statements. The objective of the auditor are to obtain sufficient appropriate audit evidence about whether the comparative information included in the financial statements has been presented, in all material respects, in accordance with the requirements for comparative information in the applicable financial reporting framework. The auditor shall evaluate whether:

(a) The comparative information agrees with the amounts and other disclosures presented in the prior period

(b) The accounting policies reflected in the comparative information are consistent with those applied in the current period or, if there have been changes in accounting policies,

whether those changes have been properly accounted for and adequately presented and disclosed.

If the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to modification is unresolved, the auditor shall modify the auditor's opinion on current period's financial statements.

35. ISSAI 1720 Auditor's responsibilities relating to other information in documents containing audited financial statements

This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to other information in documents containing audited financial statements and the auditor's report thereon. The auditor shall make appropriate arrangements with management or those charged with governance to obtain the other information prior to the date of the auditor's report. If it is not possible to obtain all the other information prior to the date of the auditor's report, the auditor shall read such other information as soon as practicable. The auditor shall read the other information to identify material inconsistencies, if any, with the audited financial statements. If the auditor identifies a material inconsistency the auditor shall determine whether the audited financial statements or the other information needs to be revised. If revision of the other information is necessary and management refuses to make the revision the auditor shall modify the opinion in the auditor's report along with communicating the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity.

36. ISSAI 1800 Special considerations in the application of those ISAs to an audit of financial statements prepared in accordance with a special purpose framework

This ISA deals with special considerations in the application of those ISAs to an audit of financial statements prepared in accordance with a special purpose framework. When applying ISAs in an audit of financial statements prepared in accordance with a special purpose framework, is to address appropriately the special considerations that are relevant to:

- (a) The acceptance of the engagement;
- (b) The planning and performance of that engagement; and
- (c) Forming an opinion and reporting on the financial statements.

The auditor shall determine the acceptability of the financial reporting framework applied in the preparation of the financial statements. The auditor's report shall describe the purpose for which the financial statements are prepared to the intended users or refer to a note in the special purpose financial statements that contains that information. The auditor's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose. The auditor shall include this paragraph under an appropriate heading.

37. ISSAI 1805 Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement

The International Standards on Auditing (ISAs) apply to an audit of financial statements and are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. In the case of an audit of a single financial statement or of a specific element of a financial statement, this shall include whether application of the financial reporting framework will result in a presentation that provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the element, and the effect of material transactions and events on the information conveyed in the financial statement or the element. The auditor shall not express an unmodified opinion on a single financial statement of a complete set of financial statements if the auditor has expressed an adverse opinion or disclaimed an opinion on the complete set of financial statements as a whole.

38. ISSAI 1810 Engagements to Report on Summary Financial Statements

This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to an engagement to report on summary financial statements derived from financial statements audited in accordance with ISAs by that same auditor.

The auditor shall accept an engagement to report on summary financial statements in accordance with this ISA only when the auditor has been engaged to conduct an audit in accordance with ISAs of the financial statements from which the summary financial statements are derived. If the auditor concludes that the applied criteria are unacceptable or is unable to obtain the agreement of management, the auditor shall not accept the engagement

to report on the summary financial statements, unless required by law or regulation to do so. When the auditor has concluded that an unmodified opinion on the summary financial statements is appropriate, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases:

(a) The summary financial statements are consistent, in all material respects, with the audited financial statements, or

(b) the summary financial statements are a fair summary of the audited financial statements.

If the auditor concludes that additional explanation in the auditor's report on the summary financial statements cannot mitigate possible misunderstanding, the auditor shall not accept the engagement, unless required by law or regulation to do so.

Appendix M

Check list to ensure compliance of Auditing & Assurance Standard 28

A Whether the audit report contains the following basic elements:

1. Title
2. Addressee
3. Opening Paragraph
4. Scope Paragraph
5. Opinion Paragraph
6. Date of Report
7. Place of Signature
8. Auditor's Signature

B 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 –

1. Qualified
2. Disclaimer
3. Adverse

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

APPENDIX-N

FORMAT FOR COMMENTS AS PER CAG'S CIRCULAR NO. 277/CA-II/CO-ORDINATION/INSTRUCTIONS/2006-07/82-2005, DATED 30.03.2007

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON TH ACCOUNTS OF HARYANA VIDYUT PRASARAN NIGAM LIMITED (HVPNL) FOR THE YEAR ENDED 31 MARCH -----

The preparation of financial statements of Haryana Vidyut Prasaran Nigam Limited (HVPNL) for the year ended-----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-----

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 Haryana Vidyut Prasaran Nigam Limited (HVPNL) for the year ended-----.

This supplementary audit has been carried out independently without access to working papers (in case of non-review of working papers) of the statutory auditors and is limited primarily to inquiries of the statutory auditor 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 Auditor's Report

E. Other Comments

(May be arranged in order of decreasing importance)

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

Place:

Signature

Date:

Name of the PAG/AG

FORMAT FOR NIL COMMENTS AS PER CAG'S CIRCULAR NO. 277/CA-II/COORDINATION/INSTRUCTIONS/2006-07/82-2005, DATED 30.03.2007

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF HARYANA VIDYUT PRASARAN NIGAM LIMITED (HVPNL) FOR THE YEAR ENDED 31 MARCH -----

The preparation of financial statements of Haryana Vidyut Prasaran Nigam Limited (HVPNL) for the year ended-----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-----

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 Haryana Vidyut Prasaran Nigam Limited (HVPNL) for the year ended----- . This supplementary audit has been carried out independently without access to working papers (in case of non-review of working papers) of the statutory auditors and is limited primarily to inquiries of the statutory auditor 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 and Auditor General of India**

Place:

Signature

Date:

Name of the PAG/AG

FORMAT FOR NON REVIEW CERTIFICATE AS PER CAG'S CIRCULAR NO. 277/CA-II/CO-ORDINATION/INSTRUCTIONS/2006-07/82-2005, DATED 30.03.2007

**COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA
UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON TH ACCOUNTS OF
HARYANA VIDYUT PRASARAN NIGAM LIMITED (HVPNL) FOR THE YEAR
ENDED 31 MARCH -----**

The preparation of financial statements of Haryana Vidyut Prasaran Nigam Limited (HVPNL) for the year ended-----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-----

I on behalf of the Comptroller and Auditor General of India have decided not to review the report of Statutory Auditors' on the accounts of Haryana Vidyut Prasaran Nigam Limited (HVPNL) for the year ended 31 March ----- and such have no comments to make under section 619(4) of the Companies Act, 1956

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

Place:

Signature

Date:

Name of the PAG/AG

**PROFORMA ON THE PERFORMANCE OF AUDITORS OF GOVERNMENT
COMPANIES & CORPORATION**

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

A	Basic Data			
(i)	Name of the Company/Corporation			
(ii)	Name of the Branch/Unit of the Company /Corporation audited	–		
(iii)	Year of Account			
(iv)	Name of Statutory Auditors and Branch Auditors			
(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.)
		TA	DA	
(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	
			(ii) VAT Audit	
			(iii) Half yearly Financial Reviews/Quarterly Financial	
			(iv)Reviews	
			(v) Others (specifying the nature of services rendered)	
			Total (Rs)	

B	Parameters for assessing the performance of auditor	
1	Has the Statutory Auditors failed to report any non-compliance of Accounting Standard by the Company management?	
2	Has the Statutory Auditors failed to report on all the assertions as specified in Section 227(2) and (3) of the Companies Act 1956?	
3	Whether the Statutory Auditors failed to report on any matter specified in Companies Auditors Report Order, 2003 ?	
4	Whether the Statutory Auditors 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 Statutory Auditors failed to report non-compliance of any of the requirements prescribed by any Regulatory authorities viz Securities and Exchange Board of India, Insurance Regulatory Development Authority, Reserve Bank of India, Department of Public Enterprises, National Housing Board and Administrative Ministry etc. regarding preparation of financial statements?	
6	Whether the Statutory Auditors failed to state (whether possible) the effect of individual qualification and total effect of all the qualifications on profit or loss or state of affairs?	
7	Whether the Statutory Auditors failed to attend all the meetings convened by the DG/MAB/PAG/AG as and when convened by the DG/MAB/PAG/AG ?	
8	Whether the Statutory Auditors failed to submit Report under section 619(3)(a) of the Companies Act 1956 within one month of statutory auditors report ?	
9	Whether the auditor delayed the audit and submission of Audit Report without proper justification.	

C	Assessment of performance of Statutory Auditor (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)	Whether any special memo was issued to statutory auditors spelling out the various failures/lapses on account of which their performance is proposed to be considered as unsatisfactory?	
b)	Date of issue of special memo the Auditor.	
c)	Date of reply of the auditor to the special memo.	
d)	Whether the auditor was given an opportunity for personal hearing in case they desired to be heard in person.	
(iii)	The following documents are to be enclosed	
1	A copy of the special memo to the auditors.	
2	A copy of Auditor's reply to the special memo (or the fact of his failure to reply within a reasonable time)	
3	Remarks of the DG/PAG/MAB/AG on the reply of the Auditor in aide-memoire form	
4	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	

Principal Accountant General

COMPLIANCE CERTIFICATE/ MEMORANDUM OF ASSURANCE

(to be enclosed with each Audit & Inspection Report)

The Audit of the Accounts of the O/o the -----
----- for the year ----- has been conducted as per
guidelines/checklist for audit of Fraud and Corruption issued vide letter no. CA-I/Audit of
Fraud and Corruption /2007-08/449-57 dated 24-7-2007. During the audit, no such case of
fraud/corruption was noticed/* ----- cases were noticed which have been reported in the
Audit & Inspection Report at Para no. -----.

Senior Audit Officer

Audit Party

COMPLIANCE CERTIFICATE OF AUDITING STANDARDS

(to be enclosed with each Audit & Inspection Report)

The Audit of the Accounts of the -----
----- for the year ----- has been conducted in
conformity with the Auditing Standards issued by the Comptroller and Auditor General of
India.

Senior Audit Officer

Audit Party

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/Section 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 DAG's /AG 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 DAG/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 attend the meetings convened for planning and finalization of audit of accounts. If not details of the meetings not attended. (To be filled by DAG/AG's	
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 Auditor's 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 (<i>A Check list is enclosed as Annexure-I</i>)	
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. ¹	
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 ?	

¹ 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.

	ii. Has the auditor stated the reasons for the qualification?	
	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 qualification on profit or loss or state of affairs.	
	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 Auditors Report u/s 227. If not the date of receipt of report.	
6	Has the auditor complied with all direction issued u/s 619(3) (a) and sub-directions issued?	
7	Whether Statutory Auditors has shared his working papers with the Audit Team as and when asked for.	
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 ' <i>Guidance Note on Revisions of Auditor's Report</i> '.	
10	Whether Statutory Auditors has issued any communication to those charged with Government under AAS 27? If yes, whether the same has been reviewed. ²	
11	Is there any material evidence regarding non-compliance with any Auditing and Assurance Standards by the Auditor? ³	
II	Review of Financial Statements	
	Whether the following have been verified?	

² 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.

³ 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.

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. ⁴	
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 auditor have signed their report only after adoption of previous years 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 check 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 required in Section 211 (3A) of Companies Act 1956	
2	Cases of non compliance if any noticed during test check. (A Check list is enclosed as Annexure II)	
3	(i) Whether the company has made disclosures as required in Section 211 (3B) of Companies Act 1956 and	

⁴ List of the areas where the entity should frame accounting policy as given in AS-I, can be considered as significant areas. In addition to this, based on the experience, DAG/AG's 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 policies remain the same.

4	(ii) IF not. Whether the Statutory Auditors has 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 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 DAG/AG's 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 Sr.DAG/DAG (HQ)

CERTIFICATE

Certified that there is no loss due to fire, theft, fraud, corruption or misappropriation of funds in the-----
----- during the audit period i.e. year –

Sr. Audit Officer

Group-.....



PAYMENT OF MINIMUM WAGES

Certified that wages paid to the labourers in the -----
----- was in accordance with the Payment of Minimum Wages Act, 1948 or D.C
Rates during the year-----

Sr. Audit Officer

Group-.....

PAYMENT OF MINIMUM WAGES

Certified that wages paid to the labourers in -----
----- was in accordance with the Payment of Minimum Wages Act, 1948 or D.C Rates
during the year -----

Senior Audit Officer

Group-.....

TITLE SHEET OF THE INSPECTION REPORT

(TO BE SUBMITTED WITH EVERY INSPECTION REPORT)

	Part I General	
1	Name of the concern audited:	
2	Name of party personnel:	
	(i) Local Audit officer:	
	(ii) Asst Audit Officer / SO:	
	(iii) Senior Auditor / Auditor:	
3	Period of audit / year of A/Cs:	
4	Months selected for audit:	
5	Duration of audit (extension granted should be shown separately)	
6	Whether any change in the time allotment is necessary for future audit? If so, justification therefore:	
7	No. of potential draft paras included in Part 1-B of the Inspection Report:	
8	Paragraphs, if any, to be reported to higher authorities in advance and / or to be brought to the special notice of Headquarters:	
9	Whether all items required to be checked as per Manual of Commercial Audit (Part – II) relating to this company / corporation or codified elsewhere have been checked? The items if any, left unchecked may be enumerated with reasons therefore, whether these items can wait for the next audit or should special audit party be sent?	
10	General remarks, if any:	
11	Actual date of submission of report / comments:	

	Part B (FOR PHASE AUDIT)	
1	Whether Part (A&B) and II of the Inspection Report has been discussed with the Head of the undertaking inspected?	
2	Whether statement –I showing allocation of duties among the members of the party has been enclosed:	
3	Whether the quantum prescribed for audit was completed? Are there any points which could not be investigated during the current audit and which required investigation in the next audit? If so, these should be listed with reasons for not checking them during the course of current audit indicating the records from which these were checked during the audit and also the records from which these should be checked in the next audit.	
4	Whether a daily diary indicating the documents /records checked by A.O/S.O/ Sr.Au/ Auditor has been maintained and submitted the headquarters?	
5	Whether a statement of persistent irregularities has been attached?	
6	Whether an introductory para and the chapter for the technical manual has been prepared? If the manual has already been prepared, whether any change there in is required? If so, whether the same has been indicated?	
7	Whether there has been delay on the part of management in replying to the audit queries for more than 7 days in case of resident audit, 3 days in case of other audit? If so, in how many cases?	
8	Whether all the points indicated in the register of important points and points marked for next audit by the hqrs section have been reviewed and action taken thereon?	

9	Indicate the position of outstanding para in respect of Audit Report (Para – II) as under:				
Period of Audit/ Report	No. of paras outstanding (opening)	No. of paras settled	No. of paras outstanding (closing)	Reasons for the paras remaining outstanding	
1	2	3	4	5	
	(FOR ACCOUNT AUDIT)				
1	List out the important items test checked and indicated there against if any comment has been proposed. (Yes/No)				
2	Whether the points raised in the draft comments have been personally by the LAO with the Head of undertaking and whether the facts mentioned there in have also been verified by him.				
3	Whether the draft comments proposed on accounts of earlier years that dropped by the audit party or the Headquarters office on the assurance of the managements to take out suitable action , have been verified to see that action , as promised , has been taken?				
				Signature of Sr. Audit Officer	

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 o f CA firm)

Auditor's signature

(Name and membership No.)

Date:

DISCLAIMER STATEMENT

The Inspection report has been prepared on the basis of information furnished and made available by office of _____. The office of the Principal Accountant General (Audit) Haryana, Chandigarh disclaims anyb responsibility for any information and/mis-information on the part of auditee.

Sr. Audit Officer

Group-----

