Chapter 1

Introduction

Basic authority for audit of autonomous bodies

1.01: The functions of the Comptroller and Auditor General of India are derived mainly from the provisions of Articles 149 to 151 of the Constitution of India. Article 149 provides that the Comptroller and Auditor General shall perform such duties and exercise such powers in relation to the accounts of the Union and of the States and of any other *authority or body* as may be prescribed by or under any law made by Parliament. The term, 'by laws' is interpreted to mean provisions in the main Acts framed by the Parliament and the term "under law" refers to the provisions in subordinate legislation having the force of law e.g., rules and regulations framed by Governments under powers vested in them in the parent Acts and declared to have been so framed under such powers. The Parliament pursuant to the provisions of the said Article of the Constitution of India has passed The Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, as amended in 1976, 1984 and 1987. The said Act has also been referred to in this Manual as 'the Act' hereinafter. Sections 14, 15, 19 and 20 of the Act empower the Comptroller and Auditor General of India to conduct audit of bodies / authorities and to perform such duties and exercise such powers in relation to them as prescribed under the Act.

No law of a State Legislature can cast any duties or confer any power on the Comptroller and Auditor General or his representatives. Likewise, the duties and powers of the Comptroller and Auditor General prescribed by law made by Parliament cannot be superseded or abridged by or under any law made by any State Legislature.

Meaning of body or authority

1.02: The words "body" and "authority", used in Article 149 of the Constitution, have not been defined either in the Constitution or in the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, wherein also these words have been used. However, "authority" has been interpreted by the Attorney General of India to mean a person or body exercising power or command vested in it by virtue of provisions in the Constitution or Acts passed by the Parliament or the State Legislatures. "Body" has been interpreted by him to mean an aggregate of persons, whether incorporated or unincorporated. The expression ‘body’ would therefore include institutions or organisations set up as autonomous organisations under specific statutes or as a society registered under the Societies Registration Act, 1860 or Indian Trust Act 1882 or other statutes, voluntary organisations or non-governmental organisations, Urban and Rural local self government institutions, co-operative societies, societies or clubs etc.

Coverage

1.03: This Manual is intended to assist in the conduct of audit of all bodies and authorities, which are of varying character and discipline and are either non-commercial in nature or though commercial in certain respects, are intended to perform certain specified services of public utility or to execute certain programs and policies of Government. Such bodies or authorities include Major Port Trusts, Dock Labour Boards, Central Universities, National Institutes of Technology, Indian Institutes of Technology, Indian Institutes of Management, other educational and cultural institutions, health and research institutions, commodity boards, social security organizations, regulatory authorities etc.

Applicability of the various sections of the Act

1.04: The duties and powers of the C&AG with reference to the audit of autonomous bodies flow from statute. However, it is also desirable to persuade the Governments to include in the conditions of grants, loans or investments an enabling clause to the effect that the books and accounts of the recipient institution shall be made available to the Comptroller and Auditor General of India for his scrutiny or audit wherever, and whenever, necessary. It is clarified in this connection that provisions of Section 18 of the Act are applicable to audit under Sections 14, 15, 19 or 20 as they are applicable to audit under Sections 13 and 16 of the Act.

Audit Objectives and Scope

1.05: As far as the audit of accounts is concerned, for all practical purposes, there is no distinction between “audit of receipts and expenditure” referred to in Section 14 of the Act and “audit of accounts” referred to in Sections 19 and 20. The objectives of audit of accounts or audit of receipt & expenditure of bodies and authorities under Sections 14, 19 and 20 of the Act are three-fold: the first is to check that the transactions comply to relevant laws, rules and regulations, (compliance audit), the second is concerned with the certification of annual accounts (financial audit) and third is to conduct performance audit to assess economy, efficiency and effectiveness of various activities/programmes undertaken by these bodies (Performance Audit). The scope of audit under all these Sections can cover all these objectives depending on the facts of each case. In practice, however, the certification of annual accounts is undertaken only under the provisions of Sections 19 and 20.

Audit in public interest

1.06: It is pertinent to quote the following observations of the Public Accounts Committee of Parliament contained in its 18th Report of 2nd Lok Sabha:

"They also recommend that the Comptroller and Auditor General who is responsible for their audit, should, in addition to the normal expenditure audit, undertake an achievement audit of these organizations indicating, *inter alia,* their original targets and achievements".

Performance Audit

1.07: It is inherent in the powers of the Comptroller and Auditor General to make regulations under Section 23 of the Act, and has right to prescribe and conduct efficiency-cum-performance audit of any body or authority.

The performance audit, also referred to as 'Value for Money' audit has been defined as 'an audit of the economy, efficiency and effectiveness with which the audited entity uses its resources in carrying out its responsibilities'. The meaning of the various terms used in the definition of performance audit are as follows:-

- Economy is '*minimising the cost of resources used for an activity, having regard to the appropriate quality.* Economy issues focus on the cost of the inputs and processes. Economy occurs where equal-quality resources are acquired at lower prices.
- Efficiency is *'the relationship between the output, in terms of goods, services or other results, and the resources used to produce them'.* Efficiency exists where the use of financial, human, physical and information resources is such that output is maximized for any given set of resource inputs, or input is minimized for any given quantity and quality of output.

- Effectiveness is *'the extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity'. Effectiveness* addresses the issue of whether the program/activity has achieved its objectives. When focusing on effectiveness, it is important to distinguish between the immediate outputs (or products) and the ultimate impacts (or outcomes). Effectiveness is achieved, for instance, where there is improved achievement of a program's objectives. Outcomes are important to the effectiveness of programs/activities but may be more difficult to measure and assess than the inputs and outputs. Outcomes will often be influenced by external factors and may require long-term rather than short-term assessment.

Preparation of detailed instructions and manual by respective audit offices

1.08: The instructions given in this manual are intended to cover common aspects relating to the audit of various autonomous bodies. In such a compilation it will not be possible to cater to all contingencies that may arise or are peculiar to specific organizations. The Field Offices are therefore, advised to incorporate a separate section in their Office Manuals on the audit of autonomous bodies.

Delegation of powers

1.09: This manual has been compiled under the provisions of Section 23 of the Act which authorizes the Comptroller and Auditor General to make regulations for carrying into effect the provisions of the Act in so far as they relate to the scope and extent of audit.

Repeal and savings

1.10: The instructions in this manual are supplemental to those contained in the Comptroller and Auditor General's Manual of Standing Orders (Audit), second edition-2002. Further, any instructions contained in this Manual, which are conflicting with those given in the Manual of Standing Orders, may be deemed to be clarificatory in nature. In cases of doubt reference may be made to the office of the Comptroller and Auditor General of India.

Chapter 2

Audit of Autonomous Bodies under Section 14 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

Legal Provisions

2.01: Section 14 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 deals with the audit of receipts and expenditure of bodies or authorities substantially financed from Union or State Revenue. It reads as under :-

"14(1) Where any body or authority is substantially financed by grants or loans from the Consolidated Fund of India or of any State or of any Union Territory having a Legislative Assembly, the Comptroller and Auditor General shall, subject to the provisions of any law for the time being in force applicable to the body or authority, as the case may be, audit all receipts and expenditure of that body or authority and to report on the receipts and expenditure audited by him.

Explanation – Where the grant or loan to a body or authority from the Consolidated Fund of India or of any State or of any Union Territory having a Legislative Assembly in a financial year is not less than rupees twenty-five lakh and the amount of such grant or loan is not less than seventy five percent of the total expenditure of that body or authority, such body or authority shall be deemed, for the purposes of this sub-section, to be substantially financed by such grants or loans as the case may be.

(2) Notwithstanding anything contained in sub-section (1), the Comptroller and Auditor General may with the previous approval of the President or the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, audit all receipts and expenditure of any body or authority where the grants or loans to such body or authority from the Consolidated Fund of India or of any State or of any Union Territory having Legislative Assembly, as the case may be in a financial year is not less than rupees one crore.

(3) Where the receipts and expenditure of any body or authority are by virtue of the fulfillment of the conditions specified in sub-section (1) or sub-section (2) audited by the Comptroller and Auditor General in a financial year, he shall

continue to audit the receipts and expenditure of that body or authority for a further period of two years notwithstanding that the conditions specified in sub-section (1) or sub-section (2) are not fulfilled during any of the two subsequent years."

Essential Ingredients

2.02: Thus, the essential ingredients for any institution to attract audit under the above Section are :-

(i) The grant and / or loan must be to a body or authority, as explained in Paragraph 1.02 of this Manual.

(ii) The terms 'body' and 'authority' used in the Act and, indeed, in the Constitution have a wide connotation and include a Company or Corporation. Thus, if a Company or Corporation is not covered by Section 19(1), 19(2), or 19(3) of the Act it is open, strictly speaking, to take up audit under Section 14(1), 14(2) or 20(2), as the case may be, subject to the conditions specified in each section being satisfied.

(iii) The grant or loan must have been paid out of the Consolidated Fund of India or of the States.

(iv) The autonomous body must be "substantially financed" by grant or loan in accordance with the explanation of that term given in the Section.

(v) An Institution which receives grant or loan of rupees one crore and above and such grant or loan forms more than 75 per cent of its total expenditure will continue to be audited under Section 14(1). Only when the latter condition is not satisfied it will come under Section 14(2).

(vi) Audit will be 'subject to the provisions of any law, for the time being in force', applicable to the autonomous body / *authority concerned*. The said clause is interpreted to mean that our audit will co-exist with and complement the audit arrangements that may be specified in such law.

Explanatory Notes

Grants / Loans from Consolidated Fund only

2.03: The grant or loan must be paid from the Consolidated Fund. Accordingly, if any grant or loan is financed from funds available with the Governmetnt outside their Consolidated Fund, such grants or loans cannot be taken into account for the purposes of Section 14.

Assignment of Government Revenue

2.04: The Government concerned may authorize an autonomous body to collect specified taxes and duties and appropriate the revenue so collected for specified purposes. In such cases the revenue is finally accounted for in the Consolidated Fund and the same can be treated as grants for the purpose of Section 14.

Unspent grants / loans of previous years

2.05: If the aggregate of the grant and/or loan in any financial year together with the carried over unutilised portion of grant/loan given to that body / authority in the preceding financial year is not less than Rs. 25 lakh then that body or authority will be covered by sub-section 14(1) of the Act if the other condition i.e. the assistance not being less than 75 percent of the total expenditure of that body/ authority in that year is also fulfilled. When the accounting year of a body or authority is not identical with the financial year of Government (e.g. cooperative societies), the test for determining whether the body or authority falls under Section 14 may be applied with reference to the normal accounting period of the particular body or authority.

Total Expenditure

2.06: The term 'total expenditure' used in the 'Explanation' under Section 14(1) of the Act, is to be interpreted to mean both revenue and capital expenditure. In respect of institutions running business (e.g. sale of Khadi by State Khadi Boards, disbursement of loans by financing institutions as an activity etc.) the expenditure incurred on purchase of raw material, finished goods, disbursement of loans etc., should also be treated as expenditure. However, payments of purely deposit nature (such as deposits for works done, income tax recoveries, advances to staff, investments of cash balance and transfer of cash between office and bank etc.) should not be regarded as expenditure for the purpose of Section 14.

Governing laws of the autonomous bodies

2.07: Audit under Section 14 is "subject to the provisions of any law for the time being in force applicable" to the autonomous body. The intention behind this provision is that audit under Section 14 should take into account all provisions in the law governing the autonomous body and in particular, it is not intended to replace any audit arrangement envisaged in the relevant law governing the autonomous body. Audit under Section 14 is in addition to audit envisaged in the relevant law and one is not intended to replace the other but both are complementary and have to co-exist. The cases where Comptroller and Auditor General's audit has been precluded by way of a provision – express or by way of necessary implication – in the law governing the body or authority otherwise falling under Section 14 of the Act may be reported to Comptroller and Auditor General's office for an appropriate decision.

Audit of bodies/authorities working under an Apex body

2.08: Legal difficulties may arise in bringing societies receiving the financial assistance from Apex bodies under the scope of Section 14 of the Act. However, in case the Apex body itself comes under audit purview under Section 14 its records may be scrutinized to see whether they have adequate arrangements to follow up the grants / loans given to the Societies. If the arrangements are not found satisfactory the matter may be discussed with the Head of the Apex body in the course of which a suggestion may be made that the accounts of the recipient bodies may be subjected to audit by the Comptroller and Auditor General. Such requests from the apex body will be sufficient authority for the *concerned Audit Office* to conduct the audit of such Societies as a part of audit of the Apex body.

Procedure for taking up Audit

Collection of data

2.09: It is necessary to identify, every year, the autonomous bodies and grantee institutions (including NGOs) that attract audit under Section 14. For this purpose, a list of autonomous bodies and grantee institutions in receipt of grants and loans from the Consolidated Fund has to be compiled.

The General Financial Rules of Central as well as State governments provide for endorsement of copies of financial sanctions to the concerned audit office. For instance Rule 29 of GFRs 2005 of Central Government provide that copies of all financial sanctions barring certain exceptions are to be endorsed to the concerned Audit Offices. Suitable procedure for their receipt and scrutiny should be evolved. It has also to be ensured that copies of sanctions issued by subordinate authorities are also endorsed to the concerned Audit Office. In either case, it is necessary for the audit offices to compile with reference to the sanctions accorded, a record in a form to be locally decided, of grants and loans sanctioned for payment to various autonomous bodies. This record, compiled for each sanctioning authority, should be reconciled periodically with the records of the sanctioning authorities (e.g. Register of Grants in GFR Form 39 to be maintained by the sanctioning authorities) either by personal contact or by obtaining periodical returns, whichever is found effective. For this purpose, a working schedule has to be drawn up by each audit office in consultation with the concerned Governments, whereby the audit offices are in a position to obtain / collect, by a prescribed date, data of grants and loans disbursed in every financial year to various bodies and authorities by a determined date. Particulars of sanctioned orders issued are also available on the websites of the respective Ministries of Central Government / State Government .

The data in respect of grants and loans may also be accessed from the records – computerized or otherwise of Pay and Account offices / Departments / offices of Accountants General (A&E). The instructions contained in paragraph 15.07 may also be kept in view in regard to collection of data on autonomous bodies / NGOs etc.

Posting of data and examination of accounts of assisted bodies for ascertaining applicability of Section 14

2.10: The concerned office may decide the form and manner in which the data so collected is recorded. From the details so recorded a list of bodies receiving grant/loan of not less than Rs. 25 lakh should be prepared and their auditability, under Section 14(1) should be ascertained by obtaining their accounts / details of expenditure through sanctioning authorities or otherwise. Rule 211 of Central GFRs provide that the accounts of all grantee institutions shall be open to inspection by the sanctioning authority and audit (both C&AG and internal audit by Pr.Accounts Office of the Ministry / Department). State AGs should examine whether provisions on the line of Rule 211 of Central GFRs exist in the respective State GFRs. In case of absence of such provisions, they should take up the matter with State Government for incorporating such provisions citing provisions of Central GFRs.

Working arrangement

2.11: Since the work of collecting data on grants and loans and annual accounts of the bodies may involve a series of correspondence with the sanctioning authorities, which can result in inordinate delays in determining the bodies that should be audited, a suitable working arrangement may be evolved by the audit offices in consultation with the Finance Department / Ministry of the Government and compliance thereof strictly watched. Further, for expediting the identification of bodies attracting audit under Section 14, officials may be assigned from the audit offices to scrutinise the records of grants (e.g. Register of Grants in GFR Form 39 to be maintained by the sanctioning authorities) and loans kept by the sanctioning authorities and to initiate timely action, but it is always preferable to ensure that the data so collected is authenticated or confirmed by communication from the concerned sanctioning authorities. The system should be streamlined so that no autonomous body is left out inadvertently.

List of autonomous bodies to be audited

2.12: Having ascertained the autonomous bodies that fall under Section 14 in a year, the list of autonomous bodies to be audited in a year should be drawn up and a suitable audit plan developed. Simultaneously, the concerned department of the Government should be addressed to notify the autonomous bodies concerned that the audit of their accounts would be taken up by the Audit Officer concerned under Section 14 and that for this purpose, their books of accounts and other records be made available and necessary facilities provided to the Audit Officer.

Compilation of State-wise list

2.13: While collecting the information regarding autonomous bodies/authorities receiving grants/loans from the Consolidated Fund, if the Audit Officer come across the case(s) of grants/loans being given to body(s)/authority(s) situated in the audit jurisdiction of some other audit office, the audit officer so collecting the information shall prepare list(s) of such autonomous bodies indicating the necessary details and furnish the same to the audit officer in whose audit jurisdiction the autonomous body falls. This information should be given in the form of an annual return. The dispatch of the return and its receipt should be watched through the calendar of returns by the respective offices.

Taking up audit

2.14: The decision regarding the audit of autonomous bodies financed by the Central/State Government, where justified can be taken by the concerned audit office.

The parameters for examining the justification for taking up audit under Section 14(2) or 20(2) or for asking for the right of access to the books of the recipient bodies under Section 15(2) are as under:-

(i) control by the sanctioning agency is inadequate,

(ii) the state of accounts is known to be unsatisfactory,

(iii) there are chronic delays in the finalization / submission / audit of accounts,

(iv) there are no arrangements for audit by an agency outside the control of the institution,

(v) there are persistent losses in respect of institutions undertaking manufacturing or trading activities, and

(vi) Government stands guarantee for large amounts even though the amount of grant, loan or investment, as the case may be, is small.

2.15: Since audit under Section 14 is subject to provisions of any law for the time being in force applicable to the body or authority, it is always preferable that Audit under Section 14 is taken up only after the annual accounts are audited and certified by the Auditor appointed for the purposes by the autonomous bodies/ Government, in accordance with the legal provisions relating to the body. Where, however, no regular Auditors have been appointed and/or annual audit has been in arrears for a considerable long period, there is no objection for audit under Section 14 to be taken up first but in such cases, audit should be so conducted as to see that in case the C&AG is required to certify the accounts also, the accounts can be duly certified.

Chapter 3

Audit under Section 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971

Legal Provisions

Provisions of Section 15 of the Act

3.01: This section deals with the functions of Comptroller and Auditor General in the case of grants or loans given to other authorities or bodies. The section envisages scrutiny of procedure of departments and agencies giving grants or loans to outside institutions for specific purpose with a view to examining as to how such departments/agencies satisfy themselves as to the fulfillment of the conditions subject to which such grant or loan is given.

The provisions of the Section 15 of the Act are as under:-

"15(1) Where any grant or loan is given for any specific purpose from the Consolidated Fund of India or of any State or of any Union Territory having a Legislative Assembly to any authority or body, not being a foreign State or international organization, the Comptroller and Auditor General shall scrutinize the procedures by which the sanctioning authority satisfies itself as to the fulfillment of the conditions subject to which such grants or loans were given and shall for this purpose have right of access, after giving reasonable previous notice, to the books and accounts of that authority or body.

Provided that the President, the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, may, where he is of opinion that it is necessary so to do in the public interest, by order, relieve the Comptroller and Auditor General after consultation with him, from making any such scrutiny in respect of any body or authority receiving such grant or loan.

(2) Except where he is authorized so to do by the President, the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, the Comptroller and Auditor General shall not have, while exercising the powers conferred on him by sub-section (1), right of access to the books and accounts of any corporation to which any such grant or loan as is referred to in sub-section (1) is given if the law by or under which such corporation

has been established provides for the audit of the accounts of such corporation by an agency other than the Comptroller and Auditor General.

Provided that no such authorization shall be made except after consultation with the Comptroller and Auditor General and opportunity of making representations with regard to the proposal to give to the Comptroller and Auditor General right of access to its books and accounts."

Explanatory Notes

3.02: The section has two parts. The first part imposes a statutory responsibility on the Comptroller and Auditor General to scrutinize the procedures by which the authority sanctioning a grant or loan for a specific purpose to an autonomous body from the Consolidated Fund, satisfies itself as to the fulfillment of the conditions subject to which such grants / loans were given. The second part gives the Comptroller and Auditor General the right of access to the books and accounts of the autonomous body, subject to certain restrictions specified in the Section. The restrictions are:

(i) the autonomous body is not a foreign State or an international organization:

(ii) the President/Governor/Administrator concerned can, if he is of the opinion in public interest, by order, relieve the Comptroller and Auditor General, after consultation with him, from making any such scrutiny in respect of any autonomous body; and

(iii) except with the authority of the President/Governor/Administrator concerned, the right of access to the books and accounts of any corporation is not available, if the law, by or under which the corporation is established, provides for audit by someone other than the Comptroller and Auditor General.

Scrutiny of procedure

3.03: According to these provisions, while it is obligatory for the Comptroller and Auditor General to examine the records of the sanctioning authorities relating to the procedure adopted for ascertaining utilization of grants or loans for specific purposes, it is not obligatory to scrutinize the books and accounts of all autonomous bodies whose records are open to inspection under this Section, the Comptroller and Auditor General has the discretion to limit the scrutiny to the extent he decides.

Watch over receipt of returns

3.04: The scrutiny of the procedure interalia includes examination of the (i) adequacy of the returns and reports prescribed for furnishing by the grant receiving body/authority the purpose for which such returns / reports are periodically used by the grant giving authority (ii) whether or not such returns/ reports are being purposefully utilised by the grant giving authorities to assess the proper utilisation of the assistance.

Examination of records for specific purpose grants / loans

3.05: The examination of records relates to grants or loans given for specific purposes and not grants/loans given for general purpose i.e. without any condition or purpose being specified. Grants given for maintenance, purchase/ procurement of specific items like land, buildings, equipment, etc. grants given to cover deficits, subsidies for purchase of tools, plants, etc. are all to be treated as specific purpose grants. If doubt arises in any case as to whether a grant or loan is for specific purpose, the relevant file leading to issue of sanction should be consulted.

Scrutiny of procedure is to be system based

3.06: Since the emphasis of audit under this section is on scrutiny of the procedure, the approach of audit should be system-based, as distinct from scrutiny of individual transactions. The scrutiny of individual transactions is, however unavoidable to formulate opinion on the system as a whole. Here the first step would be to find out whether adequate rules and regulations have been framed by the sanctioning authority or the Government for ensuring that the objective of giving the assistance is achieved, avoiding the risks of its misuse or sub-optimal use. The rules and regulations in this regard should cover aspects, like verification of antecedents and the capability of the grant receiving authorities to implement the programme with efficiency and economy. The rules should also provide for adequate checks and balance in the system to get timely feedback on the progress of the job expected to be done with the assistance. In the course of system audit it would be the duty of the auditors to examine if the rules and regulations themselves would require any change with reference to the existing situation or past experience. Important deviations in observing the rules and regulations will have to be reported bringing out the effect of such deviations.

Scrutiny of accounts of the assisted body

3.07: The second part of the audit under Section 15(1) consists of scrutiny of the books of accounts of the assisted body receiving grants / loans. As a matter of prudence, it would be preferable to defer examination of books of accounts of the autonomous body until its accounts are audited and certified. The absence or deficiencies in arrangement for such audit should come up for comment in the Audit Report. During audit it has also to be seen as to whether or not the autonomous body has actually complied with the prescribed procedures for reporting utilization of the grant / loan, has actually utilized the grant /loan and that the conditions governing the grant or loan have duly been observed.

Access to records

3.08: In cases in which the law by or under which a corporation is established provides for audit by some one other than the Comptroller and Auditor General, access to its records to the Comptroller and Auditor General can be there only if the Government concerned issues a specific authorization in public interest. Such authorization can, however, be given only (i) after prior consultation with the Comptroller and Auditor General and (ii) after giving the concerned corporation a reasonable opportunity of making representations with regard to such authorisation. The initiative for making such request normally lies with the Government concerned. However, the Field Offices should not hesitate in asking for the right of access to the books of the recipient body under Section 15(2) of the Act especially under the conditions as mentioned in Para 2.14 of the manual.

Procedure for collection of information regarding Grants/Loans

3.09: As observed earlier the audit under Section 15 has two parts. The first part relates to the statutory responsibility of the Comptroller and Auditor General to scrutinize the procedures by which the sanctioning authorities satisfy themselves about the utilization of grants and loans given for specific purpose. For performance of this responsibility, it is necessary for every audit office to maintain a record of authorities who have been authorized to sanction / disburse grants and loans. The Audit Offices should ensure compliance to Rule 29 of Central GFRs and equivalent Rules of State GFRs if necessary by taking up the matter with respective Finance Ministries/Departments. Besides the working arrangement adopted for collection of data for Section 14 should itself enable the audit offices to obtain adequate data on grants and loans disbursed by each sanctioning authority. The audit offices should then compile a list of sanctioning authorities whose records would be required to be audited annually under Section 15.

List of sanctioning authorities to be audited

3.10: From the list of grants / loan sanctioning authorities, a list of sanctioning authorities to be audited in each year should be prepared taking into consideration the periodicity of audit as determined locally. Suitable programmes for local audit of the sanctioning authorities should be drawn up and timely intimation regarding taking up of audit given. The audit under Section 15 may, as far as possible be conducted along with the local audit of other transactions of the sanctioning authorities.

Intimation of audit program

3.11: In so far as the scrutiny of books and accounts of assisted entity under Section 15 is concerned, before the audit is taken up, the sanctioning authority should be advised to give due intimation of the audit programme to the institution to be locally audited with instructions to keep relevant documents ready for audit and to render necessary facilities. To facilitate smooth and quick turnover of work, it is also advisable to furnish an advance questionnaire on points needing clarifications or data, to be collected both to the sanctioning authority and the institution.

Reporting results of audit

3.12: Since expenditure out of the Consolidated Fund is involved, results of audit under Section 15 may also be processed for the Conventional Audit Report according to procedure prescribed therefor.

Pursuance of findings of audit

3.13: Audit under Section 15 being primarily of the records of the sanctioning authorities, results of audit of the books and accounts of the autonomous bodies receiving specific purpose grants/loans should be pursued with the sanctioning authorities or their superior officers or Government. The objections should not be conveyed or corresponded with the autonomous bodies directly.

Chapter 4

Audit under Section 19 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971

Legal Provisions

4.01: Section 19 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 deals with the audit of Government companies and corporations. The text of the provision is as under :-

"19 (1) The duties and powers of the Comptroller and Auditor General in relation to the audit of the accounts of Government companies shall be performed and exercised by him in accordance with the provisions of the Companies Act, 1956.

(2) The duties and powers of the Comptroller and Auditor General in relation to the audit of the accounts of corporations (not being companies) established by or under law made by Parliament shall be performed and exercised by him in accordance with the provisions of the respective legislations.

(3) The Governor of a State or the Administrator of a Union Territory having a Legislative Assembly may, where he is of opinion that it is necessary in the public interest so to do, request the Comptroller and Auditor General to audit the accounts of a corporation established by law made by the Legislature of the State or of the Union Territory, as the case may be, and where such request has been made, the Comptroller and Auditor General shall audit the accounts of such corporation and shall have, for the purposes of such audit, right of access to the books and accounts of such corporation.

Provided that no such request shall be made except after consultation with the Comptroller and Auditor General and except after giving reasonable opportunity to the corporation to make representations with regard to the proposal for such audit.

19.A(1) The reports of the Comptroller and Auditor General, in relation to the accounts of a Government company or a corporation referred to in Section 19, shall be submitted to the Government or Governments concerned.

(2) The Central Government shall cause every report received by it under sub-section (1) to be laid, as soon as may be, after it is received, before each house of Parliament.

(3) The State Government shall cause every report received by it under sub-section (1) to be laid, as soon as may be, after it is received, before the Legislature of the State.

Explanation- For the purposes of this section "Government" or "State Government" in relation to a Union Territory having a Legislative Assembly, means the Administrator of the Union Territory."

Audit of Corporations established under Acts of Parliament-[under Section 19 (2)]

4.02: Section 19(2) of the Act, deals with the audit of the accounts of corporations established by or under law made by Parliament. The Act provides that Comptroller and Auditor General's duties and powers in relation to audit of such corporations shall be performed and exercised by him in accordance with the provisions of the respective legislations. The word "legislations" used in the section refers not only to the provisions in the parent Acts relating to the corporations but also to rules and regulations framed by competent authorities by virtue of powers vested in them under the relevant Acts *of Parliament.*

In respect of Section 19 (2), it has been decided by the Ministry of Finance, Government of India that no enactment floated by Government of India would provide for duties and powers of C&AG without prior consultation with it in the matter by the concerned Ministry through the Ministry of Finance.

Audit of Corporations established by States- [under Section 19 (3)]

4.03: Under the Constitution, only Parliament can prescribe by law, the duties and powers of the Comptroller and Auditor General and, therefore, it is not within the competence of a State Legislature to make provision in the enactment for audit by the Comptroller and Auditor General of any corporation established by it. The Act, however, contains an enabling provision in Section 19(3), whereby audit of corporations established by law by the legislatures of States and Union Territories can be entrusted to the Comptroller and Auditor General. Here it is to be noted that audit of a corporation established by a State or Union Territory law and not of a corporation established under a State or Union Territory law can be entrusted to the Comptroller and Auditor General under Section 19(3) of the Act. It authorizes the Governor of a State or the Administrator of a Union Territory having a legislature to request the Comptroller and Auditor General, in public interest to audit the accounts of such a corporation. This request can, however, be made only after consultation with the Comptroller and Auditor General and after giving a reasonable opportunity to the concerned corporation to make representations with regard to the proposal for such audit. On such a request being made, the Comptroller and Auditor General shall audit the accounts of such a corporation.

Audit in Public Interest

4.04: One of the essential requirements of Section 19(3) is that audit can be entrusted to the Comptroller and Auditor General only in public interest. The satisfaction in the case has to be of the Government concerned and it will not normally be necessary for Audit to scrutinize or examine the correctness of the said satisfaction or to hold a contrary view in the matter. The 'public interest' in the context of the provisions of the Act means a situation where the public (through Parliament/Legislature) would like to know as to how the funds (public) of the body or authority have been expended.

Opportunity to make representation by Autonomous Bodies

4.05: Another requirement of the Section 19(3) is that no audit can be entrusted to the Comptroller and Auditor General except after giving a reasonable opportunity to the autonomous body to make representations with regard to the proposal for such audit. Such an opportunity may not be given by government where the statute setting up or governing the autonomous body, itself provides for or permits audit being entrusted to the Comptroller and Auditor General. While the decision to entrust audit will be of Government, it is not obligatory that the autonomous body should concur with that decision. While considering proposals of Government in this matter, it should be seen in audit that a reasonable opportunity had been given by Government to the autonomous body as it is mandatory to do so and omission to do so can vitiate the order of Government, entrusting audit to the Comptroller and Auditor General.

Consultation with CAG

4.06: The request for entrustment of audit under Section 19(3) of Comptroller and Auditor General's (Duties Powers and Conditions of Service) Act, 1971, of an autonomous body is made only after consultation with Comptroller and Auditor General of India.

Settlement of terms and conditions

4.07: Section 19(3) of the Act does not provide for the settlement of any terms and conditions as in the case of Section 20(1) for acceptance of audit by the Comptroller and Auditor General. In practice, however, it is in the mutual interest of Government and the autonomous body that the terms and conditions are settled in respect of audit under Section 19(3) also. Thus at the time of forwarding acceptance of proposals, it is necessary to convey to the government the terms and conditions under which audit can be undertaken by CAG. The standard terms and conditions that are being adopted are given in Annexure 1.

Period of entrustment of Audit

4.08: In cases where the period of entrustment of audit under Sections 19(3) of the Act, is already over and a formal request for its continuance has not been received from the Government it might not be expedient to conduct audit, certify the accounts and issue the Audit Report. In such cases the bodies and the Administrative Ministry / Department concerned may be informed that audit could be taken up only after the legal formalities are completed. A review of the period of audit of all autonomous bodies may be made in September each year and a list of bodies / institutions the period of entrustment of audit of which will be over after audit of accounts of that year may be sent to the Government by 15th September each year to enable them to consider re-entrustment of audit well in time. The Government may also be informed that delayed entrustment / continuance of audit may result in delay in the completion of audit, certification of accounts and issue of SARs and consequential delay in placing them before the Parliament / State Legislature. An intimation of the review having been completed and lists sent to Government may also be simultaneously sent to Headquarters office.

Formal request

4.09: Having complied with the requirements, it is necessary that a formal request is sent by the Government in the name of the President/Governor/Administrator for entrusting the audit to the Comptroller and Auditor General. The letter of request must indicate compliance of the mandatory requirements of the Sections of the Act, so as to avoid possible legal complications at a later date. A specimen of the format adopted by the Government of India in this regard is given in the Annexure 2 for guidance.

Entrustment - Procedure

Uniform standards for examination of public interest

4.10: With a view to ensuring uniformity, in the standards adopted by various departments of State Government in examining the public interest involved, it is necessary that the State Government concerned should have all proposals for entrustment of audit of CAG, examined by their respective Finance Department.

The proposals for taking up audit under Section 19(3)

4.11: The proposals for taking up audit under Section 19(3) of the Act in case of State Autonomous Bodies are to be directly received in the field Audit office concerned from the respective State Governments. The field offices may decide these entrustments cases and accept the proposals without reference to Headquarters.

Special cases of entrustment of Audit

4.12: In some special cases the audit under Section 19(3) / 20(1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 may be accepted, in addition to the audit conducted by the primary auditors who conduct the audit in the manner prescribed in the law governing the corporations / societies / bodies / authorities. In this arrangement the audit by IA & AD will be in addition (superimposed audit) to the audit conducted by the primary auditors.

Certification of Accounts in cases of superimposed audit

4.13: The certification of accounts need not be done by Comptroller and Auditor General in cases where Comptroller and Auditor General is not the sole auditor but is doing a superimposed audit under Section 19(3)/20(1) irrespective of the fact whether the primary auditors are appointed on Comptroller and Auditor General's advice/recommendation or not.

Proposals for superimposed audit

4.14: All the proposals for the superimposed audit may be referred to Headquarters office.

Examination of proposals for Audit of Autonomous Bodies

4.15: While examining the proposals from Government for entrustment of audit under Section 19(3) of the Act it should be insisted that the accounts of the concerned body/authority should be brought up to date wherever these are in arrears. In case a request for entrustment for audit is made even when the accounts are not brought up to date the legal position is that we have to accept the same.

4.16: The proposals may, however, be examined in Audit Office before communicating the acceptance of the audit keeping in view the following aspects:-

(i) Whether the Government have satisfied themselves, that it is necessary for the audit to be entrusted in public interest to the Comptroller and Auditor General.

(ii) Whether the audit office is adequately equipped to take up the work, with due regard to its staff position, availability of trained personnel, etc.

(iii) Whether the duties cast on the audit according to Act, rules, regulations, etc., are capable of being discharged.

(iv) Whether the IA & AD alone will conduct audit, or whether there will a second auditor; in the latter case, what are the relative duties of the two auditors and whether such a situation is acceptable.

(v) Whether Parliament / Legislature has shown interest in its activities by providing for submission of annual returns and reports of auditors before it.

(vi) Period from which audit is to be taken over and if, from a back period, reasons for delay in arrangements and reasons for change of auditor (if it be the case).

(vii) Whether the autonomous body had been consulted and if so, what were its views.

(viii) Whether the autonomous body has branch units and if so what is the arrangement for drawal of funds, collection of income, accounting of transactions in branch units and consolidation, and arrangements considered necessary for audit of branch units and coordination with audit of central office.

Audit Results

Comments on Accounts

4.17: In respect of audit under Section 19 of the Act, the Separate Audit Report (SAR) should contain only ‘comments on accounts’.

Independent audit certificate/SAR for each accounting period

4.18: It may also be ensured that an independent audit certificate/SAR on the annual accounts of each accounting period is proposed for issue under Section 19 of the Act.

Laying of reports in relation to accounts of Government companies and corporations

4.19: With the amendment of the Act in 1984 provision has been made under Section 19-A for submission of Reports of Comptroller and Auditor General in respect of companies or corporations audited by him under Section 19 to the Government(s) concerned for being laid before the Parliament or the Legislature as the case may be. This requirement may be brought to the notice of the Government concerned while forwarding the report.

Chapter 5

Audit under Section 20 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971

Legal Provisions

5.01: Section 20 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 deals with the audit of accounts of certain authorities or bodies the audit of which has not been entrusted to the Comptroller and Auditor General of India under the other provisions of the Act. The text of the section is as under :-

"20(1) Save as otherwise provided in Section 19, where the audit of the accounts of any body or authority has not been entrusted to the Comptroller and Auditor General by or under any law made by Parliament, he shall, if requested so to do by the President, or the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, undertake the audit of the accounts of such body or authority on such terms and conditions as may be agreed upon between him and the concerned Government and shall have, for the purposes of such audit, right of access to the books and accounts of that body or authority.

Provided that no such request shall be made except after consultation with the Comptroller and Auditor General.

(2) The Comptroller and Auditor General may propose to the President or the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, that he may be authorized to undertake the audit of the accounts of any body or authority, the audit of the accounts of which has not been entrusted to him by law, if he is of opinion that such audit is necessary because a substantial amount has been invested in, or advanced to, such body or authority by the Central or State Government or by the Government of a Union Territory having a Legislative Assembly, and on such request being made, the President or the Governor or the Administrator, as the case may be, may empower the Comptroller and Auditor General to undertake the audit of the accounts of such body or authority.

(3) The audit referred to in sub-section (1) or sub-section (2) shall not be entrusted to the Comptroller and Auditor General except where the President or the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, is satisfied that it is expedient so to do in the public interest and except after giving a reasonable opportunity to the concerned body or authority to make representations with regard to the proposal for such audit."

Explanatory Notes

5.02: Section 20 of the Act basically contains an enabling provision. Under this section the audit of those bodies/authorities, which are neither covered under Section 19 of the Act nor by or under any other law made by Parliament, can be entrusted to CAG.

Entrustment of Audit by President/Governor/Administrator

5.03: Sub-section (1) of Section 20 authorises the President/Governor of a State/ Administrator of a Union Territory having legislative assembly to entrust to CAG the audit of accounts of any authority or body not otherwise entrusted to him under any law made by Parliament.

Proposal by CAG

5.04: Similarly under sub-section (2), CAG can propose to President/Governor/ Administrator of a Union Territory having Legislative Assembly to undertake the audit of the accounts of any body or authority not entrusted to CAG. This may, however, be done only if CAG is of the opinion :-

- that such audit is necessary in public interest; and
- that there is substantial interest of Central or State or Union Territory government in such body or authority.

Terms and conditions for entrustment of audit

5.05: Section 20(3) deals with certain procedural requirements to be observed before entrustment of audit under Section 20. The provisions of sub-section 20(1) provide also for settlement of terms and conditions for entrusting the audit.

No monetary limit

5.06: If any autonomous body does not fall within the monetary limit as prescribed under Section 14(1), it will be open for Government to entrust to Comptroller and Auditor General the audit of such institution under Section 20 (1) or for the Comptroller and Auditor General to suggest entrustment of audit of such institution to him under Section 20 (2), subject to the conditions in the relevant Section being satisfied.

Formal request for audit by CAG

5.07: Having complied with the requirements, it is necessary that a formal request is sent by the Government in the name of the President/Governor/Administrator for entrusting the audit to the Comptroller and Auditor General. The letter of request must indicate compliance of the mandatory requirements of the Sections of the Act, so as to avoid possible legal complications at a later date. It may, however, be made clear from Government as to whether or not the report of Comptroller and Auditor General will have to be laid before the Parliament/ State Legislature.

Audit in Public Interest

5.08: One of the essential requirements of Section 20(1) is that audit can be entrusted to the Comptroller and Auditor General only in public interest. (The term 'Public Interest' has been explained in Para 4.04 of the Manual). The satisfaction in the case has to be of the Government concerned and it will not normally be necessary for Audit to scrutinize or examine the correctness of the said satisfaction or to hold a contrary view in the matter.

Opportunity to make representation by Autonomous Bodies

5.09: For details in this regard, Para 4.05 of the manual refers.

Consultation with CAG

5.10: The request for entrustment of audit under Section 20(1) of Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 of an autonomous body is made only after consultation with Comptroller and Auditor General of India.

Settlement of terms and conditions

5.11: Section 20(1) of the Act provides for the settlement of any terms and conditions for acceptance of audit by the Comptroller and Auditor General. Thus at the time of forwarding acceptance of proposals, it is necessary to convey to the government the terms and conditions under which audit can be undertaken by CAG. The standard terms and conditions that are being adopted are given in Annexure 1.

Period of entrustment of Audit

5.12: In cases where the period of entrustment of audit under Section 20(1) of the Act, is already over and a formal request for its continuance has not been received from the Government it might not be expedient to conduct audit, certify the accounts and issue the Audit Report. In such cases the bodies and the Administrative Ministry / Department concerned may be informed that audit could be taken up only after the legal formalities are completed. A review of the period of audit of all autonomous bodies may be made in September each year and a list of bodies / institutions the period of entrustment of audit of which will be over after audit of accounts of that year may be sent to the Government by 15th September each year to enable them to consider re-entrustment of audit well in time. The Government may also be informed that delayed entrustment / continuance of audit may result in delay in the completion of audit, certification of accounts and issue of SARs and consequential delay in placing them before the Parliament / State Legislature. An intimation of the review having been completed and lists sent to Government may also be simultaneously sent to Headquarters office.

Formal request

5.13: Having complied with the requirements, it is necessary that a formal request is sent by the Government in the name of the President/Governor/Administrator for entrusting the audit to the Comptroller and Auditor General. The letter of request must indicate compliance of the mandatory requirements of the Sections of the Act, so as to avoid possible legal complications at a later date. A specimen of the format adopted by the Government of India is given in Annexure 2 for guidance.

Entrustment - Procedure

5.14: The proposals for taking up audit under Section 20(1) in case of Central Autonomous Bodies are received in the Office of Comptroller and Auditor General of India directly through the Ministry of Finance, for which instructions to take up audit are issued by the Comptroller and Auditor General's office to field office.

Proposals for audit of State Autonomous Bodies

5.15: The proposals for taking up audit under Section 20(1) of the Act in case of State Autonomous Bodies are to be directly received in the field audit office concerned from the respective State Governments. The field offices may also decide these entrustment cases and accept the proposals without reference to Headquarters. It is also necessary that the various departments of State Government concerned should have examined all proposals for entrustment of audit to Comptroller and Auditor General by their respective Finance Department.

Special cases of entrustment of audit under Secion 20(1)

5.16: For instructions in this regard please refer Paras 4.12 to 4.14. of the manual.

Proposals from field offices

5.17: There need be no hesitation in suggesting the taking up of audit under Section 20(2) of the Act especially under the conditions as mentioned in Para 2.14 of this manual subject to the approval of Headquarters office.

Examination of proposals for audit of Autonomous Bodies

5.18: While examining the proposals from Government for entrustment of audit under Section 20 (1) of the Act, it should be insisted that the accounts of the concerned body/authority should be brought up to date wherever these are in arrears. In case a request for entrustment for audit is made even when the accounts are not brought up to date the legal position is that we have to accept the same.

Points for consideration

5.19: Before communicating the acceptance of the audit the various points as indicated in Para 4.16 of this manual may please be considered.

Other instructions

Certification of Accounts

5.20: Audit under Section 20(1) is taken up essentially for purposes of certification of annual accounts but certification of accounts also includes performance audit. The Separate Audit Report issued under this section should, however, contain only 'comments on accounts'.

Independent audit certificate/SAR for each accounting period

5.21: It may also be ensured that an independent audit certificate/SAR on the annual accounts of each accounting period is proposed for issue under Section 20 of the Act.

Laying of audit reports on the accounts of bodies and authorities.

5.22: Section 20 of the Act, as such, does not provide for the laying of the Audit Reports / Audited Accounts before the Parliament / Legislature. Laying of audit report before the Parliament / legislature concerned will depend on the requirements of the laws governing the body / authority audited or where the Government concerned have decided to place the report and audited accounts before the Parliament / State Legislature on its own volition or on the directive / recommendations of the appropriate Committees of the Parliament / State Legislature(s). In each case, it will have to be ascertained from the Government concerned about this requirement at the time of entrustment of new audit.

Chapter 6

Certification of accounts of autonomous bodies

Mandate

6.01: Provisions relating to the audit of Statutory Corporations, Autonomous Bodies and Authorities are contained in Sections 14, 19(2), (3) and 20 of the Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. However, it is not obligatory on the part of the C&AG to certify the annual accounts under Section 14. The provisions of these sections have been dealt with in Part I of this manual.

Meaning of the certification of accounts

6.02: The certification of accounts is " the independent examination of and expression of an opinion on the financial statements of an entity by an appointed auditor in pursuance of the terms of appointment and in compliance with any statutory obligation".

Essential features of audit of financial statements

6.03: The essential features of the audit of accounts are:-

a) to make critical review of the system of book keeping, accounting and internal control procedures;

b) to make such tests and enquiries as the auditors consider necessary to form an opinion as to the reliability of the records as a basis for preparation of accounts and to obain reasonable assurance about whether the financial statements are free from material misstatement;

c) to verify accounts with reference to the books of accounts i.e. ledgers, journals and other subsidiary and supporting records to see that the accounts are in agreement with these books of accounts; and

d) to make a critical review of the Income and Expenditure Account/ Profit & Loss Account and the Balance Sheet in order to make a report stating whether, in the opinion of the auditors, the financial statements are presented in conformity with the generally accepted accounting principles and the items therein are described in such a way to give a true and fair view of the financial position and results of operations of the entity.

Certification of accounts by Comptroller and Auditor General

6.04: The accounts are certified by the CAG where he acts as the sole auditor of a body or authority under a mandate and the audit done by any other auditor(s) is to be treated as an internal audit.

Approval and authentication of accounts

6.05: In every case of sole audit under Section 19 (2)/ 19 (3)/ 20 (1) of the Act, the matter of approval of accounts by the governing body / competent authority shall be examined by the field audit offices with reference to Act, Rules/Bye-laws applicable to the entity and if need be, it should be brought to the notice of the management of the autonomous body / authority concerned before commencement of audit.

6.06: Field offices should not take up audit before the competent authority of the autonomous body approves the accounts. However, where, considered appropriate, the audit of the accounts may be taken up prior to receipt of approved accounts. But before signing / issuing the draft SAR it must be ensured that there is no change in the accounts audited and those approved subsequently. An additional assurance that there is no significant event in the intervening period (between the date of audit and date of approval of accounts by competent authority) that would affect the annual accounts, may also be obtained from the competent authority before issuing the draft SAR.

Approval of revised accounts

6.07: In cases where accounts are revised during / after audit, the revised accounts should again be approved by authority which had earlier approved the annual accounts before these are submitted to audit.

Chapter 7

Format of Accounts of Autonomous Bodies

Format of Accounts

7.01: Autonomous Bodies under Government of India are required to compile their accounts from the accounting year 2001-02 in a Uniform Format of accounts as prescribed by Government of India, Ministry of Finance as given in Vol. II of this Manual. In case of autonomous bodies governed by separate Acts, where CAG is the sole auditor, this format has been made applicable which were exempted earlier. The uniform format of accounts is also available on web: http://cga.nic.in/pdf/uniform_format_of_Accounts.pdf and http://audit.delhigovt.nic.in/audit_8.pdf

7.02: Non- compilation of annual accounts in the Uniform Format may be commented upon in the SAR after ascertaining the status of switch over from the autonomous body concerned.

7.03: The Ministry of Shipping (Ports Wing) has prescribed standard norms of accounting for the Major Port Trusts in consultation with the CAG. The new Accounting framework for financial reporting has been made applicable from the financial year 2003-04. The details of the norms etc. in the matter are available in Vol. II of this manual under Common Framework for Financial Reporting. This is also available on web:
http://www.cag.gov.in/html/port_trust.pdf

7.04: The autonomous bodies under State Governments may follow the format of accounts as prescribed in the respective Acts governing the bodies.

Components of Financial Statements

7.05: The Annual Financial Statements of the Central autonomous bodies consist of the following statements, prepared and presented in the formats and in the manner as provided in the Uniform Format of acounts :

- i) Balance Sheet;
- ii) Income and Expenditure Account;

iii) Schedules to the above Financial Statements;
iv) Disclosure of 'Significant Accounting Policies';
v) Disclosure of other information through 'Notes to Accounts';
vi) Statement of Receipts and Payments.

7.06: Each component of the Financial Statements is required to contain financial information for the current year with corresponding figures of the previous year. The amounts are to be rounded off as per instructions given in Uniform Format of accounts.

Fundamental Accounting Assumptions

7.07: Certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. These assumptions though, are not usually stated in the financial statements, a disclosure is necessary if they are not followed. The following are the accepted fundamental accounting assumptions:

- **Going concern:** The entity is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future. It is assumed that the entity has neither the intention nor the necessity of liquidation or of curtailing materially the scale of its operation.

- **Consistency:** It is assumed that accounting policies are followed consistently from one accounting period to another. A change in accounting policy is made only in exceptional circumstances.

- **Accrual basis:** It is the method of recording transactions by which revenues, costs, assets and liabilities are recognised in the accounts in the period in which they accrue, i.e. when they occur rather than when cash or cash equivalent is received or paid. This results in matching the accomplishments (i.e. revenues) with the efforts (i.e. costs) in the Profit and Loss Account / Income and Expenditure Account.

Salient features of the Uniform Format of accounts

7.08: The following are the salient features of the Uniform Format of accounts of the Central Autonomous Bodies:-

- **One standard format of accounts:** All the Central Autonomous Bodies / Authorities are required to prepare their Financial Statements in a standard format.

- **Additional Information:** Additional information wherever necessary may be given within Uniform Format of accounts. To avoid rigidity in approach for preparation of financial statements flexibility has been given in the preparation of accounts. Keeping in view any special features applicable in certain cases and specialised entities, the statements may be prepared in the formats, as near to the common format, as possible. This format therefore intend to give an overall structure in which the autonomous organisations are expected to generate necessary information for the management, the Government and other users of financial information.

- **Schedules forming part of financial statements :** The schedules have been so designed that they will provide adequate disclosure of all significant accounting information of the entity.

- **The concepts of Accrual System of Accounting and Going Concern:** The concepts of 'Accrual System of Accounting' and 'Going Concern' are the underlying assumptions while preparing the common format of accounts.

- **Depreciation on Fixed Assets**: As the format is based on 'Accrual Basis of Accounting', depreciation is required to be recognized and provided for in the period in which the depreciable assets are used and over the useful life of the assets.

Accounting Principles and Instructions

7.09: The following principles of accounting should be kept in view while preparing the accounts by the autonomous bodies: -

- **Consistency in following the accounting principles and policies:** All significant accounting policies adopted in preparation of financial statements should be disclosed. Accounting policies as followed by the autonomous body concerned shall be applied consistently from one financial year to the next. Otherwise the financial implication of any change in accounting policy in the year shall be quantified as far as possible and disclosed in the financial statements. Where such amount is not ascertainable, wholly or in part, the fact shall be disclosed.

- **Substance over form:** The accounting treatment and presentation in the Balance Sheet and the Income and Expenditure Account, of transactions and events shall be governed by their substance and economic reality, not merely by the legal form.

- **Concept of Materiality:** The relevance of information is affected by its materiality. In determining the accounting treatment and manner of disclosure of an item in the Balance Sheet and/or the Income and Expenditure Account, due consideration shall be given to the concept of materiality.

- **Provisions:** Provision shall be made for all known liabilities and losses even though the amount cannot be determined with substantial accuracy.

- **Provision for Contingent Loss:** Provision shall also be made for any contingent loss, if any, probable future event will confirm the incidence of loss or incurring a liability at the Balance Sheet date. Otherwise the existence of the contingent loss shall be disclosed by way of a note to the accounts. The excess of the provision over the amount of reasonably anticipated loss / liability shall be treated as a reserve and not as a provision.

- **Revenue recognition :**

Revenue shall not be recognised unless:

(a) the related performance has been achieved; and property in the goods along with all significant risks and rewards of ownership have been transferred for a price.

(b) no significant uncertainty exists regarding the amount of the receivable consideration; and

(c) it is not unreasonable to expect realisation and ultimate collection of the amount of revenue.

- Separate disclosure for prior period items and extra-ordinary items shall be made in the Income and Expenditure Account in a manner that their impact on the current year's working results can be perceived.
- Any item under the head "Miscellaneous Income/expenditure" which exceeds one per cent of the total turnover/gross income of entity or Rs.50,000/- whichever is higher shall be classified and accounted for as a separate and distinct item under an appropriate head of account.

Accounting Standards

7.10: The common format of accounts as referred to in Para 7.01 and 7.03 of the Manual, has been prepared keeping in view the Accounting Standards issued by Institute of Chartered Accountants of India (ICAI), relating to various requirements of recognition, measurement, presentation and disclosure of accounting transactions and events. The purpose of accounting standards is to ensure that financial statements are prepared in accordance with generally accepted accounting principles and practices and to ensure, to the extent possible, comparability of information contained in the financial statements of various entities. It is, therefore, necessary for the auditors of autonomous bodies to have the knowledge of these Accounting Standards. For this purpose the auditors concerned may refer to the Compendium of Accounting Standards published by the Institute of Chartered Accountants of India. A list of Accounting Standards issued so far by ICAI is given in Annexure 3.

Treatment of accounts not submitted in prescribed format

7.11 In case the state of accounts submitted to Audit is not satisfactory and / or the body is not submitting the accounts in complete form in spite of the deficiencies being pointed out to it, this matter may be brought to the notice of the Government and a suitable comment included in the Audit Report. Where the accounts submitted are not in the prescribed form or the forms to be prescribed are under consideration, it would be preferable to finalise the certification of accounts and issue of audit report without insisting on the accounts being recast in the forms prescribed or to be prescribed provided there are no practical or other difficulties in doing so, but appropriate qualifications would have to be made in the Audit Report.

It may be ensured that there is no delay in certification of accounts and issue of audit reports only on the ground that the accounts have not been compiled in the prescribed forms.

Chapter 8

Audit Planning and Procedures

8.01: The objective of a financial statement audit is to express, on the basis of sufficient and appropriate audit evidence, an objective opinion on whether financial statements present a true and fair view of the financial position and results of operations in accordance with generally accepted accounting principles.

8.02: To achieve the aforesaid objective, the audit process can be broadly grouped in three phases:

I Planning

II Executing

III Reporting

Planning

8.03: Good audit planning is necessary to obtain sufficient and appropriate audit evidence to support the contents of the audit report and perform the audit in an efficient and timely manner. The plan should be based on a sound understanding of the entity's activities, the nature of its transactions, the systems of recording its transactions and the internal control environment.

The key stages are :-

1. **Describing the Auditee Entity**
2. **Establishing Audit Objectives and Scope**
3. **Determining Materiality**
4. **Assessing Risk**
5. **Preparing Audit Plan**
6. **Preparing the Detailed Audit Program**

Describing the Auditee Entity

8.04: The description of the entity is the first step of a good planning process.

(i) **Knowledge of the Entity's Business**

In planning and conducting the audit, auditors must have an understanding of the entity's business and nature of management, sufficient to appreciate the significant events, transactions and practices within the entity. The need to have sufficient knowledge of the entity's business is fundamental to planning and executing audit procedures and evaluating the results of those procedures. Knowledge of the entity's business and use of this information provides a basis for many components of the audit, including the following:

- Determining materiality levels,
- Assessing inherent risk and control risk,
- Obtaining a sufficient understanding of internal control,
- Identifying the nature and sources of audit evidence available,
- Designing audit procedures, including those pertaining to management's accounting estimates,
- Understanding the substance of transactions,
- Assessing whether sufficient appropriate audit evidence has been obtained, including evidence related to significant management representations,
- Assessing the appropriateness of management's selection and application of accounting policies,
- Evaluating management's overall financial statement presentation,
- Recognising unusual circumstances.

(ii) **Knowledge of Entity's Accounting and Internal Control System**

Auditors must understand the basic features of the entity's internal control system in order to develop or update the audit strategy. Generally accepted auditing standards require that the auditor must obtain an understanding of the accounting system even when no reliance is to be placed on the system of internal control. Generally accepted auditing standards also require the auditor to obtain a good understanding of the systems of internal control.

In most audits, it is necessary to rely on internal control to gain assurance that transactions of a material amount have not been omitted from the accounting records. In addition, in many cases it is efficient and economical to rely on internal control to the extent possible. This understanding of accounting and internal control system is necessary to enable the auditor to design an efficient audit approach even if no reliance is placed on the internal controls.

Establishing Audit Objectives and Scope

8.05: In establishing objectives and scope, the auditor ensures that it is according to the SAI's mandate or authority.

Audit Objectives

8.06: The primary objective of certification audit is to carry out an independent examination of the financial statements of an audited body for the purpose of expressing the opinion required thereon. In general, this opinion implies reasonable but not absolute assurance that the financial statements are presented in a fair manner and free of material misstatement. The audit also aims to ensure that the statements are prepared in accordance with generally accepted accounting principles.

This overall objective can be broken down into assertions or objectives that underlie specific accounts.

Assertions underlying Income Statement items

Completeness – All transactions relevant and material to the year of account have been recorded.

Occurrence – All recorded transactions pertain to the entity and properly occurred (i.e. the underlying event took place) and were relevant to the year of account.

Measurement – The recorded transactions have been correctly valued, properly allocated to the period and measured with reliability in accordance with established accounting policies, on acceptable and consistent basis.

Regularity – The recorded transactions are in accordance with primary and secondary legislation and other specific authorities required by them.

Disclosure – The recorded transactions have been properly classified, accounted for/disclosed where appropriate.

Assertions underlying Balance Sheet items

Completeness – All assets and liabilities have been recorded.

Existence – All recorded assets and liabilities exist on the given date.

Valuation – The values ascribed to the assets and liabilities are accurate and have been arrived at in accordance with established accounting principles and on consistent basis.

Ownership – The entity owns the assets and the liabilities on the given date and both arise from regular activities.

Disclosure – The assets, liabilities, capital and reserves have been properly disclosed.

Scope

8.07: Determining audit scope at the planning stage is primarily for the auditor to estimate the extent and requirements of audit work in the subsequent execution phase. On the other hand the purpose of the scope paragraph in the reporting stage is primarily to communicate to the users of the audit reports, the extent of coverage by the auditor.

Factors Affecting Scope of Audit

- Mandate of SAI;
- The particular financial statements to be audited including their period;
- Whether the entity was audited earlier;
- Extent of errors found in earlier years' audits;
- Size of the auditee both in financial terms as well as geographical distribution of units;
- Strength of auditee's internal controls;
- Statement of auditor's responsibilities;

- Statement of auditee's responsibilities;
- Level of assurance as per SAI's policy;
- Inherent risk in the accounting system of the auditee, including aspects such as nature of accounting process (manual or computerized), competence of accounting personnel;
- Nature/type of audit evidences acceptable to the SAI and the users of the audit report.

Determining Materiality

8.08: A matter is regarded as material if its inclusion or omission or non-disclosure is likely to distort the overall view of the accounts and influence economic decision of its intended user.

Points considered for determining materiality

The following points should be considered in determining materiality:

1. Materiality should be determined from the users' point of view and not from the auditor's. This means that, when determining materiality, the auditor should keep in mind who the users are likely to be, the probable uses that they will have for the audited financial statements, and the precision that they will require in them to make their decisions.

2. Materiality relates to the maximum possible misstatements and not to the most likely or known misstatements. The auditor needs to perform enough work to conclude that the maximum possible misstatement in the financial statements at his/her desired level of assurance is less than materiality.

3. The maximum possible misstatements include all types of errors, frauds or irregularities and "inappropriate determination of accounting estimates" that may affect the financial statements, regardless of their nature or cause.

4. Because materiality should be determined from the users' point of view, it should be determined without reference to overall audit assurance.

Materiality and Audit Risk

8.09: Materiality and risk are distinct concepts and the auditor must consider each separately to ensure that the assessment of one does not unduly influence the assessment of the other.

Risk is concerned with the likelihood of error; materiality with the extent to which we can tolerate error.

Factors in deciding materiality

8.10: There are three main factors that have to be considered while determining materiality – value, nature and context. Errors in some figures are less acceptable than in others; indeed in some cases the auditor could not countenance any error at all. This might be due to the nature of the item, or the context in which the transaction occurred. Thus, it may not always be the value of an item that primarily determines what is material, but the very nature of the item or the context in which it occurs. Items may be material individually or in total and certain parts of an account may be of more interest than others to the user(s).

Planning and reporting materiality

8.11: The concept of materiality is important at the reporting stage when the auditor has to decide whether or not he or she can give an unqualified opinion. In fact, however, the concept underlies the whole audit. Since the auditor has to report only error which he judges to be material, the audit can be planned in the knowledge that it need detect only error that is material.

At the planning stage the auditor sets the materiality level for the account and thus determines the maximum amount of error (the technical term is the Upper Error Limit) which can be tolerated in the account. The smaller the amount of error that can be tolerated in an account, the more the quantum of audit that needs to be done. The tolerable amount of error (or the planned materiality level) is one of several factors that influence the size of samples to be substantively tested.

Assessing Risk

8.12: Materiality and risk are the key parameters of an audit. While materiality is determined from the user's point of view, the determination of audit risk is solely the auditor's responsibility.

Purposes of assessing risk

The purposes of assessing risk are to:

- determine risk levels as input to the audit plan;
- determine which areas are high risk and to help develop an effective audit approach;
- to design audit procedures to ensure that the audit risk is reduced to an acceptably low level; and
- to assist auditors in their professional judgments.

Types of Risk

- **Inherent Risk** : The susceptibility of the component to error that could be material, when aggregated with error in other components, regardless of the existence of internal controls. A shorter definition is that the risk of material error occurring in the first place.

- **Internal Control Risk** : Internal control risk is the risk that an error that has occurred in the component and that could be material, when aggregated with errors in other components, will not be detected or prevented on a timely basis by the internal controls in place.

In other words, control risk is the risk that the audited body's own internal controls fail to prevent or detect material error.

- **Detection Risk** : Detection risk is the risk that the auditor's procedures will not detect an error that exists in the component and that could be material when aggregated with errors in other components. Detection risk is the inverse of the required assurance level from substantive tests including analytical review.

- **Overall Audit Risk** : Overall audit risk is the risk that the auditor's conclusion may be wrong and that the audit may have allowed material error to remain undetected in the account. Overall audit risk is the inverse of overall audit assurance. This is the overall assurance or confidence to be obtained from audit procedures that error in the financial statements will not aggregate to more than materiality.

Determine the Overall Audit Risk

8.13: When the auditor states, "in my opinion, these financial statements present fairly", it reflects the fact that the auditor only obtains reasonable assurance. The auditor is required to perform sufficient procedures to reduce the risk of not detecting a material misstatement to an appropriately low level.

Risk Model

8.14: The risk model can be expressed by the equation:

OAR = IR X CR X DR,

Where: OAR = overall audit risk ;

IR = inherent risk ;

CR = internal control risk; and

DR = detection risk.

The risk model is based on the idea that three entirely different factors affect the chances of material error remaining in the account after the audit has been completed.

Inherent risk and internal control risk differ from detection risk in that they exist independently of the audit. They are beyond the control of the auditor. Detection risk, however, relates to the nature, extent and timing of auditor's procedures. In developing a tentative audit strategy, the auditor, based on an assessment of the inherent and internal control risks, designs sufficient substantive procedures to reduce detection risk to a level that, in the auditor's judgement, results in an appropriately low level of audit risk.

When the auditor believes that inherent and control risks are high, acceptable detection risk needs to be low to restrict audit risk to an appropriately low level. On the other hand, when inherent and control risks are low, the auditor can accept a higher detection risk and still restrict overall audit risk to an appropriately low level. The level of acceptable detection risk relating to an assertion at the account balance or class of transactions influences substantive procedures needed. The lower the level of acceptable detection risk, the more evidence that will be required from substantive procedures.

How to use the Risk Model

8.15: In using the audit risk model the auditor should go through the following steps:

1. Starting point is to set the level of overall audit risk;
2. Assess the component risks starting with inherent risk, thereafter control risk;
3. Rearrange model and solve DR.

Then the confidence level (1-DR) is used as one input in determining sample size.

The key to using the Risk Model is calculation of detection risk. The level of detection risk relates directly to the auditors substantive procedures. We use the risk model to calculate the detection risk level:

$$DR = \frac{OAR}{IR \times CR}$$

The auditor should consider the assessed levels of inherent and control risk in determining the nature, timing and extent of substantive procedures required to reduce audit risk to an acceptable level.

Risk Model Example

OAR = IR x CR x DR, Where Assurance required = 99% IR = 20%, CR = 25% DR = ?

OAR =1 – Assurance = 1%

$$DR = \frac{OAR}{IR \times CR}$$

$$= \frac{0.01}{0.2 \times 0.25}$$

$$= 0.2\ (=20\%)$$

In this case, assurance of 80% (i.e. 100%-20%) would be required from substantive tests.

Instead of using the audit risk model, the auditor can use an assurance guide. This is in the form of a matrix that allows the auditor to read off the assurance he needs from his detailed substantive tests by reference to his assessments of the assurance gained from the other components. These assessments are stated in broad categories of high, medium, low or nil assurance(Appendix 8.1).

Preparing Audit Plan

8.16: An audit plan can be defined as the document that provides the guidance for the whole audit process to achieve the audit objectives in an efficient and effective way. The auditors should plan the audit in a manner that ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner.

Objectives of an Audit Plan

8.17: The following are the objectives of an audit plan:-

a) Ensure an appropriate level of audit coverage.
b) Provide a logical and effective program for carrying out the work
c) Use resources efficiently and effectively
d) Meet reporting deadlines

Identification of significant Audit Areas

8.18: Identification of significant audit areas is a very critical job for the auditor. In order to identify significant audit areas, he should be aware of the factors affecting identification of significant audit areas. They would include both external and internal factors which are summarized as follows:

- terms of engagement;
- the key users of financial statements;
- any changes in entity's goals, policies and operations, statutory requirements, accounting principles;
- assessment of internal controls;
- materiality of errors;
- levels of audit assurance;
- audit objectives and scope;
- SAI's current policies.

Determination of Audit Approach

8.19: From the above information, the auditor has to decide which audit approach to recommend. The basic decision for the auditor is whether the area should be examined entirely by substantive testing or whether it should be examined by a combination of compliance and substantive testing. This involves :

- a choice between Substatantive Testing (ST) and Systems Based Audit (SBA) (which would reduce the amount of substantive testing required); and
- whether analytical review can be used as a substantive test (which would also reduce or reduce further, if SBA is adopted – the amount of detailed substantive testing).

Factors considered for decision on audit approach

8.20: The objective of gathering sufficient, relevant and reliable evidence to support the opinion should be uppermost in the auditor's mind while drawing up the audit plan. Meanwhile, he must consider factors that affect the decision on the audit approach, such as:

- the auditor's previous experience with the entity;
- significant events (e.g. changes in the activities of the audited body or in legislation or any changes in the staff of the entity);
- materiality;
- risk assessment;
- sampling methods;
- relative costs and
- internal control.

Systems-Based Audit (SBA), Direct Substantive Testing (DST) and Analytical Review

8.21: Systems based audit (SBA) is an audit approach which may be used by an external auditor whose objective is to express an opinion on the financial statements prepared by the audited body. SBA is an option only in cases where the auditor decides that he can place some reliance on the internal controls operated by the audited body. If the auditor uses a system based approach, he is able to do less substantive testing than would be necessary if he took no assurance at all from the audited body's internal controls.

8.22: Direct substantive tests (DST) are those tests of transactions and balances, and other procedures such as analytical review, which seek to provide evidence as to the completeness, accuracy and validity of information in the accounting or in the financial statement. An external auditor usually uses direct substantive testing if he decides that, in general, the internal controls are too weak for any reliance to place upon them, or if he decides that getting assurance from internal control is not cost-effective. Usually the audit should obtain some assurance from substantive testing even placing reliance on internal control.

8.23: Analytical review is the systematic analysis and comparison of related figures in audit. It is a term that sometimes causes confusion because analytical review procedures can be used for different purposes at different stages of the audit. At the planning stage it can be a mean of pointing the auditor toward areas requiring examination to identify potential problem areas. During the examination phase, analytical review is an important substantive procedure.

Preparing the Detailed Audit Program

8.24: Audit programs combine a number of important functions. They provide a road map of the work to be done and the working papers to be prepared. Once discussed and agreed to by the auditor and assistants, they provide a framework for effective supervision and accountability for the cost and quality of work.

Attributes of Effective Audit Programs

8.25: Audit programs are guide to conduct the execution phase. They set out audit tests and procedures that should be carried out in collecting and analyzing audit evidence. Once the audit objectives, scope and overall plan for the audit have been determined, the efficiency and quality of an audit depend largely on how well the audit programs are designed and executed.

The designing of an audit program involves:

- stipulating specific audit sub-objectives, where necessary;
- refining audit criteria or developing sub-criteria for the specific conditions identified during audit;
- reviewing the refined criteria with management of the audited organization;
- specifying evidence to be collected;
- specifying the procedures to collect and analyze evidence;
- obtaining the approval of the competent authority signifying that the audit programs, if carried out properly, are likely to be effective in achieving the audit objectives and to represent an efficient way of conducting the audit.

Selection of Procedures

8.26: There are generally two different types of procedures used in audit programs: control procedures and substantive procedures.

- **Control Procedures**: Control procedures are tests designed to obtain reasonable assurance that the internal controls on which reliance is to be placed are operating effectively during the period under examination.

- **Substantive Procedures**: Substantive procedures are designed to obtain evidence as to completeness, accuracy and validity of the data produced by the accounting system.

These may be further subdivided into analytical procedures and substantive test of details.

- **Analytical Procedures**: They involve a comparison of recorded amount to that the auditor expects which are computed as the basis of financial or non-financial information and may originate within or outside the entity being audited. It includes analyzing relationship of financial or non-financial data, comparing actual data with expectation, investigating variations and evaluating results.

- **Substantive Tests of Details**: A substantive test involves examining a sample of individual transactions in order to obtain audit assurance. The auditor gathers different types of audit evidences from various sources (internal, external and personal knowledge) by applying different audit techniques (e.g. physical examination, observation, inquiry, confirmation, scrutiny, etc.)

Execution Phase

8.27: The execution phase generally covers implementation of what has been designed and provided for in the audit plans and audit programme.

The key stages are :-

1. **Statistical Sampling for Control Procedures**
2. **Performing Control Procedures and compliance Testing**
3. **Performing substantive test of details**
4. **Review of Working papers**

Statistical Sampling for Control Procedures

8.28: Sampling is well established as an audit procedure. Audit sampling is defined as application of audit procedures to less than 100 per cent of items within a class of transactions to enable auditors to obtain and evaluate audit evidence about some characteristics of the items selected in order to form a conclusion concerning the population which makes up the class of transactions. Sampling may be statistical or non-statistical.

In statistical sampling probability theory is used to determine sample and to interpret the results. Statistical sampling does replace judgment, it provides a decision model within which the auditor's judgments as to the acceptable level of detection risk, and testing materiality and other variables are the inputs. The model specifies the sample size and evaluates the sample results in terms of sampling risk and materiality.

In non-statistical sampling, the auditors make judgment both to determine the sample size in the light of the planned level of detection risk and of testing materiality, and to interpret the results against the audit objective. Judgmental sampling, convenient sampling, haphazard sampling are examples of non-statistical sampling.

8.29: The essential features of statistical sampling are:

(i) The sample items should have known probability of selection. For example, simple random selection is an equal probability sampling. Statistical inferences based on statistical sampling are valid and acceptable to all.

(ii) The sample should be representative of the different items in the whole population.

(iii) Sampling should result in more intensive auditing should occur on high value, high risk items/transactions.

(iv) Sampling should be unpredictable, that is, the client should not be able to know or guess which items will be examined.

(v) The sample results should be evaluated mathematically – that is, in accordance with the probability theory.

8.30: Various statistical sampling methods:

- The simplest form of random sampling consists in selecting the sample unit-by-unit (or, item-by-item), ensuring equal probability of selection for every unit at each draw. This technique of selection is termed a Simple Random Sampling (SRS). SRS are of two types:

- **In Simple Random Sampling With Replacement (SRSWR),** a unit is selected from the sampling frame (list of units in the population) and an appropriate sample is obtained. Then the unit is placed back in the sampling frame. As a result it is possible for a unit to be included in the sample more than once.

- **In Simple Random Sampling Without Replacement (SRSWOR),** once a unit is selected for inclusion in the sample, it is removed from the sampling frame and, therefore, cannot be selected again.

- **In Systematic sampling,** the sample is chosen by selecting a random starting point and then picking every I^{th} (sample interval) unit in succession from the sampling frame. The sampling interval is the ratio of population size to sample size, rounding to the nearest integer. Systematic sampling is less costly and easier to implement than SRS, because random selection is done only once. Systematic sampling is of two types (a) **Linear Systematic Sampling** and (b) **Circular Systematic Sampling.**

- **Stratified sampling** is a two-step process in which the population is partitioned into sub-populations, or strata. The strata should be mutually exclusive and collectively exhaustive and in that every population unit should be assigned to one and only one stratum and no population unit should be omitted. From each stratum, units are selected by any random procedure, usually SRS. The population unit in each stratum should be as homogenous as possible. A major objective of stratified sampling is to increase reliability without increasing cost.

- In **cluster sampling,** the target population is first divided into mutually exclusive and collectively exhaustive sub-populations, or clusters. Then a random sample of clusters is selected, based on a probability sampling technique such as SRS. For each selected cluster, either all the units are included in the sample or a sample of units is drawn. Units within each cluster should be as **heterogeneous** as possible; but the clusters themselves should be as **homogeneous** as possible; each cluster should be a small-scale representation of the whole population.

- **Probability Proportional to Size (PPS)** sampling assigns higher inclusion probability of selection for population units with higher sizes (size may be total expenditure, value, total population etc.) In other words, the entities with higher sizes, based on some characteristics, will have higher chances of selection. If repetition is allowed it is called Probability Proportional to Size With Replacement **(PPSWR)** Sampling.

- **Multi Stage Sampling:** Sometimes, as in the case of cluster sampling, it is not possible to draw the ultimate units of interest, as the sampling frame of such units is not available. However, a list of some suitable bigger units or primary stage unit (psu's) each comprising several smaller units or second stage units (ssu's,) may be available from which samples (of psu's) may be selected. Instead of completely testing all the ssu's belonging to a selected psu, a further sample (of ssu's) is to be drawn and tested. Similarly higher order multistage design involving three stage or more is possible.

8.31: Estimation (extrapolation) procedure and sample size formulae, methodologies of selection of sample, determination of sample size, confidence level (90 per cent and 95 per cent) table and normal curve area table are at Appendices 8.2 to 8.5

Performing Control Procedures and Compliance Testing

Identifying key internal controls

8.32: An internal control system is the whole system of controls, financial and otherwise established by management to carry out the activities of the organization in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of records. Auditors rely on the portion of the system that gives assurance in relation to financial information. Key controls are those that the auditor intends to rely on. The auditor will usually test only the strongest control related to a particular assertion. An auditor has to identify the key controls after setting the objectives and scope (i.e. degree of reliance on controls) but prior to designing the tests to be performed. Auditor will often use key control questionnaires (KCQs) to identify controls related to specific assertions. For the purpose of evaluation of internal controls INTOSAI Guidelines for Internal Control Standards for the Public Sector and an internal control questionnaire issued by the institute of Chartered Accountants of India circulated vide headquarters letter no. 77-Rep (AB)/63-2004 dated 05.04.2004 may be referred to.

Types of internal controls

8.33: The following is a description of some of the types of controls that the auditor may find in many organizations on which he may seek to place some degree of reliance:

- Organization – Authorities should have a plan of their organization, defining and allocating responsibilities and identifying lines of reporting for all aspects of the authority's operations, including the controls. The delegation of authority and responsibility should be clearly specified.

- Segregation of duties – One of the prime means of control is the separation of those responsibilities or duties that would, if combined, enable one individual to record and process a complete transaction. Segregation of duties reduces the risk of intentional manipulation or error and increases the element of checking. Functions that should be separated include those of authorization, execution, custody, recording and in the case of a computer-based accounting system, systems development and daily operations. The duties assigned should be rotated at regular intervals.

- Physical – The controls are concerned mainly with the custody of assets and involve procedures and security measures designed to ensure that access to assets is limited to authorized personnel. This includes both direct access and indirect access via documentation. These controls assume importance in the case of valuable, portable, exchangeable or desirable assets.

- Authorization and approval – All transactions should require authorization or approval by an appropriate, responsible person. The limits for these authorizations should be specified.

- Arithmetical and accounting – These are the controls within the recording function that check that the transactions to be recorded and processed have been authorized, that they are all included and that they are correctly recorded and accurately processed. Such controls include checking the arithmetical accuracy of the records, the maintenance and checking of totals, reconciliation, control accounts and trial balances, and accounting for documents.

- Personnel - There should be procedures to ensure that personnel have capabilities commensurate with their responsibilities. Inevitably, the proper functioning of any system depends on the competence and integrity of those operating the systems. The qualifications, selection and training as well as reliability of the personnel involved are important aspects to be considered in setting up any control system.

- Supervision – Any system of internal control should include supervision of day-to-day transactions by responsible officials.

- Management – These are the controls exercised by management outside the day-to-day routine of the system. They include the overall supervisory controls exercised by management, the review of management accounts and comparison thereof with budgets, the efficacy of internal audit function and other special review procedures.

Testing Procedures

8.34: The auditor cannot place any reliance on internal controls based solely on his preliminary systems evaluation. He should carry out compliance tests to obtain reasonable assurance that the controls on which he wishes to rely were functioning properly throughout the period. It should be noted that it is the control that is being tested by a compliance test, and not the transaction that may be the medium used for the test. For this reason, the auditor should record and investigate all exceptions revealed by his compliance testing, regardless of the amount involved in the particular transaction. An exception is an occurrence where a control has not been operated properly whether or not a quantitative error has occurred (or fewer exceptions than provided for in his or her sampling plan).

If compliance tests disclose no exceptions the auditor may reasonably place reliance on the effective functioning of the internal controls tested. He can, therefore, limit his substantive tests to the relevant information in the accounting records.

If the compliance tests have disclosed exceptions that indicate that the control being tested was not operating properly in practice, the auditor should determine the reasons for this. He needs to assess whether each exception is only an isolated departure or is representative of others, and whether it indicates the possible existence of errors in the accounting records. If the explanation he received suggests that the exception is only an isolated departure, then he must confirm the validity of the explanation, for example, by carrying out further tests. If the explanation or the further tests confirm that the control being tested was not operating properly throughout the period, then he cannot rely on that control. In these circumstances, the auditor is unable to restrict his substantive testing unless he can identify an alternative control on which to rely. Before relying on that alternative control, he must carry out suitable compliance tests on it.

Performing substantive test of details

Substantive Audit Procedure

8.35: Substantive tests are those tests of transactions and balances, and other procedures such as analytical review, which seek to provide evidence as to the completeness, accuracy and validity of information in the accounting or in the financial statement. These are two substantive audit techniques, viz.,

1. Analytical review,
2. Substantive test of details.

Analytical review is a recognized substantive procedure used to reduce the overall audit risk. Analytical review is classified as "substantive" procedure because the audit objective in using analytical review is the same as other substantive procedures, to detect monetary errors in the financial statements given that they have occurred (inherent risk) and have not been detected by the entity's internal controls (control risk).

Analytical review procedures are substantive tests of financial information made by a study and comparison of relationships among data. The reliability of individual recorded transactions and balances is inferred from the evidence of the reasonableness of the aggregate results. It is a form of deductive reasoning.

On the other hand, substantive test of details consist of examining samples of transactions or account balances. They are a form of inductive reasoning where the reasonableness of the aggregate results is inferred from the evidence of reliability of the individual details that have been tested.

Audit Evidence

8.36: Audit evidence is information obtained by the auditor in arriving at the conclusions on which the audit opinion is based. More particularly, the auditor seeks evidence to confirm that all items in the account have been fairly stated in all respects. Audit evidence will comprise source documents and accounting records underlying the financial statements and corroborating information from other sources.

The INTOSAI Auditing Standards provide guidance on the quantity and the quality of audit evidence to be obtained, and the procedures for obtaining it. They stipulate that the auditor should obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the opinion.

Sufficient Appropriate Evidence

8.37: Sufficiency and appropriateness are interrelated and apply to audit evidence obtained from both tests of control and substantive procedures. Sufficiency is the measure of the quantity of evidence; appropriateness is the measure of the quality evidence, its relevance to particular assertion and its reliability. Ordinarily, the auditor finds it necessary to rely on audit evidence that is persuasive rather than conclusive, and will often seek audit evidence from different sources or of a different nature to support the same assertion.

Compliance and Substantive Evidence

8.38: The effectiveness of an audited body's internal controls is a critical factor when the auditor decides whether to follow a systems-based approach (SBA) or to rely solely on substantive testing. If the auditor considers that internal controls are operating effectively, then reliance can be placed upon them. All evidence obtained through the compliance testing procedures is called compliance evidence.

Detail Substantive Testing

8.39: Substantive evidence is obtained by examining and testing the transactions that make up the account. This will, however, vary from organisation to organisation depending upon the nature of the organisation, the system of accounting and the documents maintained. However, the points to be looked into at the time of audit of accounts are detailed to some extent in the Checklist (Appendix-8.6).

Compliance evidence alone is not sufficient to support the auditor's opinion on the account. Though the auditor may adopt the SBA, substantive evidence must be obtained nonetheless.

Review of Working papers

8.40: Working papers are all documents related to a particular audit right from its planning phase to its final conclusion. Working paper review is a critical examination of file documentation by someone other than the preparer to ensure that the work has been done in accordance with audit standards, the audit plan and programs were duly observed, and all audit conclusions are supported by competent evidence. It ensures that more than one level of experience and judgment is brought to bear on the work carried out and on the conclusions reached.

INTOSAI Field Standards Review

8.41: Review of working paper should be done in accordance with INTOSAI standards, which are as follows:

“Review work should ensure that:

1. All evaluations and conclusions are soundly based and supported by competent, relevant and reasonable audit evidence as the foundation for the final audit opinion or report;

2. All errors, deficiencies and unusual matters have been properly identified, documented and either satisfactorily resolved or brought to the attention of senior officers; and

3. Changes and improvements necessary to the conduct of future audits are identified, recorded and taken into account in later audit plans as well as in staff development activities.”

The Review Process

8.42: The review process minimizes the risk of an error being overlooked. It ensures that the work has been performed and documented in accordance with the audit standards.

It is important to note that review work should not wait for the completion of audit. It should be conducted as soon as possible after each area of the audit has been completed and the working papers properly compiled. This approach leads to more effective control and any necessary changes can be made quickly.

Reporting Phase

Deriving overall audit conclusion and evaluation of audit findings

8.43: Responsiveness to Audit Objectives: Audit conclusion should respond to the accounting assertions which also constitute enabling audit objectives such as:

Completeness:	All transactions relevant and material to the year have been recorded and presented properly.
Occurrence:	All recorded transactions are relevant and actually occurred.
Measurement:	Recorded transactions have been measured and valued in accordance with established accounting and adopted policies
Regularity:	The recorded transactions are in accordance with legislative authority and subsidiary rules.
Disclosure:	Recorded transactions have been properly classified and disclosed where applicable.

Reporting Materiality

8.44: The concept of materiality is important at the reporting stage when the auditor has to decide whether or not he/she can give an unqualified opinion. Reporting materiality considers quantitative errors as well as the matters relating to non-compliance with certain rules, regulations, procedures that may not have direct impact on the true and fair view of elements in financial statement.

Evaluating Impact of Quantifiable Errors

8.45: All the financially quantifiable unadjusted errors or omissions are summed up as to arrive at a single net figure of under/over statement of surplus or deficit and of assets or liabilities as the case may be. Whether the net summarized figure should relate to income or expenditure or assets or liabilities will depend on the relative importance from the users' point of view. Normally net figure of unadjusted errors or omissions is considered for forming opinion. However, there may be situation where both over and understated figures are large but due to compensating nature net figure of unadjusted errors becomes small. Hence in such situation auditor has to apply his professional judgment considering the composition of unadjusted errors having compensating effect.

- **Evaluating impact of non-compliance to regularity requirement:** Non-compliance with legislative enactment and subsidiary rules and regulations could have a material effect on the financial statements even if the net quantifiable misstatement is not material. Therefore, the impact of regularity deviations has to be considered in its own right by the auditor.

  The auditor's training, experience and understanding of the entity and its environment may provide a basis for recognition that some acts coming to the auditor's attention may constitute non-compliance with laws and regulations. Therefore, the auditor should obtain, at the planning stage, adequate understanding of the legal and regulatory framework applicable to the entity.

- **Evaluating impact of deviation from disclosure requirement:** In the presentation of the financial statements, non-disclosure of certain information, intentional or unintentional, could materially affect the understanding of the accounts. The action, which has not been disclosed, may in itself be permissible but non-disclosure of that action may materially affect the faithful presentation of the financial statement. For example, both straight line and reducing balance methods of depreciation are permitted in providing for depreciation of assets, though the amounts provided by using one method could vary significantly than that provided for by using the other method. Similarly, there may be different basis for valuation of closing stocks. In such cases where different acceptable methods or accounting practices are available, it is considered good practice to disclose the method applied by the entity.

Determining opinion to be rendered after due consideration

8.46: Having independently considered the impact of (i) quantifiable errors and omissions, (ii) non-compliance with laws, rules and regulations, (iii) deviations from disclosure requirements, the auditor has to finally decide which type of opinion is appropriate. Material error or misstatement in any one of the three categories i), ii) or iii) may be grounds for qualifying the audit opinion even if there are no material errors/misstatements in the other two categories, this is because the three categories do not necessarily have a compensating effect on each other, although the impact of regularity and disclosure deviations are often influenced by their financial consequences, in the final analysis, professional judgment and experience of the auditor play a significant role in determining which type of opinion is to be expressed.

Preparing the Audit Report

8.47: For detailed guidelines in this regard please refer to Chapter 9 of the Manual.

Appendix 8.1
(Referred to in Para 8.15)
Assurance Guide

Assurance from inherent risk evaluation	Assurance from internal controls (SBA)	Assurance from substantive analytical review procedures	Required assurance from detailed substantive tests (Confidence level)
High	High (Excellent system)	Med Low Nil	60 70 75
	Med (Good system)	Med Low Nil	65 75 80
	Low (Fair system)	Med Low Nil	75 80 85
	Nil (Poor system/DST)	Med Low Nil	92 94 95
Medium	High (Excellent system)	Med Low Nil	75 80 85
	Med (Good system)	Med Low Nil	80 85 90
	Low (Fair system)	Med Low Nil	85 90 92
	Nil (Poor system/DST)	Med Low Nil	95 96 97
Low	High (Excellent system)	Med Low Nil	90 92 94
	Med (Good system)	Med Low Nil	92 94 95
	Low (Fair system)	Med Low Nil	94 95 96
	Nil (Poor system/DST)	Med Low Nil	98 99 99

Appendix 8.2
(Referred to in Para 8.31)
Methodologies of selection of sample
(Using Random Number Table**)**

1. **Simple Random Sampling With Out Replacement (SRSWOR).**

Let there be N number of auditable units in a stratum from which n (sample size) number of units to be selected .

Step 1: Prepare or get the list of units and associate serial numbers for each unit/transaction.

Step 2: Open a page at random of the random number table

Step 3: Select a random number from the page starting from the left most top corner of the table and proceed sequentially from left to right between 1 to N (let it be r).

Step 4: The r^{th} serial number is selected first. Select a random number next in the sequence as per step 3.

Repeat Step 3 and Step 4 until we select n distinct units (i.e. the samples repeated subsequently may be ignored).

Please note that if all the samples selected more than once are retained in the sample we get a sample with SRSWR, in that case the number of distinct units may be less than n.

2. Linear Systematic Sampling

Step 1 : Calculate the Sampling Interval I= [N/n]

Step 2 : Open a page at random of the random number table

Step 3 : Select a random number from the page between 1 to I ,starting from left most corner of the table and proceed sequentially from left to right. Let it be R.

Step 4 : Selected samples would be R , R+I, R+2I , R+3I ,….. until we get n samples or the sampling frame gets exhausted.

Please note in this way we may not get exactly n number of samples.

3. Circular Systematic Sampling

Step 1 : Calculate the Sampling Interval I= [N/n]

Step 2 : Open a page at random of the random number table

Step 3 : Select a random number from the page between 1 to N ,starting from left most corner of the selected page and proceed sequentially from left to right. Let it be R.

Step 4 : Selected samples would be R, R+I, R+2I , R+3I ,….. until we get n samples.

Step 5 : If at any stage (R+kI) > N ,N may be subtracted from(R+kI) as (R+kI)-N and that is the next sample and then proceed further i.e. in a circular manner.

Please note in this way we get exactly n number of samples.

4. Probability Proportion to Size With Replacement (PPSWR)

4.1 Cumulative total method

A table of cumulative total of sizes of the units is made. Let $T_i=x_1+x_2+x_3+\ldots+x_i$, where x_i is the size measure of i^{th} unit. A random number, say R is drawn between 1 to T_N (= Total size). The unit 'i' is selected if $T_{i-1} < R = T_i$. The process is repeated n (sample size) times.

Appendix 8.3

(Referred to in Para 8.31)

Estimation (Extrapolation) procedure & Sample size calculation formulae.

1.1 Unstratified Mean Per Unit (MPU): The unstratified MPU is used to project an estimated value of a sample. After a sample is selected with SRS and a value is determined for each sample items, the sample mean of sample values multiplied by the number of items in the population (N) to produce an estimate of total value of the sample population. Assuming normality the optimum sample size under SRS is

n= $\left(\frac{U_r * SD * N}{A}\right)^2$,

Wherer U_r= confidence level coefficient (for value consult Normal curve table, Table 3.3),

A= margin of error and SD = Standard Deviation = $\sqrt{\frac{\sum_{j=1}^{N} x_j - n\bar{x}^2}{N}}$, N=population

Size.

Because MPU without stratification produces large sample sizes relative to other sampling methods, its use in survey sampling is limited.

1.2 Stratified Mean Per Unit: When the population is highly variable (large standard deviation), technically called heterogeneous population, unstratified MPU may produce very large sample sizes. Stratification of the population, as explained earlier, produces an estimate that has desired level of reliability with reduced sample size. Using the following formula the sample sizes for each stratum may be optimally determined as:

$$n_i = \frac{(N_i * SD_i)(\sum N_i * SD_i)}{(A/U_r)^2 + \sum N_i * SD_i^2}$$

Where, SDi = Standard Deviation of the i^{th} stratum.

The estimated population total (for three strata) is:

Total estimated value $= N_1 * \bar{x}_1 + N_2.*\bar{x}_2 + N_3*\bar{x}_3$

Where, * : Multiplication.

1.3 Unstratified Proportion of audit objections (errors): The projected number of audit objections in the population is the sample proportion of error multiplied by number of items in the population. The optimum sample size under SRS is

n= $\left(\frac{U_r^{\,2} * P*(1-P).}{A^2}\right)$, Where = confidence level coefficient, A= margin of error and P= Proportion of errors that is expected in the population.

1.4 Stratified Proportion of audit objections (errors):

For three strata, the projected number of audit objections in the population is equal to

$\frac{N_1 * p_1 + N_2 .* p_2 + N_3 * p_3}{N}$,where pi is the proportion of audit objections in the ith stratum. & N=N1+ N2+N3. Where, * : Multiplication.

1.5 Estimation with PPSWR:

The estimate of population total of the character x = $\hat{X} = \frac{1}{n}\sum_{i=1}^{n}\frac{x_i}{p_i}$, where pi is the probability of selecting the i^{th} sample.

The estimate of population mean= $\hat{\bar{X}} = \frac{\hat{X}}{N}$

2. Application of statistical sampling in Test of control /Substantive testing in audit :

2.1 The statistical sampling described above may also be categorized into three broad categories: ***Attribute,*** **Variable and Probability proportional to size** sampling. Attribute sampling may be used primarily in test of controls. In contrast; variable sampling and PPS sampling may be used to test monetary value of account balance.

2.2 Audit Test of control (Compliance testing) :

Assume that an auditor wants to test credit approval on 20,000 sales invoices processed during the year. He or she needs a statistical sample that will give 95% confidence that not more than 5% of the sales invoices were not approved. The auditor estimates from previous experience that about 1% deviations (are not approved).

Expected deviation rate = 1%
Tolerable rate = 5%
Confidence level = 95%

One can use Binomial tables as a close approximation for large sample.

From the table 3.2 at Appendix 8.4 it is observed that the required sample size is 93 and if the number of deviation in 93 samples is 0 or 1, then the auditor can conclude with 95% confidence that the tolerable rate is not more than 5%, in other words internal controls are reliable. If the number of deviations in 93 samples is more than 1, the tolerable rate is more than 5% and confidence level will also be less than 95% and the internal control is unreliable.

2.3 Audit Hypothesis Model / substantive testing:

The audit hypothesis approach statistically discriminates between the hypothesis that the amount as represented is correctly stated and the alternative hypothesis that the amount is materially misstated.

2.3.1 The Audit Hypothesis Model can be categorized into four separate phases.

- Internal Control Assessment
- Substantive test panning
- Substantive test execution
- Substantive test evaluation

2.3.2 Steps in Audit Hypothesis Model: Let the hypothesis is there is material correctness of the book value.

Step1: Appropriate variable sampling plan has to be selected based on audit objective and population characteristics.

Step 2: If SRSWOR is the sampling plan then the sample size (n):

$$n_o = \left[\frac{U_r * SD * N}{A}\right]^2$$

$$if\ \frac{n_o}{N}\ is\ high\ then\ the\ sample\ size$$

$$can\ be\ further\ reduced\ as$$

$$n = \frac{n_o}{1 + \frac{n_o}{N}}$$

Step 3: Ur is determined based on acceptable alpha risk .

Step 4: 'SD'(Standard Deviation) may be estimated using a pilot sample of size 30, if not known.

Step 5: 'N' is the population size

Step 6: 'A' must be calculated based on desired or calculated beta risk as:

$$A = T.M * \frac{U_r}{U_r + Z_\beta}$$

where, A=precision, Ur=reliability factor, Zâ = Beta risk coefficient, T.M=tolerable misstatement. (Acceptable beta-risk can be ascertain form the risk model)

Normal curve value is used to determine Reliability factor and Beta risk coefficient.

For example ,With 95% reliability factor is 1.96 as from the table 3.3 we get for 1.96 Normal area as 0.4750,.if we multiply it by 2 we get 95% .With 90 % reliability factor we get =1.65 (as 0.4505 X 2 = 90%). For 1% beta risk we need to consult Normal table for .50-.01 =.49 area value for .4900 the is 2.33.

Step 7: Select the sample by SRSWOR

Step 8: Perform a test of samples. The sample mean book value and the population mean book value should not be substantially different. If so a new sample is to be selected discarding the first one or the sample design should be changed.

Step 9: Perform audit procedure on the sample items selected for substantive tests.

Step 10: Analyze misstatements noted in the sample to determine their cause, nature and whether systematic pattern exists. A systematic misstatement is a recurring misstatement does not occur randomly.

Step 11: Calculate SD of the sample observations

Step 12: Calculate Achieved Precision:

$$A' = Ur * \frac{SD}{\sqrt{n}} * N * \sqrt{1 - \frac{n}{N}}$$

Step 13: If A' not equal to A then calculate A''

$$A'' = A' + TM\,(1 - \frac{A'}{A})$$

Otherwise $A'' = A'$

Step 14: Calculate

$$\overline{x} = \frac{\sum of\ each\ audited\ value}{n}$$

Step 15: Calculate Estimated Audited Value (EAV)

$$\hat{X} = N * \overline{x}$$

Step 16: Calculate Decision Interval:

Book Value (Adjusted for any systematic differences) ± A''

Step 17: Rule:

- If EAV falls within this interval, conclude that the statistical evidence support the book value.
- Otherwise, conclude that the statistical evidence does not support the material correctness of the book value.

Evaluation procedure will be different if Monetary Unit Sampling (MUS) is used.

Under stratification evaluation procedure will be different. In such situations opinion of a statistical expert may be taken.

Appendix - 8.4
(Referred to in Para 8.31)

Table 3.1 Determination of Sample Size: Confidence Level: 90%

(Allowable number of deviations in parentheses)

Expected Population Deviation Rate	Tolerable Rate								
	2%	3%	4%	5%	6%	7%	8%	9%	10%
0.00%	114(0)	76(0)	57(0)	45(0)	38(0)	32(0)	28(0)	25(0)	22(0)
0.25	194(1)	129(1)	96(1)	77(1)	64(1)	55(1)	48(1)	42(1)	38(1)
0.50	194(1)	129(1)	96(1)	77(1)	64(1)	55(1)	48(1)	42(1)	38(1)
0.75	265(2)	129(1)	96(1)	77(1)	64(1)	55(1)	48(1)	42(1)	38(1)
1.00	*	176(2)	96(1)	77(1)	64(1)	55(1)	48(1)	42(1)	38(1)
1.25	*	221(3)	132(2)	77(1)	64(1)	55(1)	48(1)	42(1)	38(1)
1.50	*	*	132(2)	105(2)	64(1)	55(1)	48(1)	42(1)	38(1)
1.75	*	*	166(3)	105(2)	88(2)	55(1)	48(1)	42(1)	38(1)
2.00	*	*	198(4)	132(3)	88(2)	75(2)	48(1)	42(1)	38(1)
2.25	*	*	*	132(3)	88(2)	75(2)	65(2)	42(1)	38(1)
2.50	*	*	*	158(4)	110(3)	75(2)	65(2)	58(2)	38(1)
2.75	*	*	*	209(6)	132(4)	94(3)	65(2)	58(2)	52(2)
3.00	*	*	*	*	132(4)	94(3)	65(2)	58(2)	52(2)
3.25	*	*	*	*	153(5)	113(4)	82(3)	58(2)	52(2)
3.50	*	*	*	*	194(7)	113(4)	82(3)	73(3)	52(2)
3.75	*	*	*	*	*	131(5)	98(4)	73(3)	52(2)
4.00	*	*	*	*	*	149(6)	98(4)	73(3)	65(3)
5.00	*	*	*	*	*	*	160(8)	115(6)	78(4)
6.00	*	*	*	*	*	*	*	182(11)	116(7)
7.00	*	*	*	*	*	*	*	*	199(14)

Table 3.2 Determination of Sample Size: Confidence Level: 95%

Expected Population Deviation Rate	Tolerable Rate								
	2%	3%	4%	5%	6%	7%	8%	9%	10%
0.00%	149(0)	99(0)	74(0)	59(0)	49(0)	42(0)	36(0)	32(0)	29(0)
.25	236(1)	157(1)	117(1)	93(1)	78(1)	66(1)	58(1)	51(1)	46(1)
.50	*	157(1)	117(1)	93(1)	78(1)	66(1)	58(1)	51(1)	46(1)
.75	*	208(2)	117(1)	93(1)	78(1)	66(1)	58(1)	51(1)	46(1)
1.00	*	*	156(2)	93(1)	78(1)	66(1)	58(1)	51(1)	46(1)
1.25	*	*	156(2)	124(2)	78(1)	66(1)	58(1)	51(1)	46(1)
1.50	*	*	192(3)	124(2)	103(2)	66(1)	58(1)	51(1)	46(1)
1.75	*	*	227(4)	153(3)	103(2)	88(2)	77(2)	51(1)	46(1)

2.00	*	*	*	181(4)	127(3)	88(2)	77(2)	68(2)	46(1)
2.25	*	*	*	208(5)	127(3)	88(2)	77(2)	68(2)	61(2)
2.50	*	*	*	*	150(4)	109(3)	77(2)	68(2)	61(2)
2.75	*	*	*	*	173(5)	109(3)	95(3)	68(2)	61(2)
3.00	*	*	*	*	195(6)	129(4)	95(3)	84(3)	61(2)
3.25	*	*	*	*	*	148(5)	112(4)	84(3)	61(2)
3.50	*	*	*	*	*	167(6)	112(4)	84(3)	76(3)
3.75	*	*	*	*	*	185(7)	129(5)	100(4)	76(3)
4.00	*	*	*	*	*	*	146(6)	100(4)	89(4)
5.00	*	*	*	*	*	*	*	158(8)	116(6)
6.00	*	*	*	*	*	*	*	*	179(11)
7.00	*	*	*	*	*	*	*	*	*

Note: These tables assume large population.

*: Sample size is too large to be cost effective for most audit applications.

Appendix 8.5

(Referred to in Para 8.31)

Table 3.3 Normal Curve Area Table

Standard ordinate	.00	.01	.02	.03	.04	.05	.06	.07	.08	.09
0.0	*.0000*	*.0040*	*.0080*	*.0120*	*.0159*	*.0199*	*.0239*	*.0279*	*.0319*	*.0359*
0.1	.0398	.0438	.0478	.0517	.0557	.0596	.0636	.0675	.0714	.0753
0.2	.0793	.0832	.0871	.0910	.0948	.0987	.1026	.1064	.1103	.1141
0.3	.1179	.1217	.1255	.1293	.1331	.1368	.1406	.1443	.1480	.1517
0.4	.1554	.1591	.1628	.1664	.1700	.1736	.1772	.1808	.1844	.1879
0.5	.1915	.1950	.1985	.2019	.2054	.2088	.2123	.2157	.2190	.2224
0.6	.2257	.2291	.2324	.2357	.2389	.2422	.2454	.2486	.2518	.2549
0.7	.2580	.2612	.2642	.2673	.2704	.2734	.2764	.2794	.2823	.2852
0.8	.2881	.2910	.2939	.2967	.2995	.3023	.3051	.3078	.3106	.3133
0.9	.3159	.3186	.3212	.3238	.3264	.3289	.3315	.3340	.3365	.3389
1.0	.3413	.3438	.3461	.3485	.3508	.3531	.3554	.3577	.3599	.3621
1.1	.3643	.3665	.3686	.3708	.3729	.3749	.3770	.3790	.3810	.3830
1.2	.3849	.3869	.3888	.3907	.3925	.3944	.3962	.3980	.3997	.4015
1.3	.4032	.4049	.4066	.4083	.4099	.4115	.4131	.4147	.4162	.4177
1.4	.4192	.4207	.4222	.4236	.4251	.4265	.4279	.4292	.4306	.4319
1.5	.4332	.4345	.4357	.4370	.4382	.4394	.4406	.4418	.4430	.4441
1.6	.4452	.4463	.4474	.4485	.4495	.4505	.4515	.4525	.4535	.4545
1.7	.4554	.4564	.4573	.4582	.4591	.4599	.4608	.4616	.4625	.4633
1.8	.4641	.4649	.4656	.4664	.4671	.4678	.4686	.4693	.4699	.4706
1.9	.4713	.4719	.4726	.4732	.4738	.4744	.4750	.4758	.4762	.4767
2.0	.4773	.4778	.4783	.4788	.4793	.4798	.4803	.4808	.4812	.4817
2.1	.4821	.4826	.4830	.4834	.4838	.4842	.4846	.4850	.4854	.4857
2.2	.4861	.4865	.4868	.4871	.4875	.4878	.4881	.4884	.4887	.4890
2.3	.4893	.4896	.4898	.4901	.4904	.4906	.4909	.4911	.4913	.4916
2.4	.4918	.4920	.4922	.4925	.4927	.4929	.4931	.4932	.4934	.4936
2.5	.4938	.4940	.4941	4943	.4945	.4946	.4948	.4949	.4951	.4952
2.6	.4953	.4955	.4956	.4957	.4959	.4960	.4961	.4962	.4963	.4964
2.7	.4965	.4966	.4967	.4968	.4969	.4970	.4971	.4972	.4973	.4974
2.8	.4974	.4975	.4976	.4977	.4977	.4978	.4979	.4980	.4980	.4981
2.9	.4981	.4982	.4983	.4984	.4984	.4984	.4985	.4985	.4986	.4986
3.0	.4986	.4987	.4987	.4988	.4988	.4988	.4989	.4989	.4989	.4990
3.1	.4990	.4991	.4991	.4991	.4992	.4992	.4992	.4992	.4993	.4993

Appendix-8.6

(Referred to in Para 8.39)

Audit Checks for Certification Audit of Autonomous Bodies

General Checklist for certification of accounts of Autonomous Bodies

1.	Previous year's Balance Sheet and audit report	1. The auditor must inspect the last year's balance sheet to ensure that balances have been correctly recorded in the books of account. 2. Also note that corresponding figures of last year are also required to be given in the balance sheet. 3. Auditor should also inspect previous auditor's report and ensure that assurances given by management last year have been duly carried out by the entity.
2.	Certificates required to be taken	The auditor should obtain the following certificates from the management while conducting the audit:- 1. Number of bank accounts together with certificate of bank reconciliation. 2. Name of financial institutions from whom loans have been taken specifying the nature of security. 3. Cash in hand 4. Certificate in respect of investments held by bankers or other authorities. 5. Balance of inventories at year end. 6. Stock-in-transit.

	7. Work-in-progress with processors.
	8. Contingent liabilities.
	9. Actuary’s certificate in respect of gratuity / pension.
3. Verification of the opening balances.	1. Tally the opening balances of all ledgers with the previous year’s balance sheet.
	2. Verify the following ledgers for this purpose: i. General Ledger ii. Debtors’ Ledger iii. Creditors’ Ledger iv. Other Subsidiary Ledgers.
	3. Tally the opening balance of cash with cashbook maintained by the entity.
4. Journal Vouching	1. Check why debit balances have been written off or credit balances written back. Verify whether all these types of entries are duly authenticated by the management.
	2. Check and verify that all the journal vouchers have correct head of account.
	3. If there are entries relating to earlier or subsequent period, please check for their authenticity.
	4. Prepare a list of unticked items.
	5. Check that all journal vouchers are duly supported by necessary evidence or explanation.

	6.	Verify whether all vouchers are properly authorised by a responsible official of the auditee organisation.
5. Stock records	1.	Check the opening stock from preceding year's inventories.
	2.	Check the receipts of raw materials while checking purchases.
	3.	Tally issues in the stock records with material issue note.
	4.	Trace closing stock with physical inventory sheets.
	5.	Correlate consumption with production records.
	6.	Check that the materials given or taken on loan have been properly accounted and proper record has been duly maintained.
	7.	Check and ensure that slow-moving, obsolete and damaged items have been properly identified.
	8.	Check material consumption with excise and other records.
	9.	Verify whether proper cut-off procedures are duly adopted by the entity.
	10.	Reconcile opening stock production, sales and closing stock.
	11.	Also verify and examine the basis on which the inventories have been valued by the company.

6.	Capitalisation of items	1.	Check all additions to assets with account heads and approvals and ensure that no inadmissible expenditure has been capitalized.
		2.	Make sure that the Guidelines of the ICAI regarding the capitalisation of interest during construction period has been duly complied with by the entity.
		3.	Examine the sale and disposal records of the assets sold or disposed off and the capital gain / loss thereof.
		4.	Verify whether proper authentication has been done whenever expenses are capitalised.
		5.	In case the advances given to the contractors are transferred to relevant asset account, check whether these are transferred only after the security deposit has been withdrawn.
		6.	Verify whether proper basis and rate of construction have been applied while capitalising the advances given to contractors.
7.	Posting records	1.	Check ledger posting from the following records: • Cash book. • Bank Book. • Sales register. • Purchase register. • Debit notes. • Credit notes. • Journal. • Any other principal books.

2. If the entity follows a system of summarised posting of sales/purchase register or debit notes /credit notes petty cash book, etc., ensure that these have been posted accordingly.

3. Make a list of items remaining unticked and find out the causes for the same.

8. Ledger scrutiny

1. Note that the ledger scrutiny is one of the most ticklish tasks to be taken care of by the auditor in order to effect an efficient audit.

2. Please note that if your audit staff does not opt for such scrutiny and simply vouches the books with vouchers, etc., then in such a case, there is every possibility of frauds or errors remaining untraced.

3. The ledger scrutiny however, involves major analytical task. Following things are to be properly analysed for an effective ledger scrutiny:

   (a) General Ledger
   (b) Debtors Ledger
   (c) Creditors Ledger
   (d) Staff loan Ledger
   (e) Advance Ledger
   (f) Loan Ledger

4. The year-end balances of these Ledgers must be clearly known with break up in precise terms.

5. Examine the expenses accounts properly to ensure that non-accrual expenses during the

year have not been recorded and only expenses relevant to the period under audit have been entered in such account.

6. Also examine the revenue accounts to ensure that all revenues during the year are duly accounted and credit has not been taken for any revenue not accruing during the year.

7. Also verify the assets and liabilities and ensure that all assets and liabilities have been properly accounted and there is nothing included in these accounts, which does not represent assets or liability of the entity.

8. Make sure that the assets are shown on their proper valuation (e.g. fixed assets at WDV and current assets at lower of historical cost or current market price).

9. Also ensure that contingent liabilities are not included in the liabilities.

10. While exercising a scrutiny of the creditors ledger, the auditor has to ensure the following:

    (a) That the advances against goods have properly been adjusted against such goods. If not adjusted for more than a reasonable time, they must be noted separately.

    (b) If credit balances lying with creditors have remained unpaid for more than a reasonable time, then it must also be taken care of.

    (c) Separation must be made for the items, which are not in the nature of purchases but merely loans. Please note that only authorised transactions need be recorded in such ledger.

11. Verify the debtors' ledger by keeping the following specific points in mind.

    (a) Categorisation is made for debtors outstanding for more than 6 months and otherwise.
    (b) Doubtful debts must be calculated by scrutinising the overdue debtors.
    (c) Sale items must be distinguished with loan items

12. Following specific accounts must be scrutinised to check whether capital and revenue items have not been merged:

    (a) Building Repairs
    (b) Machinery Repairs
    (c) Other repairs

13. Note that such categorisation will have far reaching consequences on the final result of the entity. It may result in over or under showing of profits if not considered according to established accounting principles.

14. Also check the fixed deposits registers, receipts and application.

15. Check the register of postage.

16. Also enquire into pending litigation / tax litigation / claims against the entity not acknowledged as debts/other contingent liabilities.

17. Prepare a list from cash book for cash payment in excess of Rs.10,000 and examine the reasons thereof.

	18.	Make a list of loans or advances taken or given in excess of Rs.20,000 and examine the reasons thereof.
	19.	Verify whether any material deviations have been noticed in the excess of income over expenditure (and vice versa) rate as compared with the previous year. If so, please call for the reasons thereof.
	20.	Verify whether any immovable assets have been sold during the previous year. If so, verify whether such transactions have been properly recorded.
9. Depiction of expenses in Income & Expenditure A/c		Note that any item under which expenses exceeds 1% of the total revenue of the entity or Rs.50,000/- whichever is higher, shall be shown as separate and distinct item against an appropriate head in Income and Expenditure Account.
10. Application of Accounting Standards/Notes and Instructions under this Manual		Verify whether the requirements of the various Accounting Standards as issued by the Institute of Chartered Accountants of India as required under this Manual have been adhered to by the entity. If not, the audit report has to be suitably qualified by the auditor.
11. Other General points	1.	Verify whether provisions for bonus and gratuity have been made and if not, then qualify the report.
	2.	Also check the basis for providing gratuity and bonus.

3. Check that the entity accounted for all the known incomes accruing during the year.

4. Check that income has accrued for materials processed but not invoiced/delivered.

5. Check that advance income has been properly adjusted.

6. Ensure that every material expenses, i.e., one percent of the turnover has been shown separately. If not, reasons therefore should be asked.

7. Check that non-recurring and extraordinary items have been shown separately.

8. List out all major variations after comparing accounts with previous year.

9. Compute the raw material consumption ratio to production for the year and compare with that of the previous year. If there is any major difference, detailed investigation should be made.

10. Verify whether the basis of accounting for claims:

    (a) made by the entity
    (b) made on the entity in accordance with generally accepted principles.

11. Also ensure that a register for claims has been maintained.

12. Verify whether the accounting polices as disclosed in the accounts have been duly followed in preparation of the accounts.

Checklist for audit of items under Assets

1. Fixed Assets	1. Check whether all fixed assets are physically in existence and in the ownership of entity by checking relevant records.
	2. Verify the repair account to ensure that no items of capital nature are included therein.
	3. Examine and ensure that additions to fixed assets do not carry revenue nature items.
	4. Verify whether the expenditure prior to asset being put to use, has been duly capitalised, and also interest up to the date of commencement of use of asset has been capitalised in case of specific loans against the assets.
	5. Verify whether the composite acquisition of assets for a lump price has been bifurcated into land and building and either asset supported by proper evidence.
	6. In case assets have been acquired in foreign currency loans, check whether adjustments are made as per accounting standard on foreign exchange. (AS-11 as revised).
	7. Verify whether government grants (including capital subsidy) are received towards cost of assets. If so, make a note on the treatment given. (AS-12)
	8. Verify whether the assets acquired under hire purchase agreements have been correctly and consistently accounted for.

9. Check whether fixed assets have been revalued during the year. If yes, then-

   (a) What is the basis of revaluation?
   (b) Fact of revaluation has to be disclosed for subsequent five years.
   (c) Quantum of revaluation has to be disclosed.
   (d) If a revalued asset has been sold, have transfers been made from revaluation reserve to capital reserve. If not, give suitable note.

10. Verify whether immovable properties held as investments and as stock in trade have been shown accordingly in the accounts.

11. Verify whether any immovable assets have been sold during the year. If so, verify whether such transactions have been properly recorded.

12. Verify whether all assets were in use during the year and all items of fixed assets have been adequately insured.

13. Verify whether additions/deductions deletions of assets are duly authorised by Executive Body and all additions are properly supported by documents of titles.

14. Obtain and verify the following:

   (a) List and value of fixed assets taken on lease.
   (b) An item wise list of 'capital work in progress.
   (c) Explanation for items appearing in capital work in progress for a long time without any movement.

15. Verify whether scientific research is also included in fixed assets, whether it will be written off in the year of acquisition. If yes, then note on the accounts should be given.

16. Check and ensure that proper depreciation is provided on fixed assets.

17. Verify whether all fixed assets are properly distinguished and charge, if any, on any asset is properly disclosed.

18. Verify whether there is proper authority for the purchase of assets.

19. Check the payment made by reference to the invoice received from the supplier.

20. Check that the title to the assets belongs to the entity.

21. Check that all expenses incidental to the purchase of assets have been duly capitalised.

22. In case the property is purchased through broker see the broker's note and also see that the brokerage paid on the purchase of the asset is duly capitalised.

23. Check that the fixed assets account has been duly credited and the cash amount has been debited with amount for which the assets has been sold.

24. Check and verify that proper adjustment has been made in profit and loss account / income and expenditure account on sale of fixed assets.

	25. Verify the counterfoil or carbon copy of receipt issued to party.
2. Investments.	1. Verify whether the investments are within the limits laid down under the rules, if any. If yes, verify whether the compliance of the requirements of the provisions of the rules has been duly made.The investments made are not in unauthorised institutions and are in no way inherently risky.
	2. In case the investments are purchased cum-dividend ensure that the dividend is actually received and the amount of dividend is excluded from the purchase price.
	3. Check the purchase of investments by reference to the broker's bought note.
	4. Check whether there are any restrictions on sale of investments? If yes, a note on accounts must be made.
	5. Check whether investments have been physically verified and ensure that the investments are held in entity's name and a certificate there of is furnished to audit.
	6. Check and ensure that the investments register is duly maintained and updated with each transaction of investments. Also check that the list of investments have been verified and correlated with investment register and ledger balance.
	7. Check that trade and other investments and income therefrom have been separately shown in the accounts.

8. In the case of quoted investments, comparison of cost with stock exchange quotations at the year-end must be made on the basis of valuation where the cost or market value is to be disclosed.

9. In case of unquoted investments comparison of cost with breakup values at the year-end must be made.

10. Check and ensure that adequate provision has been made for significant fall in the value of investment.

11. In case investments have been made during the year ensure compliance with relevant rules/regulations/authority government's sanction etc and investment decision has been made on sound commercial judgement and the organisation has evolved a sound investment policy.

12. Check that the sale of investments is properly authorised.

13. Verify the sale proceeds by reference to the broker's sold note.

14. In case the shares are sold ex-dividend, vouch the receipt of dividend later on.

15. Verify that the profit or loss on the sale of investments is correctly adjusted in the accounts.

16. In case the investments are sold through bank, please vouch the sale proceeds by reference to the banker's advice.

	17.	In case the investments relate to any earmarked fund then please check that the profit or loss on sale of investments are duly transferred to that fund.
3. Cash and Bank Balances	1.	Cash & stamps in hand at the date of balance sheet should be counted and checked by the auditors.
	2.	Surprise check must be made to verify the physical counting of cash and stamps.
	3.	Verify whether unusually large cash balance was observed during the year. And if yes, then proper explanation must be obtained from the management.
	4.	Verify and trace outstanding entries in bank reconciliation statements to subsequent bank statements.
	5.	Check and ensure that losses, if any, due to exchange variation have been duly accounted for in case of foreign currency accounts.
	6.	Verify whether there exists a practice of maintaining a particular minimum sum in hand. If so, then ensure that the same has been duly maintained. If not, reasons must be enquired.
4. Debtors	1.	Check that Debtor's ledger trial balance agrees with the respective control account, if not, reasons thereof should be investigated.
	2.	Verify whether adequate provision for bad and doubtful debtors and loans and advances has been made.

3. Check if legal action has been taken on non-payers. If not, then explanation must be asked from management.

4. Check that all secured loans have been segregated and nature of security is stated against each category.

5. Verify whether review has been made for subsequent year's transactions for reversal of cheques credited during current year.

6. Check all credit notes issued after year- end date and ascertain whether they relate to current year.

7. In respect of debts due from non-residents, verify whether the balance at the end of year been converted in Indian currency at the rate prevailing at the balance sheet date.

8. Check details of any unusually large or abnormal balances outstanding at the year-end.

9. Check and ensure that confirmations from debtors have been called, and whether there is any discrepancy noticed as compared to records and if yes, then what action has been taken by the management.

10. Verify the counterfoil or carbon copy of the receipt issued to customer, to verify the amount received from debtors.

11. If any discount is allowed on receipt of amount from debtors then ensure that the discount is granted as per the policy of the company.

	12.	Verify whether a responsible official has authorised the allowability of such discount.
5. Loans and Advances	1.	Check whether loans and advances made by the entity are properly secured and that the terms on which they are made are not prejudicial to the interest of the entity.
	2.	If the loan is given on the basis of security, verify that the amount of loan does not exceed the value of security.
	3.	Check that the entity has authority to lend. If so, are the loans and advances in accordance with that authority.
	4.	Verify whether loans and advances made to individual and private concerns have been shown correctly as such or as deposit.
	5.	Check and compare balances with previous year-end and enquire into major variances.
	6.	Check advance to suppliers on capital account, for expenses and for supplies.
6. Bills Receivable	1.	Check the entries regarding receipt of cash against bills receivable by reference to the corresponding entry in bills receivable book.
	2.	Check that contingent liability in respect of bills receivable discounted with bank has been correctly determined and properly recorded in the books
	3.	Check to trace out from the bills receivable book any bills, which have become due for payment but payment has not been received.

	4.	In cases where the bills have been dishonoured, check the entries made for dishonour of bills.
	5.	Verify the bills that have been returned by the bank after dishonour and the payment subsequently made by the entity to the bank.
	6.	Check that the amount of dishonoured bill is duly debited to debtors account.
	7.	Check the commission charged by bank and the recovery thereof from debtors.
7. Inventories	1.	Check the opening stock from the preceding years inventory.
	2.	Check and ensure that physical verification has been made and whether any material discrepancy has been noticed. If yes, what action has been taken after due explanation.
	3.	Tally issues in the stock records with material issue note.
	4.	Correlate consumption with production records.
	5.	Verify whether the goods in transit have been checked with subsequent receipt.
	6.	Check that the inventories lying with third parties have been physically verified and confirmation obtained from them directly also.
	7.	Check and ensure that the material given / taken on loan has been properly adjusted.
	8.	Check and ensure that current job work-in-progress is to satisfaction.

9. Make a comparison of quantities in valuation summary with physical verification stock sheets.

10. Check the basis of valuation of
    (a) Raw materials
    (b) Work-in-progress.
    (c) Finished Goods.
    (d) Stores and Spares.

11. Verify whether proper cut-off procedures are duly adopted by the entity.

12. Prepare a detailed note describing components of cost and check the basis of computing net realisable value.

13. Verify whether the costs are allocated on normal production or production for the year, whichever is higher.

14. Check and ensure that excise duty and sales tax set off is not included in valuations of stock of raw materials.

15. Check and ensure that proper adjustments have been duly made to eliminate any unrealised profit on stock supplied by other units.

16. Check that adequate provisions have been made in respect of slow moving or obsolete items and damaged items.

17. Check closing stock with physical inventory sheets.

18. Reconcile opening stock, production, sales and closing stock

8. Miscellaneous Expenditure (to the extent not written off or adjusted)	1. The auditor should satisfy himself that the period of amortisation of the expenditure is reasonable.
	2. Examine details of any expenditure incurred that had been carried forward and state the basis on which the same is to be written off.
	3. Give details of any amounts written off during the year, if not disclosed in the accounts.
	4. Also satisfy yourself that the expenditure shown to have been incurred during the year actually occurred during the year and there is proper authority for the expenditure and for its deferral.
	5. Also ensure that the criteria which previously justified the deferral of the expenditure continue to be met and the expected future revenue/other benefits related to the expenditure continue to exceed the amount of unamortized expenditure.
	6. Check whether the basis of carrying expenditure forward is consistent with the practice of earlier years.
	7. Verify whether the Executive body of the entity has passed resolution for deferring the expenses. Is it supported by any expert opinion?
	8. In case of preliminary expenses, ensure that write off is in accordance with Section 35D of the Income Tax Act.

Development Expenditure

1. Verify the development expenditure with reference to supporting documents such as purchase invoices, agreements with third parties, etc.

2. In case specific authorities approve the research programme, the auditor should review the report of such authorities.

3. Ensure that the deferred expenditure on research and development is duly allocated to future accounting periods on a systematic basis by reference either to the sale or use of the related product or process or to the time period over which the related product or process is expected to be sold or used.

4. Examine that the criteria justifying the deferral of the expenditure on research and development continues to be met and that the unamortised balance of the deferred expenditure on research and development should not exceed the expected future revenue/other benefits related thereto.

Expenditure during construction

1. Examine whether the deferral and the amortisation of expenditure incurred during the construction period are in accordance with recognised accounting policies and practices.

2. Where the expenditure incurred is heavy and is deferred and written off over a long period of time, the auditor should examine whether

		the deferral of the expenditure meets the relevant criteria.
	3.	Also verify whether the amount of periodic write-off of the expenditure is appropriate.
	4.	Ensure whether all the relevant disclosure requirements have been duly complied with.

Checklist for audit of items under Liabilities

1. Corpus Fund and Reserves and Surplus	1.	Check the transfer to / from reserves corpus fund / reserves from the sanctions/ Receipt and Payment Account / Income & Expenditure account of the body.
	2.	Ensure that all movements of reserves have been duly shown in accounts. Such movements must be reviewed with reference to applicable rules / regulations.
	3.	Any transfer to the general reserve out of statutory reserve must receive special attention.
	4.	Where reserve is specifically represented by earmarked investments, then the word 'fund' should be used.
	5.	Verify whether the grants, contributions and subsidies received for meeting capital expenditure have been shown as part of corpus fund. It may however be shown by way of deduction from the cost of the relevant asset.
2. Borrowings.	1.	Check that the entity has power to borrow money.

	2.	Verify the terms and conditions of loans and also vouch the receipt of payment from the receipt issued to the lender.
	3.	Verify whether the loan has been taken against security. In this case secured loan must be properly disclosed by clearly disclosing the nature of security, must be co-related with register of charges.
	4.	Verify whether terms loans have been taken. If yes, then installments due within 12 months must be duly shown.
	5.	Registration of charges must be carefully checked, so as to ensure that assets cannot be re-charged by the entity.
	6.	Verify whether borrowings have been correlated with the interest expenses, and ensure that interest is properly calculated and recorded.
	7.	Check and ensure that the interest/panel interest accrued and due have been included under loans and disclosed separately,
	8.	Check the minutes/govt. orders authorising fresh loans.
3. Taxation	1.	Ensure that the provisions for taxation adequately cover estimated liability for taxation on income and wealth for the year including provisions for VAT, if any.
	2.	If the accounting year of the entity is not the ‘financial year’ ensure that the provision has been made in respect of income of the full accounting year.

	3.	If the entity accounts for deferred taxation, state basis of calculation and give details of movements in the year unless already shown in the accounts.
	4.	Ensure that all the necessary entries are made in respect of completed assessments including for the assessments which are disputed in appeal.
	5.	Verify whether there is any such situation that, in spite of book profits, no provision for taxation is made. Report must be qualified stating that no provision for tax has been made. Where assessment is completed, excess provision for taxation should be properly accounted for.
	6.	Check where assessment is completed, excess provisions for taxation should be properly accounted for.
	7.	If no provisions for taxation, though applicable, are made, then qualify the report suitably.
4. Creditors	1.	Check and ensure that creditor's ledger trial balance agree with control registers. If not, give details.
	2.	Verify whether the list of creditors, outstanding for more than 12 months, has been obtained and the reasons must also be ascertained for non-payment.
	3.	Verify whether there are disputed creditors. And if any, list must be obtained and cases examined.

	4.	Check and ensure that direct confirmation has been obtained from selected creditors. And what action has been taken where any discrepancy has been noticed between balance as per party and balance as per books of account.
	5.	Check and ensure that the advances have been duly segregated from credit balances of parties and included on the asset side.
	6.	Verify whether any unusually large debit or credit balances have been noticed, if yes, then look into the reasons.
5. Contingent Liabilities	1.	A contingent liability can be described as one which has not become known or which has not matured. It may or may not occur. Generally these liabilities are shown at the foot of balance sheet.
	2.	A note describing the system of recording contingent liabilities may be obtained and examined.
	3.	Verify whether there is dependable procedure that all such claims and contingent liabilities will be brought to the notice of Finance/ Administration Head.
	4.	Obtain a list of contingent liabilities from the entity and correlate it with the following: a) Minutes of the Executive Body meeting, if any. b) Entity's purchase contracts for liquidated damages / penalties / warranties. c) Income Tax, sales tax and excise records.

d) Confirmation from client's solicitors as to pending suits for claims against the entity and reconcile the same with schedule of fees paid to solicitors / counsel.

e) Certificate from client's bankers for contingent liabilities (e.g. bill discounted, letters of credit, guarantees etc.,)

f) Labour union agreements whether these have expired and whether union have demanded a revision or additional remuneration or bonus.

g) Investments schedule for outstanding calls on investments.

5. Verify whether last year's contingent liabilities have been duly followed and ensure that the same have been duly considered for the current year's account.

6. Check that contingent liabilities in respect of bills receivable discounted with bank have been correctly determined and properly recorded.

Checklist for audit of Income & Expenditure Account

(a) Income

1. Sales.	1. Verify the sales-invoices with delivery challans.
	2. Verify whether corresponding entries in the stock records have been duly made.
	3. Check and ensure that goods sent on approval basis, goods sent on consignment are not recorded as sales.
	4. Check that goods delivered have been duly invoiced and vice versa.

		5.	Examine sales booked immediately after the year-end with dispatch notes/excise gate pass.
		6.	Verify whether provision has been made for materials still to be supplied where invoice has been raised for the entire supply.
		7.	Scrutinize dates of dispatch notes prepared immediately after year- end.
		8.	Check that sales returns have been properly recorded, credit notes issued and included in inventory.
		9.	Verify whether the rebates and discounts have been adjusted properly.
		10.	In the case of long term contracts, what is the basis of accounting profits or loss and have provisions for losses been made if anticipated. If so, on what basis. If not, reasons must be enquired.
		11.	In selected cases, test check the rates per unit and it should be ensured that they are not below the reserve price.
		12.	Also discounts and rebates applicable must be test checked to verify the correctness of transactions.
		13.	Check and ensure that proper treatment is made for excise leviable, etc.
2.	Commission received	1.	Obtain a list of names of parties from whom the commission is receivable and also the rate of commission in each case.

2. Verify the commission received from the counter-foils or the carbon copies of the receipts issued to the parties.

3. Check the entry regarding commission due but not received.

4. In case the commission is received from a party outside India then please check the same by reference to bank advice and also ensure that the requirement of FEMA have been duly complied with.

3. Income from Investments **Interest received on Debentures**

1. Verify the receipt of interest by reference to the interest warrant received from the company.

2. Verify the certificates regarding tax deducted at source (TDS) on such interest.

3. Check that the full amount of interest is duly credited to the interest account.

4. Check that the interest is received as per the terms and conditions of the issue of debentures.

Interest received on government securities

1. Verify the interest received by reference to the interest warrant.

2. Check and ensure that the cheque received is duly realized.

3. Check and ensure that the cheque is in the name of the client.

	4.	Examine and ensure that provision is duly made in respect of interest accrued and due and also in respect of interest accrued but not due.
4. Dividend received	1.	Check that the dividend warrant is in the name of the auditee.
	2.	Verify the dividend received by reference to the dividend warrant and entry in the bank account.
	3.	Check that the dividend is actually realised.
	4.	If the shares are sold cum-dividend then ensure that the dividend is actually realised.
	5.	If the shares are purchased cum-dividend then ensure that the dividend is actually received.
5. Rent received	1.	Verify the receipt of rent by reference to the counterfoils or carbon copies of the rent receipts.
	2.	Check the entries made for the rent received in advance.
	3.	Verify that the amount received in advance is duly credited to 'rent received in advance account' and not to rent account. In the following year, vouch reverse entry.
	4.	Check entries in respect of rent outstanding. In the following year reverse entry should be checked

6. Interest received	**Interest received from banks** 1. Verify the entry in this regard by reference to the advice received from banks. 2. Check that the deposits are in the name of the client. 3. In respect of the interest on fixed deposits ensure that they are accounted for on accrual basis, as the interest is paid by the bank only after the expiry of the term of fixed deposit. **Interest received from parties to whom loans are given.** 1. Check that the rate at which the interest is paid by the borrower is as per the terms and conditions of the agreement. 2. Check that the interest is correctly credited to the interest account and the corresponding debit is raised to the cash/bank account. 3. Check and ensure that the cheque is actually realised. **Interest received from customers** 1. Verify the receipt of interest by reference to the counterfoil or the carbon copies of the receipts. 2. If interest is received along with the debt, then check and ensure that interest element is separated and credited to the interest account. Check that the rate at which the interest is paid by the borrower is as per the terms and conditions of the agreement.

		3.	Verify that the cheques for the interest are in the same name of the entity. Also check that the cheques are actually realised.
		4.	Check that the interest is correctly credited to the interest account and the corresponding debit is raised to the cash/bank account.
7.	Royalty received	1.	Verify the royalty agreement and provisions for calculating the royalty.
		2.	Verify the correspondence with the party and check the calculations for the royalty received.
		3.	Check the counterfoils / carbon copies of the issued to the party.
8.	Miscellaneous receipts.	1.	Depending upon the type and the character of the receipt, the auditor should verify the following- i. agreement or contract, if any entered into with the party ii. Correspondence, if any with the parties iii. Other documents, if any.
		2.	Check the calculations whereever applicable.
		3.	Check the counterfoils/carbon copies of the receipts issued to the party.
9.	Bad debts recovery	1.	Verify entries in debtors account, cash/bank book and bad debts recovered account.
		2.	Vouch the receipt of amount from the receipts issued to the party.

Checklist for audit of Income & Expenditure Account

(b) Expenditure

1. Salary and Wages	1. Check salary charts with the payments in Cash Book / Bank Book or journal. 2. Check attendance with time card or master register maintained by the company. 3. Verify whether the statutory deductions in respect of the following have been correctly made: (a) Provident Fund (b) ESIC (c) Income Tax (TDS) (d) Any other item 4. Check overtime payments with the relevant registers and entity's rules. 5. Check whether the provisions of the Payment of Bonus Act have been duly complied with while paying bonus. 6. Check incentive payment with its basics. Ad-hoc incentives should be listed out. 7. Check payment to contractors or casual workers. Also check whether statutory deductions have been duly made 8. Check and ensure that the employees are paid for leaves on which they have worked as per their agreement.

9. Tally the staff advances accounts with their salary accounts and see that the adjustments have been made on time.

10. Check increments with relevant approvals.

11. Examine the entries in the payroll/wage sheets with reference to relevant records, e.g. employee's records maintained by the personnel department showing details of pay such as basic pay, allowances, annual increments, leaves availed of, etc.

12. Examine whether any legal, regulatory or contractual requirements having a bearing on the rate or amount of wages and salaries have been complied with. Similar considerations would also apply to payments made to a contractor for hire of labour.

13. Obtain a list of employees who have retired or otherwise left the services of the entity during the period under audit and examine that they have not been included in the payroll.

Managerial Remuneration

1. Pay particular attention to determine whether the salaries payable are as per the terms of contract with the employees concerned.

2. Check computation of the remuneration.

3. Check that remuneration and perquisites are not over availed by the managerial people. If so verify whether recovery has been made accordingly for such extra payments. If not the report should be qualified.

	4.	Verify whether the payment on account of medical expenses or reimbursement of the medical expenses is in accordance with the rules and regulations.
2. Bonus	1.	Ensure that provision for bonus is in accordance with the Payment of Bonus Act, 1965, and/or agreement with the employees or award of competent authority.
	2.	If bonus paid is in excess of statutory minimum limit then check for authority for the same.
	3.	Check the basis for providing the quantum of bonus.
3. Gratuity	1.	Verify whether appropriate provision for gratuity has been made as per relevant rules and regulations. If not qualify the report.
	2.	Check the basis for providing the quantum of gratuity.
4. Retirement Benefits	1.	Examine whether the entity is liable to pay any retirement benefits to its employees such as provident fund, superannuating pension, gratuity, etc., whether in pursuance of requirements of any law and/or in terms of agreement with the employees.
	2.	If yes, examine whether the amount payable has been computed in accordance with the relevant legal and/or contractual requirements.
	3.	Ensure that provision for accruing gratuity/ pension liability has been made properly and check the same with actuarial certificate.

5. Purchases	1. Check that the purchases are duly authorised by a responsible officer.
	2. Check cash purchases by reference to cash memos or receipted bill.
	3. Check that the purchase account is duly debited.
	4. Verify that the advance given against purchase of goods has been properly adjusted against the supply of goods.
	5. In case any discount is availed of, please check that only the net amount is debited to the purchase account.
	6. Make a comparison with stock register and creditors ledger to ensure that all materials included in stock has been recorded as purchases. Also check that the quantity maintained in the invoices is duly recorded into stock records.
	7. Ensure that goods returned has been adjusted properly and excluded from stock. Also verify whether claims for defective materials have been duly adjusted.
	8. Cross-examine the rates and quantities from the order sheet and the goods actually received and recorded. If any discrepancy has been noticed, action must be taken forthwith.
	9. Verify whether goods are as per delivery challan and matches with the ordered quality and quantity.

		10. Verify whether supplier has allowed any cash discount. If yes, ensure that it has been properly accounted for.
		11. Check whether any forward purchase contracts are outstanding at the year-end and properly accounted for.
		12. Ensure that purchases and purchase returns relate to accounting period only.
		13. Examine selected entries in the purchase journal with reference to the related purchase invoices, receipt records and other supporting documents such as the purchase orders.
		14. Examine whether subsidies, rebates, duty drawbacks or other similar items have been properly accounted for.
		15. Costs of purchase consist of the purchase price including duties and taxes freight inwards and other expenditure directly attributable to the acquisition. Trade discounts, rebates, duty drawbacks and other similar items are deducted in determining the cost of purchase.
		16. For manufacturing concerns check that whether purchases are bifurcated between materials for manufacturing and for trading.
		17. Enquire into the reasons of over rulings in the purchase invoice and make sure that it is not done by the entity's staff.
6.	Conversion costs (Power, fuel,	1. Check for relevant documentary evidence.

	processing charges)	2.	Compare the amount of expense on a particular item with the corresponding figure for previous years.
		3.	Work out the ratios of different items of conversion costs to total cost of production for the current year and compare the same with the corresponding figures for previous years. Any unusual relationship may be looked into.
7.	Repair and maintenance		Scrutinise the repairs and maintenance account to ascertain that new fixed assets and substantial improvements to existing assets have not been included in repairs and maintenance
8.	Excise Duty	1.	Note that excise duty is paid in advance and any amount so paid is set —off against the goods manufactured and cleared on factory gate.
		2.	Check that the amount is deposited in a separate bank account through challan.
		3.	Check that the payment is duly authorised.
		4.	Check the payment made with the periodical statement issued by the excise department.
		5.	Check that the voucher is supported by receipted challan.
9.	Depreciation	1.	Check whether depreciation on assets has been duly provided for by the entity. If so, check the calculation of depreciation.
		2.	The total depreciation arrived at should be compared with that of previous years to identify reasons for variations.

	3.	Examine whether the depreciation policy having regard to rate of depreciation and method of depreciation followed consistently is adequate keeping in view the generally accepted basis of accounting for depreciation.
	4.	Verify whether the method of charging depreciation has been disclosed in accounts.
	5.	Ensure that depreciation on additions and deletions is proportionate. State the basis of verifying dates for additions/deletions of fixed assets.
	6.	Verify whether extra shift-working has been properly authorised. If yes, a certificate must be obtained.
	7.	Verify whether additional or exceptional depreciation charges have been shown in accounts separately.
	8.	Check that all depreciable fixed assets have been depreciated accordingly.
	9.	It must be ensured that depreciation has also been charged to Income and Expenditure Account of the entity even if there is loss because it is a charge against surplus and not an appropriation.
	10.	Where assets have been revalued, then the amount of depreciation should be checked and any excess/shortfall should be adjusted accordingly.
10. Establishment and Administrative expenses	1.	Check for relevant documentary evidence.

	2.	Compare the amount of expense on a particular item with the corresponding figure for previous years.
11. Travelling Expenses.	1.	Examine the rules and regulations framed by the entity in respect of reimbursement of travelling expenses.
	2.	Check that payment is made on the basis of documentary evidence produced by the person concerned to whom the expenses are reimbursed.
	3.	Check that the expenses are reimbursed on the basis of approval of appropriate authority.
	4.	Check whether the expenses reimbursed by the entity are on the basis of actual amount expended or on the basis of fixed allowance per day.
	5.	In the case of foreign travelling expenses, please check that the permission of RBI/ government has been duly obtained for the foreign exchange outgo involved.
	6.	In case any advance is given to employees, then check whether such advance has been appropriately adjusted.
12. Commission Paid to Agents	1.	Check that the rate of commission is as per the terms and conditions and also check the correctness of the amount.
	2.	If the commission is granted on the realisation of debtors, then see that the amount due from debtors is actually realised.

	3.	Verify the payment of commission by reference to the receipt given by the agent.
	4.	Check whether the payment of commission to agent is authorised.
13. Advertisement.	1.	Generally advertisement are booked through agents and payment is made to the agents directly.
	2.	Check the bill given by the agent in this regard.
	3.	Check that the bill is appropriately supported by the paper cutting of the advertisement.
	4.	Check the payment for advertisement on the basis of receipt given by the agent in this regard.
14. Interest and financial charges	1.	Verify the amount of interest expense for the year with reference to the terms and conditions of relevant agreements.
	2.	If the entity has paid any penal interest it should also be examined. Such interest should be disclosed as part of normal interest.
	3.	Compare interest expenses for the period under audit with previous period and check for major deviations.
15. Sales Tax.	1.	Check the receipted challans in support of the payment voucher and also the assessment order where the assessment has been completed.

	2.	Check whether the assessee has recorded sales tax payment in respect of State Sales Tax and Central Sales Tax separately.
	3.	Check the returns and verify the calculations so as to ensure the correctness of the amount paid.
16. R & D expenses	1.	Examine whether provisions have been made in accordance with the Accounting Standard.
	2.	Verify various items of expenses incurred on research and development with reference to supporting documents and related agreements.
17. Audit fees		It may be verified whether provision for audit fees has been made.

Checklist for audit of Receipts & Payments Account
(a) Receipts

1. Opening Balances	1.	Verify the opening balances from the closing balances of the cash book of the previous year.
	2.	Examine whether the opening balances are duly entered in correct columns.
2. Cash Sales	1.	Verify the cash sales summary book with carbon copies of the memos.
	2.	Verify that the daily totals of the summary book agree with total cash sales recorded in cash book.
	3.	Check whether the cash is daily deposited into bank. If yes, then verify the pay-in-slips.

	4.	If cash memos are cancelled then its original copy should be verified.
	5.	Verify that the cash discount paid, if any, is granted as per the policy of the auditee concern.
3. Receipt from Debtors	1.	Verify the counterfoil or carbon copy of the receipt issued to customer, to verify the amount received from debtors.
	2.	Verify that the receipts issued to customers are serially numbered.
	3.	Verify that the unutilised receipt book remains in the custody of a responsible official.
	4.	If any discount is allowed on receipt of amount from debtors then ensure that the discount is granted as per the policy of the entity.
	5.	Verify whether a responsible official has authorised the allowability of such discount.
	6.	If amount is received by cheque /bank draft then check that the amount has actually been realised.
4. Bills Receivables	1.	Check the entries regarding receipt of cash against bills receivable by reference to the corresponding entry in bills receivable book.
	2.	Check bank pay-in-slip for amounts deposited in bank.
	3.	Check that contingent liability in respect of bills receivable discounted with bank has been correctly determined and properly recorded in the books.

	4.	Check and trace out from the bills receivable book any bills which have become due for payment but payment has not been received.
	5.	In cases where the bills have been dishonoured, check the entries made for dishonour of bills.
5. Loans and Advances	1.	Check whether the auditee entity has power to borrow money.
	2.	Verify the terms and conditions of loans and also vouch the receipt of payment from the receipt issued to lender.
	3.	Check and verify that the entries for interest accrued and due or interest accrued but not due, are correctly made in the books.
	4.	Check the following: a) the resolution of the executive body/ orders of the government authorising to borrowing money, b) that the amount borrowed does not exceed the limits, if any, specified in the resolution.
6. Recovery of Bad Debts	1.	Verify entries in debtors account, cash/bank book and bad debts recovered account.
	2.	Vouch the receipt of amount from the receipts issued to the party.
7. Sale of Fixed Assets	1.	Verify that the sale of fixed assets is authorised by appropriate authority.

	2.	Check that the fixed assets account has been duly credited and the cash account has been debited with amount for which the assets has been sold.
	3.	Check and verify that proper adjustment has been made in profit/loss on sale of fixed assets.
	4.	Verify the counterfoil or carbon copy of receipt issued to party.
8. Sale of Investment	1.	Check that the sale of investments is properly authorized.
	2.	Verify the sale proceeds by reference to the broker's sold note.
	3.	In case the shares are sold ex-dividend, vouch the receipt of dividend later on.
	4.	Verify that the profit or loss on the sale of investments is correctly adjusted in the accounts.
	5.	In case the investments are sold through bank, vouch the sale proceeds by reference to the banker's advice.
	6.	In case the investments relate to any earmarked fund then please check that the profit or loss on sale of investments are duly transferred to that fund.
9. Receipt of Rent	1.	Verify the receipt of rent by reference to the counterfoils or carbon copies of the rent receipts.
	2.	Check the entries made for the rent received in advance.

	3.	Verify that the amount received in advance is duly credited to 'rent received in advance account' and not to rent account. In the following year, vouch reverse entry.
	4.	Check entries in respect of rent outstanding. In the following year, reverse entry should be checked.
10. Commission received	1.	Obtain a list of names of parties from whom the commission is receivable and also the rate of commission in each case.
	2.	Verify the commission received from the counter-foils or the carbon copies of the receipts issued to the parties.
	3.	Check the entry regarding commission due but not received.
	4.	In case the commission is received from a party outside India then please check the same by reference to bank advice and also ensure that the requirement of FEMA have been duly complied with.
11. Insurance Claims	1.	Check the copy of the insurance claim lodged with the company to verify the amount for which claim is lodged.
	2.	Check the copy of the receipt issued to the insurance company for the amount received.
	3.	Verify that the respective asset account has been duly adjusted for the amount of insurance claim

12. Interest received from Banks	1. Verify the entry in this regard by reference to the advice received from banks. 2. Check that the deposits are in the same name of the entity. 3. In respect of the interest on fixed deposits please ensure tnat they are accounted for on accrual basis, as the interest is paid by the bank only after the expiry of the term of fixed deposit.
13. Interest received on debentures subscribed to by the entity.	1. Verify the receipt of interest by reference to the interest warrant received from the company. 2. Verify the certificates regarding tax deducted at source(TDS) on such interest. 3. Check that the full amount of interest is duly credited to the interest account. 4. Check that the interest is received as per the terms and conditions of the issue of debentures.
14. Interest received from parties to whom loans have been given.	1. Check that the rate at which the interest is paid by the borrower is as per the terms and conditions of the agreement. 2. Verify that the cheques for the interest are in the name of the entity. 3. Check that the interest is correctly credited to the interest account and the corresponding debit is raised to the cash/bank account.
15. Interest received on government securities.	1. Verify the interest received by reference to the interest warrant.

	2.	Verify and ensure that the cheque received is duly realized.
	3.	Check and ensure that the cheque is in the name of the entity.
	4.	Examine and ensure that provision is duly made in respect of interest accrued and due and also in respect of interest accrued but not due.
16. Interest received from customers	1.	Verify the receipt of interest by reference to the counterfoil or the carbon copies of the receipts.
	2.	If interest is received along with the debt, then check and ensure that interest element is separated and credited to the interest account.
17. Receipt of Dividend	1.	Check that the dividend warrant is in the name of the auditee.
	2.	Verify the dividend received by reference to the dividend warrant and entry in the bank account.
	3.	Check that the dividend is actually realised.
	4.	If the shares are sold ex-dividend then ensure that the dividend is actually realised.
	5.	If the shares are purchased cum-diviidend then ensure that the dividend is actually received.
18. Royalty received	1.	Verify the royalty agreement and provisions for calculating the royalty.

	2.	Verify the correspondence with the party and check the calculations for the royalty received.
	3.	To check the counterfoils / carbon copies of the receipts issued to the party.
19. Miscellaneous receipt	1.	Depending upon the type and the character of the receipt, the auditor should verify the following: i) agreement or contract, if any entered into with the party, ii) correspondence, if any with the parties, iii) other documents, if any.
	2.	Check the calculations wherever applicable.
	3.	Check the counterfoils / carbon copies of the receipts issued to the party.

Checklist for audit of Receipts and Payments Account
(b) Payments

1. Opening Balances		This situation generally arises only in the case of cash book containing a bank column. In such cases, there can be credit balance in the bank column i.e., when there is overdraft. The auditor has to verify this from the cash-book of previous year.
2. Cash Purchases	1.	Check that the purchases are duly authorised by a responsible officer.
	2.	Check cash purchases by reference to cash memos or receipted bill.
	3.	Check that the purchase account is duly debited.

	4. In case any discount is availed of, please check that only the net amount is debited to the purchase account.
3. Payment to creditors	1. Verify the payments to creditors with reference to the receipts issued by the creditors.
	2. Check that the payment is in agreement with the invoice received from the parties.
	3. In case the payment is made in full and final settlement, the difference should be adjusted.
	4. Check the statements of account.
	5. In case the payment is made in excess of the amount due or where a bill is paid twice, then enquire into the reasons therefor. Also ensure that the excess amount paid is received back from the creditor or deducted from the subsequent bills.
4. Bills Payable	1. In the case of bills payable when payment is made, the bill is returned by the person concerned. Check whether the bills so received are duly cancelled.
	2. Verify the payment made by reference to the bills payable so cancelled.
	3. Check that proper entries are made in bills payable book in this regard.
	4. Verify whether there are any bills in respect of which payment has not been made on due date.

5. Bills receivable dishonoured	1. Verify the bills that have been returned by the bank after dishonour and the payment is subsequently made by the client to the bank.
	2. Check that the amount is duly debited to debtors account.
	3. Check the commission charged by bank and the recovery thereof from debtors.
6. Purchase of Fixed Assets.	1. Verify whether there is proper authority for the purchase of assets.
	2. Check the payment made by reference to the invoice received from the supplier
	3. Check that the title to the assets belongs to the entity.
	4. Check that all expenses incidental to the purchase of assets have been duly capitalised.
	5. In case the property is purchased through broker, see the broker's note and also see that the brokerage paid on the purchase of the property is duly capitalised.
7. Purchase of Investment.	1. Check that the investments are purchased only on basis of appropriate authority.
	2. In case the investments are purchased cum-dividend please ensure that the dividend is actually received and the amount of dividend is excluded from the purchase price.
	3. Check the purchase of investments by reference to the broker's bought note.

	4.	Verify the investments physically, where investments are held by bankers, obtain a bankers' certificate in this regard.
	5.	Check and ensure that the investments are in the name of entity.
8. Loans and advances.	1.	Check the payment of loan by reference to the receipt given by the borrower.
	2.	If the loan is given on the basis of security, verify that the amount of loan does not exceed the value of security.
9. Repairs to assets	1.	Check that the repairs are undertaken only on the basis of permission of appropriate authority.
	2.	Check that the repairs of capital nature are not debited to profit and loss account and the amount is included in the cost of assets.
	3.	In case the repairs are undertaken by the client internally then ensure that appropriate amount is duly transferred to the repairs account.
10. Patents and Copyrights	1.	Where the patents and copyrights are purchased please check the following: i) To check the agreement for purchase of patents and copyrights and verify the receipt for payment. ii) To check that all expenses connected with the purchase of patents and copyrights are duly included in the cost thereof.
	2.	Where patents are secured through research, check the following:

	i) To verify whether all the expenses incurred in connection with the research and equipment for creation of patents are duly capitilised as part of the cost of patents. ii) To check the evidence for all the expenses incurred and payments made.
11. Commission to Agents	1. Check that the rate of commission is as per the terms and conditions and also check the correctness of the amount. 2. If the commission is granted on the realisation of debtors, then see that the amount due from debtors is actually realised. 3. Verify the payment of commission by reference to the receipt given by the agent. 4. Check whether the payment of commission to agent is duly authorised.
12. Travelling Expenses	1. To examine the rules and regulations framed by the entity in respect of reimbursement of travelling expenses. 2. Check that payment is made on the basis of documentary evidence produced by the person concerned to whom the expenses are reimbursed. 3. Check that the expenses are reimbursed on the basis of approval of appropriate authority.

4. Check whether the expenses reimbursed by the entity are on the basis of actual amount expended or on the basis of fixed allowance per day.

5. In the case of foreign travelling expenses, please check that the permission of RBI/Govt. has been duly obtained for the foreign exchange outgo involved.

6. In case any advance is given to employees, then check whether such advance has been appropriately adjusted.

13. Advertisement

1. Generally advertisements are booked through agents and payment is made to the agents directly. Check the bill given by the agent in this regard.

2. Check that the bill is appropriately supported by the paper-cutting of the advertisement.

3. Check the payment for advertisement on the basis of receipt given by the agent in this regard.

14. Excise Duty

1. To note that excise duty is paid in advance and any amount so paid is set-off against the goods manufactured and cleared on factory gate.

2. Check that the amount is deposited in a separate bank account through challan.

3. Check that the payment is duly authorised.

4. Check the payment is made periodically with the statement issued by the excise department.

	5.	Check that the voucher is supported by receipted challan.
15. Income Tax	1.	Check the accounting year for which the payment has been made. Also verify whether the payment is advance tax payment or payment on the final assessment.
	2.	Check the receipted challans for payment and also the assessment order, wherever applicable.
	3.	To see the orders on appeals, if any.
	4.	To see that the ledger accounts for payment of income tax are maintained separately for different accounting years. This will be helpful where advance tax is paid every year in instalments and the final assessment is completed after a few years.
	5.	Check whether the interest on belated payment of income tax is properly recorded.
16. Sales Tax	1.	Check the receipted challan in support of the payment voucher and also the assessment order where the assessment has been completed.
	2.	Check whether the assessee has recorded sales tax payment in respect of State Sales Tax and Central Sales Tax separately.
	3.	Check the returns and verify the calculations so as to ensure the correctness of the amount paid.

Chapter 9

Financial Audit Findings and Conclusions

9.01: On the completion of each audit assignment, the results of audit are to be communicated by the Auditor in the form of a written report (separate audit report) setting out the audit observations and conclusions in an appropriate form**.**

Separate Audit Reports

9.02: The Separate Audit Reports (SAR) of Autonomous Bodies should contain

(i) Introduction,
(ii) Comments on accounts, and
(iii) Impact of comments on the accounts.

The SARs along with audit certificate are required to be placed before Parliament or State Legislatures, in cases where the relevant Acts, rules and / or regulations governing the autonomous bodies provide for such submission or where the Government concerned have decided to place the report and audited accounts before Parliament or State Legislatures either of its own volition or on the directive of any Parliamentary/Legislative Committee. The form and contents of SAR (other than Port Trusts), SAR of the Port Trusts and audit certificate are shown in Annexure 4, 5 and 6 respectively.

9.03: The matters, which the auditors have to report upon, could be classifed into two categories:-

(i) Statements of fact, and
(ii) Opinions.

The statements of fact are :

(i) whether the auditors have obtained all the information and explanation which to the best of their knowledge and belief were necessary for the purpose of their audit;
(ii) whether the report on the accounts of any branch office audited by a person other than Pr.Auditor has been forwarded to them and

they have dealt with the same in preparing the auditors' report;

(iii) whether the entity's balance sheet and income and expenditure account/profit and loss account dealt with by the report are properly drawn up and in agreement with the books of account and returns.

The opinions, which the auditors are required to express, are :

(i) whether proper books of account as required under rules have been kept by the entity so far as it appears from the examination of the books and proper returns adequate for the purpose of audit have been received from branches not visited by them;

(ii) whether the accounts give the information as required under the prescribed format of accounts;

(iii) whether the accounts give a true and fair view, in case of balance sheet of the state of the entity's affairs, and in case of the profit and loss account / income and expenditure account, of the profit or loss / surplus or deficit for the year.

Audit Opinion

9.04: The content of the opinion will need to indicate unambiguously whether it is unqualified or qualified and if the latter, whether it is qualified in certain respects or is adverse or a disclaimer of opinion.

Unqualified Opinion

9.05: An unqualified opinion is given when the auditor is satisfied in all material respects that:

- The financial statements have been prepared using acceptable accounting principles and policies that have been consistently applied;

- The statements comply with statutory requirements and relevant regulations;

- The view presented by the financial statements is consistent with the auditor's knowledge of audited entity; and

- There is adequate disclosure of all material matters relevant to the financial statements.

Qualified Opinion

9.06 : An auditor may not be able to express an unqualified opinion when either of the following circumstances exist and, in the auditor's judgment, the effect of the matter is / or may be material to the financial statements:

(a) there is a limitation on the scope of auditor's work; or
(b) there is a disagreement with management regarding the acceptability of accounting policies selected, the method of their application or the adequacy of financial statement disclosures.

The circumstances described in (a) could lead to a qualified opinion or a disclaimer of opinion. The circumstances described in (b) could lead to a qualified opinion or an adverse opinion.

- A 'Qualified opinion' should be expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management is not so material and pervasive as to require an adverse opinion, or limitation on scope is not so material and pervasive as to require a disclaimer of opinion. A qualified opinion should be expressed as being subject to or 'except for' the effects of the matter to which the qualification relates.
- A 'Disclaimer of opinion' should be expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and is, accordingly, unable to express an opinion on the financial statements.
- Opinion with 'emphasis of matter': In certain circumstances the auditor may consider that the reader will not obtain proper understanding of the financial statements unless attention is drawn to unusual and important matters in the report. If there are multiple uncertainties which are significant so that auditor considers it more appropriate to give a disclaimer of opinion rather than emphasis of a matter.

- An 'Adverse opinion' should be expressed when the effect of disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of financial statements.

Aspects to be considered while qualifying Reports

9.07: While qualifying a report, it is important to appreciate :

(i) as to which of the various items (the statements of fact and opinion) require a qualification;
(ii) whether the auditors are in active disagreement with something which has been done by the entity or are merely unable to form an opinion in regard to items for which there is lack of adequate information;
(iii) whether the matters in question are so material so to affect the presentation of a true and fair view of the whole of the affairs of the entity or are of such a nature as to affect only a particular item disclosed in the accounts; and
(iv) whether the matters constituting qualification involve a material contravention of any requirements of prescribed format of accounts, which have a bearing on the accounts.

In most of the cases, items which are the subject matter of qualification are not so material as to affect the true and fair state of the whole of the accounts. In such cases, it is appropriate for the auditors to report that in their opinion, subject to the specific qualifications mentioned, the accounts present a true and fair view. Sometimes, the items which are the subject matter of qualifications are so material; it would be meaningless to state, that subject to the qualification, the accounts disclose a true and fair view. In such cases, the auditors must report that either :

(i) they are unable to state whether the accounts present a true and fair view; or
(ii) make a categorical statement that in their opinion the accounts do not present a true and fair view.

Drafting of Separate Audit Reports

9.08: In case the state of accounts submitted to Audit is not satisfactory and / or the body is not submitting the accounts in complete form in spite of the deficiencies being pointed out to it, matter may be brought to the notice of the Government and a suitable comment included in the Audit Report. Where the accounts submitted are not in the prescribed form or the forms to be prescribed are under consideration, it would be preferable to finalise the certification of accounts and issue of audit report without insisting on the accounts being recast in the forms prescribed or to be prescribed provided there are no practical or other difficulties in doing so, but appropriate qualifications would have to be made in the Audit Report.

It may be ensured that there is no delay in certification of accounts and issue of audit reports only on the ground that the accounts have not been compiled in the prescribed forms.

9.09: As the SARs are required to contain only "Comments on Accounts", it should be ensured that the comments to be included in the SARs are concise and brief with a clear statement of the impact of each comment on accounts. The resultant under/ over statement of the concerned account head and the impact of comment on surplus / deficit / assets /liabilities must be clearly stated.

9.10: To improve and bring about uniformity in drafting the SAR, contents of the "Style Guide-2nd Edition, issued by C&AG" may be referred to.

9.11: It should be ensured that an independent SAR / audit certificate on the annual accounts of each accounting period is prepared and issued.

9.12: The responsibility of certifying the annual accounts and expressing the opinion on the consolidated accounts rests with the Principal Audit Officer of the autonomous body concerned. Hence, it is essential that the Principal Audit Officer of the autonomous body approves the draft separate audit report only after scrutiny of Audit Programme Book and after ensuring that on the face of the entries in the Audit Programme Book, the audit of the branch units selected has been satisfactorily completed and comments have been considered while finalizing the draft Separate Audit Report.

Reporting Standards

9.13: The auditor should prepare the report (SAR) setting out the findings and conclusion in an appropriate form as prescribed under this Manual. The contents of SAR should be easy to understand and free from ambiguity; and should include only information which is relevant and supported by sufficient and competent audit evidence. It should be independent, fair, complete, accurate, constructive and concise as the subject matter permits.

9.14: Reporting also includes a written expression of the auditor's opinion on the financial statements as a result of audit tests and procedures and the evidence collected in the process. The following points should be kept in view in regard to reporting :

- **Objective and unbiased:** There is a need for objectivity and impartiality in all work conducted by auditors, particularly in their reports, which should be accurate and objective. Conclusions in opinions and reports should, therefore, be based exclusively on evidence obtained and assembled in accordance with the CAG's auditing standards.
- **Complete Report:** It should be ensured that the report contains all pertinent information needed to satisfy the audit objectives and to promote an adequate and correct understanding of the matter reported.
- **Supporting documents:** The report should include only information, findings and conclusion that are supported by competent and relevant evidence in the auditor's working papers.
- **Materiality and significance** : The term materiality refers to the relative importance of an item. An item or event is considered to be material if it is likely to be relevant to the user of financial statements. Auditing and Assurance Standard (AAS-13) – 'Audit Materiality' issued by the Institute of Chartered Accountants of India states that "Information is material if its misstatement (i.e., omission or erroneous statement) could influence the economic decisions of users taken on the basis of the financial information. Materiality depends on the size and nature of the item, judged in the particular circumstances of its measurement. The nature of facts and their bearing upon the truth and fairness of the accounts must be the governing factors."

Generally, 'materiality' and 'significance' are used interchangeably. However, 'materiality' is quantitative i.e. in monetary terms.

Contents of Separate Audit Reports

9.15: No precise rules can be made to guide auditors in determining what facts are of sufficient importance to warrant a reference in the Audit report and what facts are not so important. This must be determined by individual auditors in the light of their personal judgement and professional experience.

The SAR should contain only 'comments on accounts' which have the necessary attributes of materiality and significance and may include the following :

- Non-compliance of accounting standards / instructions contained in the Common Format of Accounts.
- Corrections / rectifications / revisions carried out at the instance of audit.
- Cases where assurances for rectification are not fulfilled after a couple of years.
- Where corrective measures have been taken by the management in relation to matters brought to their attention by the auditors, it may still be necessary, for the auditors to report certain cases to the Governing body, for example, cases relating to any fraud / embezzlement committed but compensated by officials.
- Deficiencies in the system of financial control and maintenance of financial record.

Comments in SAR should be arranged in order of the financial statements as they appear in the Uniform Format of Accounts (Balance Sheet, Income & Expenditure Account, Receipts & Payments Account, Significant Accounting Polices, Notes to Accounts etc). Comments included in the SAR should be linked with the respective account heads shown in the financial statements / schedules that are affected by the comment. In order to have a better understanding of the comments and their impact on the financial statements, name of the account head as mentioned in the financial statements under the main head, sub-head or schedule etc. together with amount must invariably be mentioned in the beginning of the comment in draft SAR.

Revision of accounts

9.16: Where the accounts are revised by the autonomous body, as a result of audit, there should be a disclosure to this effect either in the audit report or in the accounts by way of a 'note' in the notes to accounts. Further, if the impact of revision is substantial, a suitable mention thereof should also be made in the audit report.

Format of Separate Audit Report

9.17: The Separate Audit Reports in respect of autonomous bodies/authorities other than the major Port Trusts should be prepared in the format given in Annexure 4. In case of major Port Trusts a separate format for the SAR has been prescribed vide Annexure 5.

Effect of Comments on Accounts

9.18: The net impact of comments on the elements in financial statements wherever relevant, material and practicable may be included in SAR as a separate para.

Lack of response

9.19: If the reply to draft SAR was not received within the stipulated period, the matter should be reported in the SAR.

Audit Certificate

9.20: In order to establish standards on the form and contents of auditors' report, the Institute of Chartered Accountants of India has issued Auditing and Assurance Standards 28 (AAS-28). The form of audit certificate modified/revised in line with AAS-28 given in Annexure-6 should be adopted in respect of audit of annual financial statements of autonomous bodies.

Significant audit comments should also be included in the audit certificate so that results/significant comments could attract attention of Executive/Parliament/Legislature.

Issue of Management Letter

9.21: The comments on accounts in SARs proposed by the field offices do not always bring out the impact on accounts i.e. the comments are not linkable with the annual accounts. To overcome this situation, a 'management letter', in addition to the SAR / audit certificate should also be issued. In such cases, the auditor submits a detailed report termed 'management letter' to the management regarding the procedures, systems, weaknesses in the internal control, etc. which would enable the management to exercise a greater degree of control over the operations of the autonomous body. The observations of following nature may be included in the 'management letter' :

- Errors in annual accounts that are not considered material;
- Deficiencies in the accounting records, systems and controls with recommendations for their improvement;
- Non-compliance with the financial control / internal control procedures as detailed in the concerned accounting / financial manual being followed in the autonomous body with recommendation for their improvements;
- Classification errors within the accounting head; where management has assured rectification in next year's accounts.
- Recovery of advances, steps to be taken for recovery/adjustment of long outstanding balances on personal accounts;
- Reconciliation between the balances as per broadsheets and as reflected in the accounts;
- Typing/printing errors which can be rectified at the time of printing the annual accounts/annual reports;
- Failure to obtain confirmation of balances, or to watch over receipt of utilisation certificates from grantee/beneficiaries, etc;

The Management letter must be addressed to the Chief Executive Officer of the autonomous body. In the SAR, mention may be made invariably about the issue of a separate management letter to the top management / Chief Executive Officer of the autonomous body. It may be ensured that the 'management letter' is issued only at the time of issue of final SAR to the autonomous body / ministry. The 'management letter' will not require headquarters approval but a copy should be sent to headquarters along with the draft SAR.

Chapter 10

Finalisation of Separate Audit Reports

10.01: The draft SAR should be sent to the autonomous bodies concerned and their replies to various observations contained in it should be obtained.

10.02: Replies received must be taken into account and incorporated if necessary in the SAR proposed to be issued. If, however, Management disagrees to any facts in the report, their correctness should be rechecked. In case, replies are not acceptable, reasons as to why the replies are not acceptable should be clearly given in aide-memoire and rebuttal in brief incorporated in the SAR. If as a result of reply or any further observation arising subsequently any fact or figure undergoes a change in the SAR, the changed position should also be got confirmed from the management concerned. If no replies are received to the draft SAR within the stipulated period, SAR should be finalised and the fact of non-furnishing of replies should be indicated in the SAR.

10.03: The separate Audit Reports on all legal service authorities (Central, State and District levels) will be finalised by the respective Pr. Accountants General / Accountants General (Audit)/Directors General/Pr. Directors of Audit themselves. Besides, SARs on the Central & State autonomous bodies as detailed in the lists (Annexures 7 & 8), which fall within the following criteria would also be finalised by the respective field audit offices :

	Central Autonomous Bodies	State Autonomous Bodies
1.	Grants upto Rs.2 crore per annum	Grants upto Rs. 1 crore per annum
2.	If no grants are received – expenditure amounting to Rs *5* crore & below	If no grants are received – expenditure amounting to Rs 1 crore & below
3.	If certification of accounts is in arrears, - autonomous bodies with arrears upto 2 years .	If certification of accounts is in arrears, - autonomous bodies with arrears upto 3 years.
4.	All SARs on new audits may be sent for Headquarters' approval for two years and thereafter, if directed by Headquarters.	All SARs on new audits may be sent for Headquarters approval for two years and thereafter, if directed by Headquarters.

10.04: Since the authority for finalizing SARs in the cases indicated in Para 10.03 vests with respective field audit offices, all Heads of the Department concerned should bestow adequate attention to ensure that time schedule and instructions issued by Headquarters for timely finalisation and improving quality of contents of SARs are strictly adhered to. Audit Certificates/SARs should be issued to Government only under the signatures of Pr.AGs/AGs/DGAs/PDAs as per provisions of this Manual. This requirement in no case shall be further delegated.

Submission of draft separate Audit Reports to the Headquarters

10.05: Clearance of Separate Audit Reports:- In all cases except as regards the cases as indicated in Para 10.04 where the SARs are to be placed before Parliament or State Legislatures the reports and accounts as audited must be submitted to Headquarters office for prior approval before these are sent to Government concerned for being placed before Parliament/State Legislature. In all other cases, the audit reports can be finalised by the Field Audit Office concerned as per instructions contained in Para 10.04

10.06: While forwarding the draft/final separate audit report to Headquarters office, the following information/documents should invariably be furnished :-

1. Two copies of draft SAR along with aide-memoir and key linking the figures.

2. Two copies of draft audit certificates proposed to be issued.

3. One copy of authenticated annual accounts to be certified by the audit office.

4. Information in the proforma given at Annexure 9.

5. In case of the autonomous bodies having branch / units the following information may also be furnished :

    a) Number of units of Autonomous Bodies,
    b) Number, name/location of units selected for audit; and
    c) Name of units whose comments have been incorporated in the SAR.

6. A brief note on the evaluation of internal control system in the autonomous body.

7. Management letter, if any.

8. Check list as at Annexure 10.

Monitoring the certification of accounts and finalisation of SARs

Control over progress of audit

10.07: Since the work of certification of annual accounts and issue of SAR is required to be completed in a time-bound manner the time schedule as prescribed in Para 10.08 for completion of financial audit and issuing the final SAR to Management/Government concerned should be adhered to scrupulously.

Time Schedule

10.08: The following time schedule should be adhered to for conducting the audit and finalisation and issue of SAR in respect of autonomous bodies / authorities other than major Port Trusts for which a separate time schedule has been prescribed vide Annexure 11 :

	Task	Date by which task to be completed
1.	Approved and authenticated annual accounts to be made available by the autonomous body to the concerned audit office and commencement of audit of annual accounts.	30th June
2.	Issue of draft SAR to the Chief Executive of the autonomous body	31st August
3.	Receipt of reply to draft SAR from the Management (two weeks from the date of issue of draft SAR).	14th September

4.	Submission of draft SAR, with or without incorporating replies of the autonomous bodies, to the Headquarters for approval.	21st September
5.	Sending approved SAR by Headquarters to the Field office (two weeks from the date of receipt of draft SAR at Headquarters)	21st October
6.	Issue of the final SAR in English version with audit certificate to autonomous body/ Government concerned.	31st October
7.	Issue of the Hindi version of final SAR, where this is done by AG/Pr. Director of Audit themselves with a copy of the final SAR to the Headquarters.	15th November

Status Reports

10.09: In order to enable the Headquarters office to monitor the progress of audits and certification of annual accounts of all autonomous bodies whose audited accounts/SARs are placed before Parliament/State Legislature, progress report(s) in the forms as at Annexure 12 should be sent by 10th of every quarter (i.e. July, October, January & April). Separate progress reports may be prepared for (i) organisations whose SARs are to be sent to Headquarters for prior approval and (ii) organisations whose SARs are being finalised by field offices themselves. Requirement of furnishing quarterly reports should be noted in the Calendar of Returns to keep a watch on timely action.

Delays in submission/finalisation of accounts

10.10: Delay in the submission of accounts by the autonomous body:- If the accounts of an autonomous body are not received within the stipulated time, Head of the Department concerned should specifically bring out the matter of delay to the notice of the Chief Executive of the autonomous body demi-officially so that the delay is not attributed to audit. If, however, the accounts are received belatedly, every effort should be made by the audit office to take up the audit expeditiously. The time frame prescribed in the Para 10.08 should be adhered to allowing only the number of days admissible for each activity. Every effort should be made to compress the time allowed wherever possible. In other words the final dispatch of approved SAR should not have an element of any slippage more than the delay that is due to late submission of accounts by the autonomous body concerned.

10.11: In case of arrears in regard to finalization of accounts by State autonomous bodies, the field offices are advised to take the following steps :

a) Write to Chief Secretary of the State concerned that non-submission of accounts by State autonomous bodies is a cause of concern, mainly as expenditure of these bodies are defrayed mostly out of Government grants.

b) Ascertain if there is any State Legislature committee on the pattern of the Parliamentary Committee on Papers Laid on the Table. If so, take up the matter of non-submission of accounts by State autonomous bodies with such Committee.

c) Suggest to the Head of autonomous bodies concerned to engage professional accountants wherever there are arrears and chalk-out a time bound programme to clear the backlog.

d) In the State Civil Audit Reports, a draft para about delays in submission of annual accounts by State autonomous bodies should invariably be included.

Placing of report before Parliament / Legislature

10.12: The Committee on Papers Laid on the Table (1984-85) also pointed out in its 22nd Report (Para 1.9) that "the documents/papers/reports and accounts should be laid on the Table of the Houses after complying with all the statutory requirements. Laying of documents prior to their approval by the Annual General Body of an organisation is a serious matter. Technically speaking, the document laid on the Table prior to its approval/adoption by the Annual General Body cannot be called a complete document".

10.13: In view of the above it is essential that statutory provisions of Rules/Bye-laws, etc. governing respective organisations, standard terms and conditions under which audit is undertaken and recommendations of the Committee on Papers providing for adoption of audited accounts are kept in view. Therefore at the time of forwarding final SAR/audited accounts to Government of India/ State Government, requirement of adoption/consideration of audited accounts by the governing bodies should always be pointed out in the forwarding letter. Further in order to verify the fact of adoption of the audited accounts by the Governing Body of the concerned body/authority a copy of resolution passed by it should be called for in Audit. Any deficiencies noticed in this regard may be promptly brought to the notice of the respective organisation/administrative ministry/department highlighting the infringement/flouting of the Rules/ Regulations resulting in submission of improper documents/accounts to the Legislature (s) under intimation to Headquarters office.

10.14: The responsibility for placing the certified accounts with audit report on the Table of Parliament/Legislature vests in the concerned Ministry/Department of Government. Audit should satisfy itself that the audited accounts, Audit Certificate and the Audit Report as placed before Parliament/Legislature are complete in all respects and are the same as issued to Government by Audit. The Principal Audit Officer concerned in each case should therefore, examine, (as soon as a copy of the report as placed before Parliament/Legislature is received from the Ministry/Department concerned), whether the audited accounts as presented are complete in all respects including the Audit certificate and the Report appended thereto. Discrepancies, if any, should be specifically brought to notice of the concerned Department in Government.

10.15: The printed documents should be sent to Headquarters only after taking action as required under Para 10.14. In case, any discrepancy is noticed and the matter has been taken up with the Government, then while forwarding the printed documents this fact may be mentioned and a copy of such reference made, also enclosed.

10.16: In respect of autonomous bodies, where it is required to present the audited accounts/SARs before the Parliament/Legislature the Audit office concerned has also to ascertain from the auditee organisations/administrative departments about the presentation of audited accounts/SARs before the Parliament/State Legislature (s). In case, audited accounts/SARs for previous years have not been placed before the Parliament/State Legislature (s), specific reasons therefor may be ascertained from the organisation/department concerned and reported to the Headquarters office, if necessary before releasing final SAR for subsequent years to the autonomous body.

Chapter 11

Performance Audit

Introduction

11.01: Performance auditing is an independent assessment or examination of the extent to which an entity, programme or organization operates efficiently and effectively, with due regard to the economy. It embraces :

(a) audit of the economy of administrative activities in accordance with sound administrative principles and practices, and management policies,

(b) audit of efficiency of utilization of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies; and

(c) audit of the effectiveness of performance in relation to the achievement of the objectives of the audited entity, and audit of the actual impact of activities compared with the intended impact.

11.02 : **Performance Auditing Guidelines** applicable to the IA & AD have been introduced in May 2004. They should be followed during the performance audit of autonomous bodies.

Strategic Planning :

11.03 : In order to identify potential topics for performance audit, it is essential that various functions / activities of each Central autonomous body are ranked in terms of audit risk by adopting the following parameters :

Risk Parameters / Functional areas/main activities	Financial materiality	Significance	Visibility	Coverage	Past audit findings (including financial audit comments)	Overall grade
	L/M/H	L/M/H	L/M/H	L/M/H	L/M/H	L/M/H
1	2	3	4	5	6	7

11.04 : The first step involves identifying the various functional areas. These areas will then be listed in column 1 (each occupying a separate row). The risk parameters are to be listed in column 2-6. These paramenters are discussed in detail in Performance Auditing Guidelines. Each paramater should be assigned rank of 'Low', 'Medium' or 'High' risk. Field offices are free to modify / improve the Table in terms of their perceptions. This Table may be developed during the course of audit of financial statements of autonomous body and should be attatched with the draft SAR of the Central autonomous body.

Performance audit of regulatory bodies.

11.05 Performance audit of regulatory bodies will be conducted in accordance with the Guidelines on Performance Audit of Regulatory Bodies – First Edition (2004) – New Audit Guide Series No.4 issued by the Authority of the C & AG of India as well as Performance Auditing Guidelines subject to the following :

- Explanation below Section 23(2) of the TRAI Act, 1997 stipulates that the decisions of the Authority that are appealable to the Appellate Tribunal are not subject to audit by CAG. Therefore, the Guidelines have to be treated as general and executive in nature and cannot supplant the legislations by which the regulatory bodies have been set up. The guidelines are only supplement to the statutory provisions of the TRAI Act. While taking up audit of regulatory bodies, it should be kept in mind that the audit should be within the sphere of the provisions made in the relevant Act regulating such bodies in order to avoid any confrontation between the Act and the Guidelines.

- The audit of accounts of Electricity Regulatory Commissions and Audit Report thereon would include performance audit of these Commissions. The orders passed by the Commissions in exercise of quasi-judicial functions (as its legality and justice ability) would not be within the scope of audit. These instructions are equally applicable to other regulatory bodies (like TAMP etc.)

Chapter 12

Compliance Audit

Introduction

12.01 : The scope of audit of autonomous / assisted bodies includes regularity audit. It embraces audit of financial systems and transactions to check the compliance with applicable statutes and regulations and observance of probity and propriety.

Mandate

12.02: Compliance audit may be conducted in respect of the bodies / authorities subject to audit under the provisions of Sections 14, 19 and 20 of the Act.

Objectives of Compliance Audit

12.03: The main objectives of Compliance audit are to ensure:

(1) That there is provision of funds for the expenditure duly authorized by a competent authority;

(2) That the expenditure is in accordance with a sanction properly accorded and is incurred by an officer competent to incur it;

(3) That payment has, as a fact, been made and has been made to the proper person, and that it has been so acknowledged and recorded that a second claim on the same account is impossible;

(4) That the charge is correctly classified, and that if a charge is debitable to the personal account of a contractor, employee or other individual, or is recoverable from him under any rule or order, it is recorded as such in a prescribed account;

(5) That in the case of audit of receipts (a) sums due are regularly recovered and checked against demand and (b) sums received are duly brought to credit in the accounts;

(6) That expenditure conforms to the following general principles, which have, for long, been recognized as standards of financial propriety, namely :-

(a) That the expenditure is not *prima- facie* more than the occasion demands, and that every employee of the entity exercises the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money,

(b) That no authority exercises its powers of sanctioning expenditure to pass an order, which will be directly or indirectly to its own advantage,

(c) That public monies are not utilized for the benefit of a particular person or section of the community unless-

(i) the amount of expenditure involved is insignificant, or

(ii) a claim for the amount could be enforced in a court of law, or

(iii) the expenditure is in pursuance of a recognized policy or custom.

(d) That the amount of allowances such as travelling allowance granted to meet expenditure of a particular type is so regulated that the allowances are not on the whole a source of profit to the recipients.

Important points for scrutiny :

12.04 : In compliance audit, it is essential that following points are invariably examined :

(a) violation of contractual obligations, undue favours to contractors,
(b) avoidable / excess expenditure,
(c) wasteful/infructuous expenditure,
(d) regularity issues,
(e) idle investments/idle establishment / blockade of funds,
(f) delay in commissioning equipments,
(g) non-achievement of objectives etc.

(h) non-compliance to laws, rules etc.
(i) lacuna in law/procedure, policy,
(j) control weaknesses.

The audit of transactions will vary from organization to organization depending upon the nature of organization, the system of accounting and the documents maintained. For facility, the points to be looked into at the time of audit of various documents or records are detailed in Appendix-12.1.

Measuring Audit Effectiveness

12.05 : Measurement of effectiveness of audit serves two purposes:

(a) For external dissemination of contribution made by the department towards the larger end of improved governance and to meet public expectations.

(b) For internal evaluation so that performance could be assessed and benchmarks could be set for enhancing results in the future.

The following could be included in developing a document to be periodically released for external dissemination:

- Recoveries of public money carried out at the instance of audit;
- Audit observations / recommendations accepted by Government and the financial implications thereof;
- Changes in law, procedures or schemes attributable to observations by Audit and financial implications thereof;
- Acceptance of audit observations / details of remedial action taken through Action Taken Notes of audit paras not discussed by the PAC.

In order to assess the audit effectiveness, it is necessary to determine the weightages to be assigned to the identified parameters. For this purpose, Desirability Acceptability Matrix for allotment of weights for Audit Reports should be followed as per instructions for Matrix issued from time to time.

Periodicity of audit :

12.06: A risk-based approach should be adopted to select entities for compliance audit. More frequent and intensive audit for the 'very high risk' category should be undertaken.

Risk-based approach to audit :

12.07: Strategic planning is the first step in the audit process. The principal purpose of this activity is to identify and rank audit entities. By using a risk based approach for ranking entities, best use of the limited audit resources can be made.

12.08 : To initiate a structured planning process, all autonomous bodies should be ranked on the basis of the following risk-model (having six factors) and the autonomous bodies should be rated on a scale of 10 :

	Risk factors	Weightage points
A.	Grant / expenditure for the last three years (Expenditure above Rs.20 crore – 4 points, between Rs.10-20 crore-3 points, between Rs5-10 crore – 2 points and less than Rs.5 crore-1 point.	4
B	Nature of expenditure Expenditure on salary/establishment as a percentage of total expenditure: less than 25 per cent-2 points, between 25 and 50 per cent-1.50 points, between 50 and 75 per cent-0.50 point)	2
C	Number of PDPs/SOFs identified in the last three years (Less than 3 PDPs-0.25 point, between 4 and 6 PDPs-0.50 point, above 6 PDPs-1 point)	1
D	SAR quality (Audit comments of major nature-1 point, major/minor- 0.50 point, routine-0.25 point)	1
E	Internal audit/ controls/systems etc.	1
F	Arrears in accounts	1

Bodies with a score of 6.5 and above may be classified as 'high risk'; those between 3 and 6.5 as 'medium risk' and autonomous bodies scoring less than 3 as 'low risk'.

Drafting of Audit Report

12.09: The audit reporting process begins with submission of inspection report to the Head of Office or department which has been audited with a request to submit replies and clarifications / comments on the audit observations. Depending on the veracity and relevance of reply / verification received and the materiality of the observations in the inspection reports, the audit findings are further processed for reporting in the Report of the CAG – Union Government (Civil) – Autonomous Bodies. While drafting the audit findings instructions contained in Para 7.3.27 of MSO (Audit) 2nd edition and guidelines given in Chapter IV- Reporting Standards - of the Auditing Standards – 2nd Edition, 2002 issued by C&AG of India may be referred. To maintain uniformity in drafting / reporting style of the Audit Reports, the "Style Guide" issued by C&AG should also be adopted.

Appendix 12.1

(Referred to in Para 12.04)

Compliance Audit Checks

1. *Cash Book*-Cash book is the most fundamental record and audit commences with checks of the cash book and check of entire postings in the Cash book, where circumstances warrant is carried out. The main purpose of auditing the cash book is to ensure that:

(i) all receipts are taken into account in full;
(ii) no improper or fraudulent payments are made;
(iii) all receipts and legitimate payments are accurately recorded;
(iv) the balances reflected in it are worked out correctly from time to time.

2. *Receipts*-Every organisation will have a prescribed procedure for issue and accountal of receipts. It has to be seen in audit that :

(i) a proper record of receipt books is kept and the books are issued only to persons authorized to issue receipts;
(ii) the receipts are machine numbered and are issued in chronological order;
(iii) the return of counterfoil of used/partly used receipts books to safe custody is watched.
(iv) the receipts are correctly posted in main cash book and where subsidiary accounts are kept, from which totals are taken to cash book, the receipts are correctly posted in these accounts;
(v) the revenue to be realised is correctly assessed, demand notices issued and recovery watched by proper control records and periodical review of these records;
(vi) the revenue is correctly classified in accounts;
(vii) in respect of realizations by way of money order, cheques and drafts, an effective system of collection and accounting has been prescribed and is followed;
(viii) the realizations are duly posted in demand and collection registers and by a cross check it is ensured that collections as posted in demand and collection registers are duly taken to cash book.
(ix) loss of revenue is duly examined and written under sanction of appropriate authority.

3. *Payment vouchers*-Every payment, entered in cash book, has to be supported by a legal quittance, inter alia, therein, the party to whom the money is paid, particulars of the transaction to which the payment relates, the period for which the claim relates, and dates of payment, duly attested by the person authorized to make the payment. It has to be ensured in audit that:

(i) the vouchers are filed in chronological order and are given distinct serial numbers, according to a well-established procedure;
(ii) the claims are clearly stated and are due and admissible;
(iii) the arithmetical calculations are correctly made;
(iv) receipts (stamped where necessary) of the claimants are available;
(v) materials purchased, with reference to the claims admitted for payment, are duly taken note of in the relevant stores/stock registers;
(vi) the claim admitted is considered reasonable for the purchase and sanction for purchase/payment had been ordered by the prescribed authorities;
(vii) the vouchers are duly stamped, “paid” and cancelled to obviate double payment;
(viii) payments are, as far as possible, paid by crossed cheques and cash payment is justified in cases where it is resorted to; and
(ix) the vouchers are correctly classified and duly accounted for.

4. *Bank reconciliation*-The bank account in most of the organizations will be part of cash book, though there is no objection to maintain separate bank account. In the present day system of transactions most of the receipts and payments are in the form of cheques and drafts and are carried through the bank. In the circumstances, it is necessary in audit to see that system in operation is foolproof and ensure that all receipts are duly posted in bank account, are remitted to the bank for realization and a watch kept on its due accounting to the credit of the organisation. Similarly it is necessary that all payments duly discharged by the organisation are only taken to the accounts of the organisation. In particular, it has to be seen in audit that:

(i) cash receipts are credited to bank at the earliest possible date and counterfoils of paying-in slips are on record;
(ii) realizations by cheques are duly remitted to the bank and credits appear in bank account;
(iii) a system exists for a periodical bank reconciliation and one such reconciliation has actually been carried out as on the date of closure

of annual accounts and the statement is a properly agreed one between the two sets of figures;

(iv) for the differences between balances as per bank pass book and cash book, action has been initiated for clearance of old items;

(v) the reconciliation does not reveal old items of credits in cash book but not in pass book and if there is any, it has to be ensured that remittance slips for actual remittance in bank are there on record;

(vi) there are no payments in bank pass book without corresponding entries in cash book and if there is any, it has been duly investigated and does not indicate possible items of misappropriation; and

(vii) the cheque books are kept in safe custody and the procedure for issue of cheques as laid down is duly observed.

5. *Payment to staff*-The points that need specific attention, apart from check of quittances are as under:

(i) Are all posts created by the authorities competent to create these posts and are in the prescribed scales?

(ii) Are appointments made as per the prescribed procedure?

(iii) Are the initial pay fixation and subsequent pay fixation correctly regulated according to the rules applicable to the autonomous body?

(iv) Have contributions to provident funds and other funds been collected time to time?

(v) Are proper leave accounts and other service records kept?

(vi) Have contributions to provident funds and other funds been correctly assessed and recovered?

6. *Expenditures on wages*-The payments towards wage bills should be checked in audit to see whether:

(i) a proper record of employment on specified jobs is available;

(ii) a proper record of performance of the specified jobs is available;

(iii) there exists an assessment of work done vis-a-vis. the expenditure incurred.

(iv) the expenditure has been correctly apportioned between capital and revenue.

(v) the supervision over the work is adequate; and

(vi) the work on which employment was made, was necessary and time taken was reasonable.

7. *Office contingencies*-Expenditure of a routine nature for the day to day functioning of the office, such as expenditure on stationery, postage, maintenance and running of vehicles, purchase of uniforms to staff, cartage, entertainment expenses etc. fall under the category of office contingencies. In respect of these transactions, it is necessary to see in audit that :

(i) a proper record of expenditure under each category is kept;

(ii) the expenditure is regulated according to prescribed scales;

(iii) there exists adequate justification for abnormal increases in expenditure under certain categories;

(iv) control over the expenditure is vested on certain specified authorities and they perform the duties adequately; and

(v) where necessary, prescribed procedure for incurring the expenditure is observed.

8. *Stock accounts*-The stock accounts to be maintained by various autonomous bodies can relate to:

(a) plants and machinery, (b) equipment, (c) raw materials for use in manufacture, (d) articles procured for disposal as such, (e) articles manufactured, (f) articles procured for consumption by the organisation and (g) articles retained permanently for official use. In respect of accounts kept for these purposes, it may be seen in audit that:

(i) there exists necessity effecting the purchase;
(ii) the item is utilised for the specified purpose;
(iii) the purchase, issue and consumption are authorized and are according to the prescribed procedure.

9. *Research and Development Activities*

System Checks

i. What is the procedure adopted for selection of subjects for research? Is it adequate? Is adequate data available before a subject is chosen for research?

ii. Are concerned experts in the line consulted before a subject is chosen?

iii. Is there any assessment of utility of the research and possibility of profitable utilisation?

iv. Is the financial abilities of the project adequately assessed?

v. Does the organization possess adequate manpower and other resources to undertake the research? If not, has adequate planning been done to acquire the manpower and resources before the project is undertaken?

vi. Are there cases of overlapping research projects within the organisation and outside and if so, how far is such a situation resolved to the best of interests of the organisation.

vii. Has the organization indexed the research work/projects properly giving details like topic, when it was undertaken, date of completion, total funds spent, name of the organization on whose behalf it was undertaken etc ?

Monitoring mechanism checks

viii. Are adequate funds allocated from year to year for accepted research projects and do the funds so allocated compare with the estimated cost of the project? If funds are not adequate, what is the rationale of such allocation?

ix. Is staggering of accepted research projects resorted *to* for want of either manpower, finance or other resources?

x. Is each research project time bound? Examine whether extensions were applied for and given where projects could not he completed in time?

xi. Is intermediary assessment of continuing research projects done to ensure that the research is progressing as planned or is not handicapped for various reasons or needs to be given up for certain valid reasons? If so, what is the follow up action taken on such intermediary assessment reports?

xii. Is the implementation of any research project dependant on continued availability of certain personnel and services for pre-determined periods and if so, are their availability ensured before the research is undertaken?

xiii. In cases where extension is given for completion of research, are the grounds of extension genuine, unavoidable, etc.?

xiv. Is there any research project, which is continued without any noticeable progress resulting in continued deployment of certain personnel, equipment etc., and consequent waste?

xv. Has the organisation executed specific agreements on its right over the results of research for marketing, publication, utilisation etc.? If so, are they adequate and are they duly implemented? If not, has the organisation suffered in any case?

xvi. Does any system exist for evaluation of results of research and proper utilisation? If so, are these attended to within reasonable period after reports are furnished by those in charge of the research?

xvii. Have the research projects been evaluated by the organisation to see whether time, money and energy were well spent on them?

xviii. Are the results of research based on adequate data as prescribed when the research was authorised to be undertaken or are they based on comparatively inadequate data? If so, what are the consequences?

Commercialisation of research

xix. Does any arrangement exist for propagation of results of research to ensure their profitable utilisation?

xx. Is the organisation in the know of action taken on results of successful research projects?

10. *Expenditure on works*-The expenditure on works can relate to execution of a project as a whole or execution of individual works or works relating to maintenance and repairs, both regular and special. The works are, in certain autonomous bodies, conducted by themselves with the help of their own wing of engineers and in others, either through the State or Central Public Works Departments or through services of architects. The prescribed accounting procedure will have to be examined; by and large, they are similar to those adopted by Government Public Works Divisions. Instructions given in the Manual of Standing Orders (Audit) relating to such audits may be applied mutatis mutandis for audit of works transactions of autonomous bodies as well. In addition, the general points on which audit can divert its attention, can comprise the following :-

(i) Whether the project as a whole has been approved by the competent authority of the autonomous body and the financing authority, like the State or Central Government, University Grants Commission etc.?

(ii) Whether a time schedule for implementation has been drawn up, indicating the physical and financial target from time to time duly agreed to by the financing authorities as well?

(iii) Whether for the several components of the projects required detailed plans and estimates have been drawn up in time, duly approved by the competent technically qualified authority specified for the purpose?

(iv) Whether the execution of the works was taken up as planned and whether flow of funds was as anticipated; if not, how far the works suffered may be looked into?

(v) Whether the detailed drawings and designs, where required, were duly drawn up in time and furnished to the executing authorities and if not, what are the causes of delay?

(vi) Whether a proper procedure for award of contract is laid down and is duly observed?

(vii) Whether tenders are invited and properly scrutinized in time before decision is taken?

(viii) Whether the delays, if any, in preparation of plans and estimates, supply of detailed drawings and designs, invitation and acceptance of tenders, supervision of works in execution etc. have resulted in any loss, not only for the work as such, but also to the development of the organisation itself or in execution of schemes taken up by the organisation?

(ix) Whether payments to contractors were in time in accordance with the agreed procedure and an unauthorized aid is involved?

(x) Whether proper records of measurement exist and the records are compiled in time by qualified/competent persons and are subject to adequate supervisory check?

(xi) Whether quantities of work executed compare favourably with the estimates and variations are examined and are justified?

(xii) Whether the extra items executed are such that they could not be anticipated and not those initially omitted from plans and estimates for tendering and whether the rate paid for them had been correctly assessed in accordance with the contract?

(xiii) Whether a proper record of completion exists and quality of work is subjected to adequate test, according to prescribed procedure and terms of contract?

(xiv) Whether for reported poor quality of work at the time of completion on inspection, the matter was not noticed by the authority supervising the work and recording the measurements?

(xv) In respect of contracts on “cost plus percentage” basis the control on quantity of work is quite adequate and there are no avoidable increases in quantity and there are no instances of use of costly items of work as substitution, resulting in avoidable increase in cost and consequent increased commission;

(xvi) In cases of contracts with architects, whether the terms are properly drawn up to protect the organisation against wasteful expenditure, lack of timely supervision on the works by the architect, compensation for losses attributable to failures by architect etc;

(xvii) Whether funds are not obtained for works from Government far in advance of needs and deposited back with Government for carrying out the works as deposit works, the commencement of work being delayed thereafter, for one reason or other, such as non-availability of land, plans and estimates, non-invitation of tenders, etc.?

(xviii) In respect of expenditure on maintenance and repairs, whether they are reasonable, are called for and are not in remedy of patent defects in initial execution on which timely action had not been taken?

(xix) Whether proper materials at site account are kept, all receipts and issues noted, whether surplus material is not procured without a plan on utilization, just to indicate utilization of budget provision, whether control on stock is kept and unused materials at the end of a work are duly transferred to stock/other works, etc. or otherwise disposed of? and

(xx) Whether the works executed are utilized for the purpose for which they were carried out?

11. *Advances to employees*-A system of payment of advances is in vogue in practically every autonomous body for the day to day management and administration. In all such cases, the best course of accounting will be to book such advances as such and not to final heads of account, *ab initio,* so, thereby adequate control over adjustment is lost. As and when advances are adjusted, suitable book adjustments must be carried out to transfer the advance to final head and the unadjusted advance at the end of the year should be reflected in the balance sheet clearly.

The several cases of advances to employees can be in the nature of advances for festival, tour, purchase of conveyance, construction of house, procurements of materials, works under execution, disbursements to be effected by the employee on behalf of the autonomous body, etc. In respect of advances for festival, purchase of conveyance, construction of houses, etc. the organisation must be having a properly laid down procedure for ascertaining entitlement, amount payable and amount recoverable from month to month; recoveries in these case should be more or less regular and it has to be ensured in audit that a proper system is prescribed and is duly observed. In respect of advances for tour, it has to be seen that the amount of advance is not in excess of anticipated T.A. claim, tours are duly sanctioned by the competent authority, adjustment bills are obtained immediately after the tour is over, adjustments are duly carried out by recoveries in lump, any excess payment, and no subsequent advances are given without adjustment of prior advance in regard to advances to employees for procurement of materials, disbursements to be effected; etc. Special watch is required to be kept in audit to see that the internal check and control over them are quite adequate. In particular, it should be seen in audit that :

(i) the advance was for meeting immediate disbursement and was limited to the anticipated expenditure;
(ii) the advance was duly authorized by the competent authority;
(iii) the date by which expenditure was to be incurred was known and an account had been rendered immediately on return of the official to the headquarters;
(iv) a proper record of such advances is kept and recovery/adjustment is watched through it;
(v) amount remaining unutilized had been promptly refunded and was not allowed to remain with the official for long, particularly if the amount is a substantial one;
(vi) a proper account was received and recovery had been made in all cases before the officials concerned proceeded on leave, transfer, retirement etc. and
(vii) the materials, if any, purchased out of such advances, were duly authorized by the competent authority and taken to stock.

12. *Advances to suppliers and contractors*-In the same way as advances to employees, it is necessary to advances to suppliers and contractors as advances only in accounts and final adjustment made on receipt of accounts/materials/or after work are executed. No advances to suppliers and contractors should be made unless payment of such advances has been permitted under the term of

contract or it has been authorized under the trade practice in vogue for the supply or the contract conceived payment of advances. In all such cases it has to be seen in audit whether:

(i) the terms of agreement provide for payment of the advance;
(ii) the terms of contract provide for adequate protection to the autonomous body for claiming the advances back with penalties in the event of breach of contract;
(iii) the advance is limited to the minimum admissible and is not paid far ahead of the prescribed time;
(iv) a proper record of such advances is kept and recovery/adjustment is watched through it;
(v) adequate provision exists for inspection of material/work for which advance is paid and it is scrupulously observed;
(vi) in case of non-adjustment of advances within the prescribed time, action in accordance with the terms of contract is initiated in time; and
(vii) in respect of running contracts for works/supply and payment of advances a periodical account settlement takes place and balances stand duly accepted by either parties.

13. *Loans raised by the autonomous bodies*-Loans may be raised by the autonomous bodies either for general purposes or for certain specified activities. In such cases, it may be seen in audit whether:

(i) the financial position of the autonomous body was such that it had to raise the loan up to the level raised;
(ii) the purpose for which loan is to be raised is determined and loan is utilized for that purpose;
(iii) the loan is not raised far ahead of the schedule or in excess of needs, resulting in diversion of loan for other purchases or in investment;
(iv) the capacity to repay has been duly assessed with reference to source of income from which repayment is to be made and the source becomes actually available for the purpose;
(v) the repayment of loan and interest is not met by obtaining grants for the purpose, unless it is specifically authorized by the grant sanctioning authority;
(vi) the terms and conditions of the loan are clearly determined and a copy of document is available with the loanee;

(vii) the interest payable is correctly worked out and is duly indicated in accounts whether actually paid or not;

(viii) the loan is utilized for the specified purpose and any excess is duly refunded, if it is permissible;

(ix) a proper record of the loan is kept for watching timely repayment and the record is duly reviewed;

(x) all matters relating to raising of loan, utilization, finalisation of terms and conditions, position of repayment, etc. are duly brought to notice of the main governing body and other connected committees from time to time.

14. *Loans disbursed by the autonomous bodies*-In respect of loans disbursed by the autonomous bodies, it may be seen in audit whether:

(i) the scheme for grant of loan has been authorized by the management (and Government where necessary)

(ii) the source for financing has been duly determined;

(iii) the terms and conditions are duly determined and a proper agreement is carried out with the loanee;

(iv) the loan agreements are duly registered, where necessary, and kept in proper safe custody;

(v) loans are paid only to those who are eligible under the scheme after fulfillment of the required conditions;

(vi) the capacity of realise the loan instalments had been assessed before loan is paid;

(vii) demand notices are issued well in time for recovery of principal and interest and matter pursued according to terms of loan till recovery;

(viii) prescribed reports on utilization of loan for specific purposes are obtained and recovery of excess release of loan is made in time;

(ix) the acceptance of balances is obtained annually from each loanee;

(x) the loan records are properly kept, reviewed periodically at an appropriate level and action taken; and

(xi) accounts clearly take into account the position of over due instalments of loan and interest.

15. *Grants received by the autonomous body*-Grants may be received by the autonomous body either for its recurring maintenance expenditure or for execution of schemes or for acquisition of certain capital assets of a non-recurring nature. In all cases the accounts must be so drawn up as to facilitate

not only identification of the source and object of grant but also to indicate the purposes for which these grants have been utilised. For this purpose, normally the sanctions issued for payment of grants provide for maintenance of separate accounts. It may be noted that the intention under such directive is to maintain separately identifiable heads of accounts for transactions of the respective grants within the annual accounts and not the maintenance of multiplicity of annual accounts for each grant, to be separately certified. It may be noted that the multiplication of number of accounts has the inherent danger of certain accounts not being made available for audit for a considerable period due to ignorance of audit regarding existence of such accounts. In the circumstances, one of the basic points to be seen in the format of accounts of any autonomous body, is to ensure that the format is so drawn as to indicate source of each grant and its utilization for specified purposes separately in the accounts. Scrutiny of transactions relating to payment of grants and its utilization is one of the most important points of audit of autonomous bodies and in this audit, it is necessary to look into the following points:

(i) The amount of grant payable to the autonomous body for each of the purposes has been correctly assessed, after taking into account all income adjustable towards limiting of the grant, in accordance with the guidelines, rules and prescribed procedures for assessment of the grant.

(ii) In respect of maintenance grants it is limited to the net deficit and the expenditure on several items has been incurred in accordance with the scales laid down therefor.

(iii) Grants remaining unutilized at the end of each year had been duly taken into account before determining the grant payable in the subsequent years and amount paid was not far in excess or advance of the requirements.

(iv) The conditions attached to the grant, before and after release are duly fulfilled.

(v) The prescribed periodical returns are correctly compiled and supplied and a review thereof either with reference to the returns or other records does not indicate any deviation of purpose of grant or irregularities in utilization of the grant.

(vi) The assets acquired out of grants, either then or in the past are continued to be utilized for the intended purpose and in respect of obsolete assets, they are duly disposed of and realisations credited to Government or adjusted against future grants.

(vii) The objectives of schemes for which grants are paid, are being achieved and a periodical review is being conducted, with the knowledge of the grant sanctioning authority for assessing the progress, future needs and changes and due approval is taken for modifications, increase in cost, etc.

(viii) The income, expected to be realized by assets acquired and schemes executed in past with assistance from Government, is actually being realized and to that extent, if so anticipated, the dependence on Government for maintenance has been reduced without increase in liability of Government.

16. *Assistance given by the autonomous body*-There are certain autonomous bodies like the University Grants Commission, Indian Council of Agricultural Research, Khadi Boards etc. which like Government, disburse assistance to several organizations and individuals for specified purposes. The instruction given in the Manual of Standing Order (Audit) on audit of assistance rendered by Government, apply mutatis mutandis for audit of such assistance rendered by the autonomous bodies and they may be applied with such changes and modifications, as may be called for.

17. *Records relating to sundry debtors*-Certain autonomous bodies, like Khadi Boards, Commodity Boards and Housing Boards undertake credit sale of their products/properties and realize their income later in accordance with the prescribed procedure thereof. In all such cases, it is necessary to see that a proper accounting procedure is established and is scrupulously followed and the credit sales are duly adjusted in accounts immediately after the transactions take place. The maintenance of a proper ledger for such party with whom the autonomous body has dealings is very essential and it has to be seen that at the end of the year, the balances as per the individual ledgers, are duly drawn and agreed with the account balances, as reflected in the Balance Sheet through the omnibus head of account, sundry debtor. Further it should be seen in audit that:

(i) the credit sales are authorized to be carried out and the credit worthiness of the debtor was taken note of before credit sales were effected;

(ii) the prescribed terms for credit sales were duly observed both by the autonomous body and the purchaser;

(iii) amount due had been correctly assessed and adjusted in account;

(iv) the prescribed instalments are duly received with interest and the interest realized is duly taken note of separately, without mixing the same with the principal.

(v) Periodical demand notices are issued for recovery in time and recovery proceedings adequately pursued;

(vi) Proper mortgages are executed, where called for and registered;

(vii) A system of annual acceptance of balance is in vogue and is being observed; and

(viii) A periodical review of old cases is being conducted and action taken.

18. *Records relating to sundry creditors*-In the same way as for credit sales, certain orgainsations will be obtaining their materials on credit basis and settling the accounts periodically. While the creditor concerned can be expected to take adequate action for timely recovery of his due, it is also necessary to see that the autonomous body had undertaken procurement on credit according to specific directive therefor and no irregularity had been committed by taking recourse to credit purposes. Further, as in the case of sales, it is necessary to ensure that all credit purchases are promptly taken into account, a proper record of creditors is kept, the register reviewed periodically and balances in the ledgers duly agreed with the balance as reflected in the omnibus head of account "Sundry Creditors".

19. *Fund and investment thereof by the autonomous body*-Where certain autonomous bodies like the Port Trust create certain funds as required under the law, rules, regulations, etc, and invest them in securities it has to be seen in audit that:

(i) the amount allocated to the fund concerned is in accordance with the rules governing the fund and is permitted even in cases where no surplus is left;

(ii) the funds is being accumulated in accordance with the prescribed scales and is not in excess of the prescribed ceilings;

(iii) the investment of the fund is resorted to according to rules only out of allocated surplus fund and not out of loan raised, unless it is authorized;

(iv) the investment is in accordance with the prescribed pattern, procedure for investment is duly authorized and it does not result in avoidable loss to the autonomous body;

(v) the interest realized on investments is not appropriated to revenue, unless it is out of general income for general purpose, but is allowed to swell the fund balance only;

(vi) the accumulations in investments are duly matched periodically with fund balances and where required, the shortfall in fund is duly made good; and

(vii) excess receipt of Government grant/loan or receipt far in advance of needs is not diverted towards investment but is, instead, paid back to Government for drawal when the demand arises.

20. *Scholarships, stipends and such other payments*-Several autonomous bodies obtain funds from Governments and other autonomous bodies like the University Grants Commission, Council of Scientific and Industrial Research, Indian Council of Agricultural Research, etc. for payment of scholarship, stipend, etc, for conducting higher studies by selected personnel or for conducting specified research schemes.

In respect of all such payments, it is necessary to examine in audit that:

(i) the period for which the scheme is to run is clearly laid down;

(ii) the selection of personnel is done in accordance with the prescribed rules and regulations governing the schemes;

(iii) adequate precautions are provided for to protect against midway drop-outs, resulting in infructuous expenditure;

(iv) a system of periodical check up on progress of execution of the scheme is provided for and is duly observed without any avoidable delay;

(v) the completion of the course of training or scheme is followed by an assessment of the results achieved by the beneficiaries;

(vi) extensions for schemes are applied for in time, are examined by prescribed authorities, and are sanctioned, after due evaluation of the progress according to the prescribed lines and the necessity for continuance.

(vii) results achieved by the scheme are duly utilised in the prescribed lines and the general utility is assessed periodically, before they are continued.

21. *Provident Fund accounts of the employees*-Most of the autonomous bodies under audit of the Comptroller and Auditor General maintain the provident fund accounts of their employees themselves. In all such cases, it is essential to ensure that the autonomous body has framed proper rules and regulations for maintaining the account and the schemes is duly recognized by the competent authority, as otherwise the contributions to the funds by the employees may not

qualify for rebate under the Income Tax Act. It is also necessary to ensure that the terms and conditions governing the recognition are duly observed from time to time. In particular, following points are to be borne in mind in audit of transactions relating to provident fund accounts:

(i) The contributions to the fund both by the employer (in the case of contributory scheme) and the employees are in accordance with the prescribed rates, the increase or decrease in rates of contributions being regulated strictly in accordance with the rules and are recovered regularly, and credited to the subscribers' accounts.

(ii) The withdrawal, whether refundable or non-refundable are duly authorized for the specified purposes according to prescribed scales and refund of withdrawals also made as per rules;

(iii) The interest due to each account is correctly assessed at the rate prescribed under the rules and credited at the end of each year;

(iv) The balances in each subscriber's account at the end of each investment authorised by Government in grant of approval to the scheme.

(v) The interest on investments is realized in time and is correctly accounted for on accrual basis in the annual accounts.

(vi) The balances in each subscriber's account at the end of each year are duly worked out, communicated to the subscriber and acceptance obtained.

(vii) The balances in all subscribers' accounts are duly drawn up in a prescribed schedule and the total outstanding balance as shown in the schedule is duly reconciled with the balance as shown in the annual accounts.

(viii) The balances in all subscribers' accounts are duly drawn up in a side in the form of investments, recoverable advances to subscriber and cash and bank balances.

22. *Audit against provision of Funds*-Apart from sanction for incurring any expenditure, it is also essential that every autonomous body compiles an annual budget indicating various sources of income, anticipated income from the several sources, the expenditure planned against several heads of account, both revenue and capital. The budget so compiled must be approved by the apex body of the autonomous body in the annual meeting, including where necessary, a revised estimate for the year in progress when the meeting is held. Where so provided, copies of budget would need to be sent to Government also and approval taken,

if so required. In audit, it has to be seen whether these requirements are complied with and in addition it should be seen that:

(i) a proper control record is kept by the autonomous body to watch progress of income and expenditure against fund estimated for the purpose;

(ii) the variations between actuals and budget provisions are examined at appropriate levels, remedial action taken, where called for and reappropriations approved by specified authorities;

(iii) the final receipts and expenditure under several heads of account at the end of the year are duly examined with reference to final appropriations and variations are brought to the notice of the apex body for information and regularisation where necessary; and

(iv) It has been ensured that the transactions are correctly classified in accounts under appropriate heads of account in accordance with the budget provision and also general rules and regulations relating to classification of transactions.

Chapter 13

Audit Quality Management Framework

Introduction

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

- controls are in place at all stages of the audit cycle including planning, execution, reporting and follow up;
- controls are properly implemented; and
- in built mechanism to constantly review and update the controls exists.

13.02 While the framework brings out various measures required to ensure quality control and assurance in audit, this has to be read with and supplemented by the auditing standards, existing audit manuals, guidelines and instructions to have a complete and exhaustive description of auditing principles, processes and practices followed in different streams of audit across the Department. Respective wings/streams of audit like civil, defence, revenue, commercial, railways, scientific, etc. may formulate internal instructions in accordance with the principles outlined in the framework and consistent with auditing standards, existing audit manuals, guidelines, etc. Being an evolving document, the framework lends itself to continuous upgradation in line with the technological changes and development of new methodologies and practices.

13.03 'Audit quality management framework' governing the SAI should generally consist of the five major elements of *'leadership and direction'*, '*human resources management'*, '*audit management'*, '*client and stakeholder relations'* and *'continuous improvement'.* In public audit, quality management involves a system composed of the audit organisation, the auditors and the audit process, all working together to produce outputs that fulfil the requirements of its stakeholders and the general public. Continuous improvement in the quality of audit by focusing on the needs of clients and stakeholders is the underlying principle behind the audit quality management system or framework. It is essential that SAI should have quality management policies & procedures in place and should ensure that these policies and procedures are subject to a review mechanism.

13.04 The present framework attempts to concentrate largely on measures and procedures carried out within the audit process that would provide a reasonable assurance about the quality of audit work and the results of audit. It covers all audit products and results of audit from audit note, inspection reports and management letters to audit reports sent to the government and finally presented to legislature. The framework or the basic structure also includes quality practices and measures to be followed in all audits conducted by the Department: financial audit, compliance audit and performance audit. The framework would apply to all streams/branches of audit in the Department – civil, commercial, defence, revenue, railways, scientific, posts and telecommunications, local bodies, etc.

13.05 The framework is divided into two broad sections: I-Audit Planning, Execution, Reporting and Follow-up and II-Continuous Improvement through Technical inspection, Peer Review and Lessons Learnt Process".

I-Audit Planning, Execution, Reporting and Follow-up
Audit Planning

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

(i) **Electronic database of auditee profiles**: This is the foundation of audit planning. It is, therefore, important to maintain comprehensive and current information on all entities to be audited so as to target the right units. This database/knowledge repository which should be maintained electronically is to be utilised in a scientific manner by applying tools such as risk assessment techniques to enable an objective and unbiased selection of auditee units. Information available from the

VLC database should be used for audit planning as also data from various e-governance initiatives undertaken by entities.

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

(iii) Audit objectives, scope and methodology: Once the selection of auditee unit has been made, specific audit objectives should be drawn up which would govern the manner in which the audit is to be carried out. These could include reporting compliance with rules and procedures, forming an opinion on the financial statements, and assessing the performance of the auditee and its programmes.

The audit objectives along with the risk profile of the auditee, the level of assurance required and available audit personnel would help determine the scope of audit, sample size and the composition of the audit team. Quality at the stage of audit planning can be enhanced by regular interactions between top management and other team members/officers involved in the audit process to ensure that all critical areas have been adequately addressed. Audit methodology should be designed in such a fashion as to provide sufficient, competent and relevant evidence to achieve the objectives of the audit.

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

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

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

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

(viii) Staffing for the audit - skill & knowledge of audit personnel: Domain knowledge of the audit subject is a critical element of the audit quality management framework and the skills and experience of the staff deployed on the audit are expected to be commensurate with the requirements of the task. Offices should maintain an inventory of skills of its audit personnel which would enable them to match the task with required skills. Gap analysis to determine whether all skills required for carrying out the audit are available in-house or can be built up by courses/training programmes in Regional Training Institutes or at higher management levels should be carried out. This is essential to decide on the need for appropriate experts/ consultants to advise on key aspects of the audit e.g. selection of sample, issues for examination, audit methodology etc. In the event of deciding to hire experts/consultants, any existing orders or guidelines of the Department should be referred to.

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

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

(xi) Standard formats & checklists: Standard formats and checklists should be developed and used to ensure uniformity and focus in the audit approach. These could include:

a) Preliminary list of documents to be seen;
b) Suggested issues for examination;
c) Checks to be exercised at different levels; and
d) Format for reporting results.

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

The audit plan should be reviewed and approved by the competent authority, with deviations from the approved plan during execution requiring written documentation and approvals. Before approving the audit plan, an exercise may also be conducted to ascertain the areas where inputs from other wings of audit would be required. Suitable mechanism may be evolved to obtain the requisite information from other wings on a timely and regular basis. This may also be reviewed on periodical basis. Existing departmental standards/manuals/ guidelines/ instructions issued in respect of audit planning need to be kept in mind and complied with. While reviewing and approving the audit plan it should be seen whether the planning process was

- based on sound judgement;
- comprehensive;
- provided for suitably experienced staff for audit and supervision;
- timely; and
- appropriately documented.

Audit Execution

13.07 The audit execution process broadly includes the following:

- entry conference;

- determination of the audit approach;
- developing and executing audit tests through evidence gathering, evaluating evidence, developing audit opinions;
- developing findings and ensuring that replies/responses from the management are received;
- developing recommendations, and
- exit conference.

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

(ii) Audit test programmes: Testing of the audit objectives is the task of carrying out a series of procedures and/or activities with reference to the audit criteria already developed, and obtaining relevant and reliable evidence in respect of these procedures/activities during the course of audit. The audit tests are the key link between the audit objectives and criteria and the conduct of an audit leading to credible and objective findings.

Instructions, detailed checklists and formats as contained in the Manuals/ guidelines, etc. of the Department or as prepared at the stage of audit planning are to be referred to while framing the audit test programme. Selection of the sample to be tested should be done in a transparent manner, and where possible, with the help of appropriate sampling techniques. The sample drawn should be commensurate with the assurance levels required in the audit. Adequate documentation is required for the method of selection of the sample (e.g. random, judgemental etc.), its size and the audit criteria/objective with which the sample is linked.

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

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

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

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

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

Audit Reporting and Follow up

13.08 The audit product includes all reports/appraisals/comments/opinions/findings that emerge from the audit process and its follow up. All findings should be evaluated in the context of the audit evidence seen, and the response of the auditee.

Observations and conclusions are expected to be logical and based on valid audit evidence. The audit report should comment specifically on the audit objectives, scope and methodology and the results of the audit which include finding, conclusion and recommendations. Audit recommendations should be framed in the manner suggested in separate guidelines issued by the Department. The reporting should be in accordance with the 'Reporting Standards' of the Department.

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

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

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

(iv) Review of audit findings before finalisation of reports: All audit findings should be reviewed at a suitably senior level before audit opinions or reports are finalised. The nature and extent of the review would depend on several factors such as the significance of the work, the risk perception of the auditee, and experience levels of the audit personnel. Review can be done on a concurrent basis when the audit work is going on, at the stage of preparation of audit observations, finalisation of inspection reports, drafting of audit reports and applying quality checks prior to final approval of the audit report. Similarly, a checklist may be prepared in the headquarters sections of the field offices to review the Inspection Reports (IRs).

The performance of the audit team may be reviewed at the time of finalisation of the IR on the basis of predertermined parameters and placed before the senior management for appropriate action. The results of the review need to be documented in a transparent manner, to be used as feedback into the audit cycle.

Review would include check of the presentation and format, and the technical quality and content of the product. It should ensure that all findings and conclusions are based on and supported by competent, relevant and reasonable evidence. All assertions of audit are to be fully supported by the data gathered during the audit. The documentation of key evidence and its interpretation in audit should clearly establish the manner in which audit conclusions were reached. The review checks whether the audit product is timely, comprehensive, and appropriately documented. Timeliness of the audit result may involve both the meeting of statutory deadlines and the delivering of the audit results when they were needed for a policy decision or to correct systemic weaknesses.

The response of the auditee should also be adequately reflected, and any divergence of opinion should be dealt with clearly. The review is expected to assess the level and quality of the prescribed supervision of the audit, and provide an assurance that the work has been carried out according to standards and guidelines of the Department.

(v) **Developing audit recommendations**: All performance audits should conclude with well thought-out recommendations. For developing recommendations, audit should identify the underlying cause(s) of a finding, as this forms the basis for the recommendations. A quality recommendation is one that is:

- Action-oriented, properly-directed, specific, convincing, significant, positive in tone and content;
- Dealing with underlying causes and should correct the basic cause of the deficiency;
- Feasible- and is workable; and
- Cost-effective or the benefit to be derived from implementation of the recommendation outweighs the cost of its implementation

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

(vii) Follow-up: Follow-up of the audit output improves the quality and effectiveness of audit by assessing the response of clients and stakeholders to the work performed by audit in terms of results and impact. There should be an assessment of action taken by the auditee in response to audit findings.

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

II - Continuous improvement through Technical Inspections, Internal Audit, Peer Review and Lessons Learnt Process

13.09 Post-audit technical inspections, internal audit and peer review are other mechanisms of self-assessment as to whether quality procedures are functioning effectively, and of identification of steps needed to further improve the quality of audit.

(i) Lessons learnt process: A system of self-evaluation whereby audit teams may review audit practices through post-audit discussions is an important quality assurance process. The purpose of establishing continuous lessons learnt process is to help ensure consistent quality in audits and improve the department's processes on a continuing basis. Regular internal discussions would help in taking stock of the audit on several parameters such as:

- Understanding what worked well
- Whether the resources assigned to the audit were reasonable
- Whether findings/conclusions/recommendations got an appropriate response
- Reasons for less successful audits
- Scope for improvement, and
- How these can be achieved.

(ii) The key messages arising from the lessons learnt should be communicated widely through training, seminars, workshops and guidance.

13.10 The measures set out above are intended to improve the quality in the audit process. However, these procedures should not curb the initiative and good judgment of the auditor in adapting to particular circumstances. The judgment depends upon the audit task in hand, problems faced during the audit and the auditor's competence, skill, expertise and professional qualifications, etc.

13.11 The framework described above incorporates measures and practices which when followed would provide a reasonable assurance that audits are conducted in a manner as to ensure high quality and meet stakeholders' expectations. The premises set out here are generally drawn from the ASOSAI guidelines on audit quality management systems (AQMS).

Chapter 14

Audit of autonomous bodies in a computerized environment.

Definition of IT Audit

14.01 IT audit may be defined as *"the process of collecting and evaluating evidence to determine whether a computer system safeguards assets, maintains data integrity, allows organisational goals to be achieved effectively and uses resources efficientl*y". (Ron Weber)

14.02 IT Audit is a broad term that includes both financial audits and VFM audit in an IT environment or performance audit of IT systems, depending on the pre-defined audit objective. In the former case, "IT audit" is also called "Auditing in an IT environment" in order to distinguish it from audit of an IT system. However, a common factor is the formation of an opinion regarding the degree of reliance that can be placed on the IT systems in the audited organization. Audit of Information Technology Systems under development and IT enabled audits (using CAATs) also fall under this broad Grouping.

Objectives of IT Audit

14.03 The objectives of IT audit include assessment and evaluation of processes that

✓ (a) Ensures asset safeguarding –'assets' which include the following five types of assets:

- Data
  Data objects in their widest sense, i.e., external and internal, structured and non-structured, graphics, sound, system documentation etc.
- Application Systems
  Application system is understood to be the sum of manual and programmed procedures.
- Technology

Technology covers hardware, operating systems, database management systems, networking, multimedia, etc.

- Facilities
  Resources to house and support information systems, supplies etc.

- People
  Staff skills, awareness and productivity to plan, organize, acquire, deliver, support and monitor information systems and services.

  ✓ (b) Ensures that the following seven attributes (7A) of data or information are maintained.

  - Effectiveness - deals with information being relevant and pertinent to the business process as well as being delivered in a timely, correct, consistent and usable manner. Deals with System effectiveness – evaluating whether the IT system meets the overall objectives of top management and users.

  - Efficiency - concerns the provision of information through the optimal (most productive and economical) usage of resources. Deals with System efficiency – efficient systems use optimum resources to achieve the required objectives.

  - Confidentiality - concerns protection of sensitive information from unauthorized disclosure.

  - Integrity - relates to the accuracy and completeness of information as well as to its validity in accordance with the business' set of values and expectations.

  - Availability - relates to information being available when required by the business process, and hence also concerns the safeguarding of resources.

  - Compliance - deals with complying with those laws, regulations and contractual arrangements to which the business process is subject; i.e. externally imposed business criteria. This essentially means that systems need to operate within the ambit of rules, regulations and/or conditions of the organisation. For example, an FIR to be filed normally requires signature of the complainant as per rules, and needs to be reengineered by changing the rules to permit web based complaints. Similarly, banking operations will have to conform to the banking regulations and legislation. It is also the duty of the IT Auditor to see that the work practices are in tune with the laws of the land such as the IT Act promulgated by the Government of India.

- Reliability of information - relates to systems providing management with appropriate information for it to use in operating the entity, in providing financial reporting to users of the financial information, and in providing information for reporting to the regulatory bodies regarding compliance with laws and regulations.

Thus, IT Audit is all about examining whether the IT processes and IT Resources combine together to fulfill the intended objectives of the organization to ensure Effectiveness, Efficiency and Economy in its operations while complying with the extant rules.

Mandate for IT Audit

14.04 The mandate of SAI India for IT audit is derived from the Constitution of India and established under the Comptroller and Auditor General's (Duties, Powers and Conditions of Service), Act 1971. The mandate of CAG of India for Systems Audit is governed under Sections 13, 14, 16, 17, 18, 19 and 20, as the case may be, read with Section 23 of this Act.

14.05 For detailed IT audit checks / instructions, while auditing in a computerized environment, **Manual of Information Technology Audit** of the Department may be referred to.

Chapter 15

Other Matters

Organisation of audit of autonomous bodies in IA & AD

Central Autonomous Bodies

15.01: The Director General of Audit, Central Revenues, Director General of Audit, Posts & Telegraph, Principal Directors of Audit, Economic & Service Ministries, Scientific Departments and Railways, conduct the audit of Central autonomous bodies located in Delhi. The audit of such bodies located outside Delhi, are usually conducted by Audit Offices located in the respective State/Union Territory. The audit of central regulatory bodies is conducted by the Principal Auditor dealing with relevant Ministry.

State Autonomous Bodies

15.02: Audit of State Autonomous Bodies is conducted by the respective Accountant General / Pr. Accountant General.

Audit of Autonomous Bodies having Branch Units

15.03: The branch offices of ABs are audited either by the Principal Audit Officer or by respective Audit offices located in the State/Union Territory. The Principal Audit Officer is responsible for expressing an opinion on the consolidated accounts of the autonomous body. Hence, he should chalk out the detailed programme for audit of the headquarters and branch units to ensure that the prescribed dates are complied with. For this purpose, the Principal Audit Officer should invariably keep in view the following points :

- To maintain a Programme Book indicating name of the autonomous body, its branch units with locations, name of sub-audit offices, date of completion of audit and receipt of inspection reports from sub-audit offices and other details considered necessary by the Principal Audit Officer to exercise adequate control;
- To prescribe periodicity for audit of each branch unit;
- Issue of detailed instructions to sub-audit offices;

- To prescribe a time-limit for completing the audit and furnishing of report.

Sequential Financial/Compliance Audit

15.04: The methodology for carrying financial audit is distinct from compliance and performance audit. The question of timing of these audit is left to the field offices. Simultaneous conduct of different kinds of audit will not be conducive to establishing and putting into effect the distinct methodologies of audit. Hence, financial/compliance/performance audits may be conducted sequentially.

Permanent files

15.05: In respect of every autonomous body the audit office should maintain a complete set of the following records:

- A copy of the enactment applicable to the autonomous body, if any.
- Copy of the constitution of the autonomous body, consisting of its Memorandum of Association, Articles of Association, Rules and Regulations, and such other basic orders relating to the autonomous body.
- Copies of orders relating to delegation of powers issued by the top managing body and powers and duties of various committees.
- Annual Report from year to year.
- Audited accounts and reports thereon as placed before Management/ Parliament/State Legislature/ together with replies, if any, furnished to the reports.
- Reports of review by such other Committees relating to the functioning of the body.

Data sheets on autonomous bodies

15.06: In respect of every autonomous body under audit, it is necessary to maintain a data sheet of particulars as mentioned in Annexure 13 of the manual This data sheet must be updated periodically.

Database on autonomous bodies and NGOs

15.07: A complete database (Census) of the Central and State autonomous bodies and Non-Government Organisations (NGOs) funded by grants / loans from Central and State Governments should be compiled and updated annually.

The procedure for collection of data of autonomous bodies/ institutions receiving grants/ loans from the Government has been set out in Para 2.09 to 2.11 of this manual. Accordingly, the audit offices are required to maintain a database of all autonomous bodies receiving grants or loans from the Government of India and/ or the State Governments and update the same from time to time.

The very purpose of this elaborate procedure and the instructions is to ensure that complete details of grants / loans released from the Government of India / State Governments are available in the audit office and audit of no autonomous body is omitted due to lack of information. In order to ensure that the database of all the autonomous bodies/institutions receiving grants and loans from the government (irrespective of the amount of grants/loans and whether or not they are under our audit purview), complete in all respects is compiled, maintained and updated, the following procedure for collection and compilation of data is prescribed:

- The data in respect of all autonomous bodies (irrespective of grants/ loan received) complete in all respects should be collected and compiled in the format given in Appendix 15.1.
- Similar information about all NGOs receiving grants / loans of Rs. 5 lakh and above in a year should also be compiled separately (Appendix 15.2).
- The said information may be compiled electronically on MS EXCEL sheets (Appendix 15.1 & 15.2). Instructions for filling the worksheets are detailed in Appendix 15.3.
- Data may be compiled Department-wise in such a way that bodies and authorities are identifiable for audit under various sections of CAG's (DPC) Act viz. Section 14(1), 14(2), 19 and 20 of CAG's (DPC) Act.
- For the collection of data, a dedicated official should be identified who could be made responsible for collection of data complete in all respects. All the concerned ministries/departments as well as sanctioning authorities have to be covered. Information available in the Budget documents i.e. Detailed Demands for grants of Ministries / Departments should be utilized and efforts may also be made to collect the complete data of all the autonomous bodies / NGOs by taking up the matter with the respective Ministries / Departments.
- The identified officials can be deputed for the scrutiny of records of grants and loans kept by the sanctioning authorities. However, the information to be fed into the database should be authenticated from the office of the sanctioning authority. However, in case the State

Government is disclosing such information in any official document like the budget or the annual report of any department, data can be collected from that source.

- The database will be in addition to the records required to be maintained in the audit office as per the other provisions of this Manual, The database should be updated every year.

The data/records maintained in the audit office will be subject to inspection/verification by a team of officers from Headquarters.

Training of Personnel in Financial Audit

15.08 : To carry out financial audit of Autonomous Bodies, the field offices should identify competent personnel and impart special training to them in consultation with the Regional Training Institutes/Centres.

Annual Returns

15.09: The following annual returns in regard to audit of autonomous bodies are required to be sent by the field offices to Headquarters Office:-

(A) Annual Return on completion of audit of bodies / authorities under Section 14(1), 14(2), 15(1) and 15(2) of the Act, for the preceding financial year ending 31^{st} March – required to be submitted by 20^{th} April in the proforma as at Annexure 14.

(B) Annual Return on audit of Bodies and Authorities coming under Section 20(2) of the Act for the period ending 31^{st} December…. required to be submitted by 20^{th} January of the following year, in proforma as at Annexure 15.

(C) Annual Return on completion of audit of Non-commercial Autonomous Bodies / Authorities under Section 19 and 20 of the Act, for the period ending 31^{st} December…. required to be submitted by 20^{th} January of the following year, in proforma as at Annexure 16.

Audit Fees

15.10 : Where the C&AG of India is the sole auditor of a body / institution, auditing charges will be payable by the auditee institution in full unless specifically waived by Government. No audit fee is, however, recoverable for super-imposed audit.

No cost of audit for ECPA reviews of autonomous bodies be recovered even where cost of audit of accounts of these bodies is being recovered.

The audit fee should be calculated as per instructions detailed in Annexure 17 and the record of recovery of audit fee should be kept in the form SY 338 (Annexure 18).

15.11: Request for special audit

Following instructions should be kept in view for entertaining requests from Central / State Governments for special audit of autonomous bodies :

(a) Whenever request for special audit, investigation of frauds etc. are received from Central Ministries/Departments, they should be advised to approach the Principal Accounts Officer concerned first for arranging the investigation as part of internal audit. If in any case the Principal Accounts Officer requires the assistance of audit, only then the special audit' may be undertaken. However, in all cases, the Ministry should be advised to inform us the special reasons for such request and the special areas of concern which the Ministry would like the audit to focus on.

(b) When a special audit for special reasons is requested by the State Government such as in cases of suspected misappropriation etc., the A.G. should comply even though extra cost is involved. The A.G. should, however, discourage any attempt to make the Audit Department assume responsibility for inspections, which is primarily the duty of departmental heads. A.G., at his discretion, may not agree to take up the work unless the case presents special features and/or require expert scrutiny by the staff of IA&AD. Any request for special audit is to be examined on its merits in the light of preliminary investigations carried out by the departmental authorities. In case it is felt that preliminary or further investigation by departmental authorities is necessary before undertaking special audit, the matter should be referred to the State Government for getting the needful done.

15.12 Audit of accounts of provident fund of statutory corporations

In respect of provident funds / gratuity funds or similar other funds established by the statutory corporations where C&AG is the sole auditor in terms of CAG's (DPC) Act, 1971, and the funds are managed by trusts having separate legal status independent of the corporation, the audit can be conducted only if the same is entrusted to C&AG under Section 20 of the CAG's (DPC) Act, 1971 and in other cases the audit would be part of the statutory duty of audit of the corporation itself.

15.13 Tax audit of accounts of statutory corporations where CAG is the sole auditor – Operation of Section 44-AB of the Income Tax Act, 1961.

Statutory corporations for which C&AG is the sole auditor, should get their tax audit reports prepared by the Chartered Accountants. Statutory audit by C&AG and Tax Audit by Chartered Accountants are different and not linked.

Appendix-15.1

(Referred to in Para 15.07)

Details of grants/loans/expenditure in respect of autonomous bodies

Sl. No.	Ministry/ Department (Grant Sanctioning Authority)	Name of AB/ Institute	Place/ Location	Amount of total grant/Loan/Expenditure (Rs. In lakh)									Whether audit being conducted by CAG of India or not? If yes, under which Section of CAG's (DPC) Act.
				Year **			Year **			Year **			
				Grant	Loan	Expenditure (if available)	Grant	Loan	Expenditure (if available)	Grant	Loan	Expenditure (if available)	

Appendix-15.2

(Referred to in Para 15.07)

Details of grants/loans/expenditure in respect NGOs

Sl. No.	Ministry/ Depart-ment (Grant Sanction-ing Authority)	Name of NGO	Place/ Location	Amount of total grant/Loan/Expenditure (Rs. In lakh)									Whether audit being conducted by CAG of India or not? If yes, under which Section of CAG's (DPC) Act.
				Year **			Year **			Year **			
				Grant	Loan	Expenditure (if available)	Grant	Loan	Expenditure (if available)	Grant	Loan	Expenditure (if available)	

Appendix-15.3

(Referred to in Para 15.07)

Instructions for filling the worksheet for AB data.

1. Spreadsheet is given in Appendix VIII & IX.
2. The offices should use this spreadsheet only (rather than trying to create their own).
3. The offices could resize the columns etc. to accommodate the data but should not alter the heading rows.
4. Apart from entering the date no other setting of the worksheet should be changed.

After entering the data they should save it with a unique name i.e. ABDATA, Office Name.

Annexure 1

(Referred to in Para 4.07 and 5.11)

Standard Terms and Conditions for entrustment of audit to the C&AG under Section 19(3)/20(1) of CAG's (DPC) Act, 1971.

1) The C&AG of India may suggest the appointment of a primary auditor to conduct the audit on his behalf and on the basis of directions/guidelines issued by him. Where such an auditor is appointed, the fees will be payable by the Institution to that auditor, where such an auditor is not appointed expenditure incurred by C&AG of India in connection with the audit will be payable to him by the Institution.
2) In addition to audit to be conducted by the primary Auditor, where so appointed, C&AG of India will have the right to conduct test check of the accounts and to comment on and supplement the report of the Primary Auditor.
3) The C&AG of India or any person appointed by him in connection with the audit, shall have the same rights, privileges and authority as the C&AG has in connection with the audit of Govt. accounts.
4) The results of audit will be communicated by C&AG or any person appointed by him to the Governing body who shall submit a copy of the report along with its observation to the Govt. The C&AG will also forward a copy of the report direct to Govt.
5) The audit entrusted to the C&AG in public interest will be for a period of 5 years accounts form the year .. to ..in the first instance, subject to review of the arrangement after that period.
6) The scope, extent and manner of conducting audit shall be as decided by the C&AG.
7) The C&AG will have the right to report to Parliament/State Legislature, the results of audit at his discretion.

Annexure 2

(Referred to in Para 4.09 and 5.13)

FORMAT ADOPTED BY GOVERNMENT OF INDIA FOR COMMUNICATION OF ENTRUSTMENT OF AUDIT UNDER SECTION 20(1)

No.

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

To
The Comptroller & Auditor General of India,
New Delhi.

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

Sir,

I am directed to state that the President is pleased to request the Comptroller and Auditor General of India to undertake the audit of the accounts of ……………………………………………………………………………………………… in terms of Section 20 (i) of the C&AG's (DPC) Act, 1971.

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

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

4. The terms and conditions for conducting the audit of the accounts of the said Institution/body/authority shall be indicated in the annexure hereto.

Yours faithfully,

Annexure 3

(Referred to in Para 7.10)

List of Accounting Standards issued by ICAI

Sr. No.	Accounting Standard (AS) No.	Title of Accounting Standard
1.	AS 1	Disclosure of Accounting Policies
2.	AS 2	Valuation of Inventories
3.	AS 3	Cash Flow Statements
4.	AS 4	Contingencies and Events occurring after the Balance Sheet date
5.	AS 5	Net Profit or Loss for the period, prior period items and changes in Accounting Policies
6.	AS 6	Depreciation Accounting
7.	AS 7	Construction Contracts (revised 2002 is applicable in respect of construction Contracts entered on or after 1-04-2003).
8.	AS 8	Accounting for Research & Development.
9.	AS 9	Revenue Recognition
10.	AS 10	Accounting for Fixed Assets
11.	AS 11 Revised 2003)	The effects of changes in Foreign Exchange Rates. (Revised 2003 is applicable in respect of Foreign Currencies transactions entered on or after 1-4-04)
12	AS 12	Accounting for Government Grants
13.	AS 13	Accounting for Investments
14.	AS 14	Accounting for Amalgamations
15.	AS 15	Accounting for retirement benefits in the financial statements of employers.
16.	AS 16	Borrowing Costs
17.	AS 17	Segment Reporting
18.	AS 18	Related Party Disclosures
19.	AS 19	Leases
20.	AS 20	Earnings per share
21.	AS 21	Consolidated Financial Statements
22.	AS 22	Accounting for taxes on Income.
23.	AS 23	Accounting for Investments in associates in consolidated financial statements.
24.	AS 24	Discontinuing Operations
25.	AS 25	Interim Financial Reporting
26.	AS 26	Intangible Assets
27.	AS 27	Financial Reporting of Interests in Joint Venture
28.	AS 28	Impairment of Assets
29.	AS 29	Provisions, Contingent Liabilities and Contingent Assets

Annexure 4

(Referred to in Para 9.17)

Format of Separate Audit Report
(Autonomous Bodies other than Port Trusts)

Introduction

Following matters may be included in this paragraph.

i) Setting up of Autonomous Body

Reference to the Act, Rules, notification etc. under which the entity was set up, date of commencement of operations and main objectives of the entity, subsidiary rules under which the entity is functioning etc.

ii) **Audit mandate**

Relevant section of CAG's (DPC) Act under which audit is conducted and section of the particular Act governing the entity's audit function may be included.

iii) **Grants / Loans received during the year from Government and Government agencies.**

The grants / loans received from Government and / or from authorized Government agencies during the year may be stated in this paragraph.

2. COMMENTS ON ACCOUNTS

2.1 **Balance Sheet**

2.1.1: **Liabilities** : Misstatements, omissions and other deficiencies in accounting various liabilities – i.e. Corpus Fund, grants received, borrowings, current liabilities and provisions may be commented in short sub-paras.

2.1.2: **Assets** : Misstatements, omissions and other deficiencies in accounting various asset accounts – i.e. fixed assets, cash and bank accounts, other current assets, loans and advances, investments etc. may be commented in short sub-paras.

2.2. **Income & Expenditure Account**

2.2.1: **Expenditure :** Errors, omissions and other deficiencies noticed in accounting various heads under expenditure – i.e. purchases, manufacturing and trading expenses, salaries and wages, finance charges, depreciation etc. may be commented in short sub-paras.

2.2.2: **Income** : Misstatements, omissions and deficiencies noticed in accounting various revenue heads - i.e. sales, income from services rendered, other income, interest earned, etc. may be commented in short sub-paras.

2.2.3: **Excess of Income/Expenditure over expenditure/income**

Specific comments on overstatement / understatement of the above item may be included.

2.3. **Receipts & Payments Account**

2.3.1: **Receipts** : Errors, omissions and other deficiencies in accounting receipts may be commented against specific heads.

2.3.2 : **Payments :** Errors, omissions in various payment accounts may be commented. Errors and omissions and other deficiencies in opening and closing balances of cash and bank accounts may be commented.

3. **GENERAL**

All comments of general nature may be included in this paragraph. Brief comments about deficiencies noticed in adoption of accounting principles and policies, matters in notes to accounts, non-disclosure / inadequate disclosure of significant matters concerning accounts etc. may be included in this para.

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

4. **EFFECT OF AUDIT COMMENTS ON ACCOUNTS**

The net impact of the comments given in preceding paras is that the assets as on…………were understated/overstated by Rs. lakh, the liabilities understated/ over stated by Rs. lakh, and the Excess of Income over Expenditure/Expenditure over Income for the year was understated/overstated by Rs…………lakh.

5. **LACK OF RESPONSE**

If reply to draft SAR are not received within the stipulated period, the matter may be included in the para.

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

Place:
Dated:

Notes

1. Comments to be included should be concise and brief with a clear statement about impact of each comment on the accounts as a result of deficient procedure / wrong accounting practice followed. Comments should be pointed and indicate the resultant under / overstatement of head concerned and the impact on income / expenditure, Excess of Income over expenditure /excess of Expenditure over Income and on assets / liabilities.

2. Comments on accounts may be arranged suitably in order of the Form of Annual Accounts being certified under the heads in Balance Sheet (Liabilities, Assets), Income & Expenditure Account, Receipts & Payments Account as illustrated under comments on accounts.

3. It should be ensured that comments included in SARs are linkable with the respective account heads shown in the annual accounts/schedules. Comments framed should be specific and impact of comments on the accounts should be clearly indicated along with a key to working.

4. The audit certificate and the Separate Audit Report containing the comments on accounts are separate documents and signed separately by the Head of Department. As a result, significant audit comments may not attract necessary attention of the Executive / Parliament /Legislature. To overcome this shortcoming, significant audit comments must invariably be included in the body of the Audit Certificate.

Annexure 5

(Referred to in Para 9.17)

Format of Separate Audit Report (Port Trusts)

Audit Report on the accounts of the ______________________ Port Trust for the year __________________________

1. **Introduction**

The audit of the accounts of the ____________________ Port Trust has been conducted as per the provisions contained in Section 19(2) of Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 and Section 102 of Major Port Trusts Act, 1963.

2. **Financial Position**.

The financial position of the Port Trust under broad headings for the year ended 31st March …….as against the previous year is shown below :

(Rs. in lakh)

	Previous year	Current year
A. **Liabilities**		
1) Shareholders' funds		
(Applicable only for Corporatised Ports)		
2) Reserves and Surplus		
(a) Capital Reserves		
(b) Revenue Reserves		
© Statutory Reserves		
3) Loan Funds		
(a) Secured Loans		
(b) Government Loans		
(c) Loans from International Aid Agencies		
(d) Unsecured Loans		
4) Current Liabilities & Provisions		
5) Other Liabilities (Provident Fund/Pension Fund, etc.)		
Total :		
B. **Assets**		
1) (a) Fixed Assets (Gross Block)		
(b) Less: Cumulative Depreciation		
(c) Net Fixed Assets		

2) Capital Work-in-Progress
3) Investments
4) Current Assets, Loans and advances
5) Miscellaneous Expenditure
(to the extent not written off)
6. Accumulated Loss.
Total
C. WORKING CAPITAL*
D. NET WORTH**
E. CAPITAL EMPLOYED***
F. RETURN ON CAPITAL EMPLOYED****
G. CAPITAL EMPLOYED
(including work in progress)
H. RETURN ON CAPITAL EMPLOYED
(including work in progress)

* Working Capital represents Current assets, Loans and advances minus Current liabilities.
** Net Worth represents Paid up capital plus free reserves and surplus less intangible assets
***Capital employed represents net fixed assets plus working capital.
****Rate of return represents percentage of Net profit (before appropriations) to Capital Employed.

3. **Working Results**. The working results of the Port Trust for the year ended 31 March ______as compared to the previous year__are summarized below:

(Rs. in lakh)

		Previous year	Current year
(a)	Revenue		
	(i) Operating Income		
	(ii) Non-Operating Income		
	Total :		
(b)	Expenditure		
	(i) Operating Expenditure		
	(ii) Non-Operating Expenditure		
	Total :		
©	Net Profit before tax / loss (-)		
(d)	Less Provision for Taxation		
(e)	Profit after Tax / Loss (-)		

(f) Less : Mandatory Appropriation/transfer to Reserves, Funds etc.

(g) Profit / Loss (-) transferred to General Reserves Fund / Accumulated Loss

4 : **Ratio Analysis:**
Some important ratios on liquidity and solvency and on financial health of the Port Trust are shown below :

		Previous year	Current year
(a)	The percentage of current assets to current liabilities:		
(b)	Percentage of quick assets to current liabilities (Quick assets represent sundry debtors, interest due to port, cash and bank balances)		
©	Percentage of Sundry Debtors to operating income:		
(d)	Debt to Capital Reserves & General Reserve Ratio:		
(e)	Profit before Tax to (a) Net worth (b) Capital employed (c) Operating income		

5. **Comments on accounts**.
5.1 Balance Sheet
5.1.1 Liabilities

Errors, omissions and other deficiencies in accounting various heads of accounts under Liabilities may be commented in short sub-paras (e.g. understatement/overstatement of reserves due to incorrect appropriation, default in repayment of loans, errors in accounting loans outstanding, short provision of current liabilities /provision etc.)

5.1.2 Assets

Errors, omissions and other deficiencies in accounting various asset heads may be commented in short sub-paras. (e.g. fixed assets registers not maintained, physical verification of assets not done, discrepancies between subsidiary records and accounts, non-execution of lease / title deeds, cost of works completed not capitalized and depreciation not provided, understatement / overstatement of capital works – in progress, sundry debtors, inventories, etc., overstatement of amounts receivable due to non-provision for doubtful recovery, incorrect amortization of deferred revenue expenses, irregularities in Cash and bank accounts, non-reconciliation of bank balances etc.)

5.2 Profit and Loss Account

5.2.1 Income

Misstatements, omissions and other deficiencies in various heads under income may be commented (incorrect recognition of revenue and consequent under/over booking of – Cargo handling and storage charges, Port and dock charges, estate earnings etc.).

5.2.2. Expenditure

Errors, omissions and other deficiencies noticed against various heads of accounts (short/excess charging of expenses-Port and dock facilities, Cargo handling, Finance charges, Management and administration expenses, Short provision for retirement benefits etc.) may be commented in short sub-paras.

5.2.3: Net Profit/ Loss

Specific overstatement /understatement of Net profit/loss may be commented.

6. GENERAL

All comments of general nature be included in this paragraph. Brief comments about deficiencies noticed in Accounting principles and policies adopted, Notes to accounts, (inadequate/incorrect disclosures on matters relevant to accounts-i.e. depreciation rates adopted, write off against diminution in value of assets, disputed taxes, contingent claims for compensation etc. and its impact on the profit/loss may be included.

7. EFFECT OF AUDIT COMMENTS ON BALANCE SHEET AND PROFIT & LOSS ACCOUNT

The net impact of the comments given in the preceding paragraphs is that the Assets as on ______were understated/overstated by Rs.__________lakh, the Liabilities were understated/ overstated by Rs. _________lakh, and the Net Profit/ Loss for the year ended_________was understated/ overstated by Rs. ___________lakh.

8. LACK OF RESPONSE

If reply to the draft SAR is not received within the stipulated time the matter may be reported in the SAR.

Place: Director General of Audit/Principal Director of Audit
Date: Principal Accountant General/ Accountant General

NOTE.

1. Comments to be included should be concise and brief with a clear statement about the impact of each comment on the accounts as a result of deficient procedure/ wrong accounting practice followed. Comments should be pointed and indicate the resultant under / overstatement of head concerned and the impact on Income / Expenditure, Profit/Loss and on Assets/Liabilities.

2. Audit comments may be arranged suitably in the order of the form of Annual Accounts being certified under the heads in Balance Sheet (Liabilities and Assets) and Profit & Loss Account (Income and Expenditure) as illustrated under Comments on Accounts.

3. Significant audit comments should be included in the body of Audit Certificate.

Annexure 6

(Referred to in Para 9.20)

Format of
Audit Certificate

I have audited the attached Balance Sheet of …….. *(Please indicate the name of AB)* as at 31 March ……………..(year) and the Income and Expenditure Account, Profit and Loss Account/Receipts and Payments Account *(strike out which is not applicable)*for the year ended on that date *.* These financial statements include the accounts of ………. units/ branches *(strike out if not applicable).* Preparation of these financial statements is the responsibility of the AB's management. My responsibility is to express an opinion on these financial statements based on my audit.

I have conducted my audit in accordance with applicable rules and the auditing standards generally accepted in India. These standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. I believe that my audit provides a reasonable basis for my opinion.

Based on our audit, I report that:

1. I have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

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

(Significant comments)

- ………………….
- ………………….
- ………………….

3. In my opinion and to the best of my information and according to the explanations given to me:

(i) the accounts give the information required under the prescribed format of accounts;

(ii) the said Balance Sheet, Profit and Loss Account/ Income and Expenditure Account /Receipts and Payments Account *(strike out which is not applicable)* read together with the Accounting Policies and Notes thereon, and subject/due to the significant matters stated above and other matters mentioned in the Separate Audit Report annexed herewith, give/do not give *(Strike out which is not applicable)* a true and fair view.

a. In so far as it relates to the Balance Sheet of the state of affairs of the AB (Name of AB) as at 31 March……… *(year);* and

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

Director General of Audit/Principal Director of Audit / Principal Accountant General/Accountant General (Audit)

Place:
Date:

Annexure 7

(Referred to in Para 10.03)

LIST OF CENTRAL AUTONOMOUS BODIES WHOSE SARs ARE TO BE FINALISED BY RESPECTIVE FIELD AUDIT OFFICES

O/O DIRECTOR GENERAL OF AUDIT, CENTRAL REVENUES, NEW DELHI.

Sr. No.	Organisation
1.	National Bal Bhavan Society, New Delhi.
2.	National Institute of Adult Education. New Delhi.
3.	Central Council for Research in Yoga and Naturopathy, New Delhi.
4.	Indian Nursing Council, New Delhi.
5.	Dental Council of India, New Delhi.
6.	Medical Council of India, New Delhi.
7.	Central Council of Homoeopathy, New Delhi.
8.	Central Council of Indian Medicine, New Delhi.
9.	Indian Council of Philosophical Research, New Delhi.
10.	National Board of Examination, New Delhi.
11.	National Museum Institute, New Delhi.
12.	Rashtriya Ayurveda Vidyapeeth, New Delhi.
13.	National Culture Fund, New Delhi.
14.	Project of History of Indian Science, Philosophy and Culture, New Delhi

15. Pharmacy Council of India. New Delhi

16. National Legal Service Authority, New Delhi.

O/O PRINCIPAL ACCOUNTANT GENERAL (CIVIL AUDIT),
RAJASTHAN, JAIPUR

1. West Zone Cultural Centre, Udaipur

O/O PRINCIPAL ACCOUNTANT GENERAL (CIVIL AUDIT),
UTTAR PRADESH, ALLAHABAD

1. Allahabad Museum Society, Allahabad

2. Rampur Raza Library Board, Rampur

3. North-Central Zone Cultural Centre, Allahabad

O/O ACCOUNTANT GENERAL (AUDIT), UTTARANCHAL,
DEHRADUN.

1. Nehru Institute of Mountaineering, Uttarkashi

O/O PRINCIPAL DIRECTOR OF AUDIT,
CENTRAL, MUMBAI

1. National Institute of Naturopathy, Pune

2. South-Central Zone Cultural Centre, Nagpur

O/O PRINCIPAL ACCOUNTANT GENERAL (AUDIT),
BIHAR, PATNA

1. Khuda Bux Oriental Public Library, Patna

O/O ACCOUNTANT GENERAL (CIVIL AUDIT),GUJARAT, RAJKOT

1. National Council for Promotion of Sindhi Language, Vadodara

O/O ACCOUNTANT GENERAL (AUDIT), J&K SRINIGAR

1. Central Institute of Buddhist Studies, Leh

2. Jawahar Institute of Mountaineering and Winter Sports, Pehalgam

O/O PRINCIPAL DIRECTOR OF AUDIT, SCIENTIFIC DEPARTMENTS, NEW DELHI

1. Export Inspection Council, Calcutta

2. Export Inspection Agency, Mumbai

3. Export Inspection Agency, Madras

4. Export Inspection Agency, Cochin

5. Export Inspection Agency, Delhi

O/O PRINCIPAL ACCOUNTANT GENERAL (AUDIT), PUNJAB, CHANDIGARH

1. North-Zone Cultural Centre, Patiala

O/O PRINCIPAL DIRECTOR OF AUDIT, ECONOMIC& SERVICE MINISTRIES, NEW DELHI

1. Delhi Urban Art Commission, New Delhi.

2. Rajghat Samadhi Committee, New Delhi

3. Veterinary Council of India, New Delhi

O/O PRINCIPAL DIRECTOR OF AUDIT, CENTRAL
CALCUTTA

1. Himalayan Mountaineering Institute, Darjeeling

2. Dr. Shyama Pradsad Mukherjee National Institute of Orthopaedically Handicapped, Calcutta

3. Eastern – Zonal Cultural Centre, Calcutta

O/O PRINCIPAL ACCOUNTANT GENERAL (CIVIL AUDIT),
TAMILNADU & PONDICHERRY, CHENNAI

1. Auroville Foundation, Auroville

2. Kalakshetra Foundation

3. South Zone Cultural Centre, Thanjavur.

O/O PRINCIPAL ACCOUNTANT GENERAL (AUDIT) PUNJAB
CHANDIGARH

1. State Legal Service Authority, (UT) Chandigarh.

O/O PRINCIPAL ACCOUNTANT GENERAL (AUDIT) KERALA
THIRUVANANTHAPURAM,

1. Lakshadweep Building Development Board, Kavaratti.

Annexure 8

(Referred to in Para 10.03)

LIST OF STATE AUTONOMOUS BODIES WHOSE SARs ARE TO BE FINALISED BY RESPECTIVE FIELD AUDIT OFFICES

S.No. Organisation

O/O ACCOUNTANT GENERAL (AUDIT), H.P. SHIMLA.

1. H.P. State Veterinary Council

O/O PRINCIPAL ACCOUNTANT GENERAL (AUDIT) – I,MAHARASHTRA, MUMBAI.

1. Maharashtra State Commission for Women, Mumbai.

O/O PRINCIPAL DIRECTOR OF AUDIT, CENTRAL, MUMBAI.

1. Goa State Commission for Backward Classes.

O/ O ACCOUNTANT GENERAL (AUDIT), TRIPURA, AGARTALA.

1. Tripura Board of Secondary Education, Agartala

O/O ACCOUNTANT GENERAL (AUDIT), HARYANA, CHANDIGARH.

1. Haryana Labour Welfare Board, Chandigarh

O/O PRINCIPAL ACCOUTANT GENERAL (AUDIT), KERALA. THIRUVANANTHAPURAM.

1. Kerala State Commission for Backward Classes, Tiruvananthapuram.
2. Kerala State Human Rights Commission.

O/O PRINCIPAL ACCOUNTANT GENERAL (AUDIT), PUNJAB, CHANDIGARH.

1. Punjab Labour Welfare Board, Chandigarh.

O/O PR. ACCOUNTANT GENERAL (CIVIL AUDIT), TAMILNADU AND PONDICHERRY, CHENNAI.

1. Regional Institute of Correctional Administration, Vellore

O/ O PRINCIPAL ACCOUNTANT GENERAL (AUDIT), WEST BENGAL, KOLKATA

1. Commissioners for Rabindra Setu, Kolkata.
2. West Bengal Human Rights Commission
3. West Bengal Commission for Women

Annexure 9

(Referred to in Para 10.06)

PROFORMA SHOWING THE PROGRESS OF AUDIT

Name of the Autonomous Body :______________ Year of accounts : ________

1. Date of submission of the accounts to the Audit by the autonomous body.
2. Where applicable, reasons for returning the accounts for revision indicating why the accounts could not be certified with qualifications.
3. Date of submission of revised accounts to Audit where revision was considered essential.
4. Dates on which audit was taken up and completed.
5. Date of issue of draft SAR to Autonomous Body for replies/comments.
6. Date of receipt of replies/comments from Autonomous Body (if received).
7. Date of issue of draft SAR including replies/ comments of Autonomous Body along with an Aide-Memoir to CAG's office for approval.
8. (a) Date of CAG's office letter communicating approved SAR.

   (b) Date of receipt of letter and approval at 8(a).
9. Date of issue of final Audit Report to Govt. of India/State Govt./CAG's office.

   English version –

   Hindi version (if required) –

10. Reasons for delay, if any, at various stages.

11. Dates of presentation of the previous Audit Reports before Parliament/Legislature.

(where the Audit Reports for previous years have not been placed, years to which these pertain, may also be indicated.)

	Year	Date

Director General of Audit /
Pr. Accountant General /
Accountant General /
Pr. Director of Audit.

Annexure 10

(Referred to in Para 10.06)

CHECK LIST
(To be sent along with the draft/final SAR submitted to O/o CAG of India)

Item No.	Name of Item	Whether enclosed with draft SAR
1.	Proforma showing year, submission of accounts, dates of audit and status of presentation of previous audit reports before Parliament / legislature duly filled in all respects.	
2.	Copy of resolution / minutes of the authority approving the accounts / revised accounts.	
3.	Two copies of draft SAR with (a) Key-linking of figures with accounts (b) Statement showing key-working of the effect of audit comments on the accounts.	
4.	Aide-Memoir	
5.	Two copies of draft audit certificate.	
6.	One copy of authenticated annual accounts accepted in audit for certification.	
7.	A brief note on the evaluation of internal control (Circular letter No. 77-Rep(AB)/63-2004 dated 5.4.2004)	
8.	(a) Total No. of Units of the autonomous body (b) Number/Name/Location of units selected for audit, and (c) Name of units whose comments have been considered while finalizing comments in SAR	
9.	Statement regarding ranking of functions / activities as per circular letter No.101-Rep (AB)/79-2005 dated 20.4.2005 (in case of Central Autonomous Body only).	

Director/Sr.DAG

Annexure 11

(Referred to in Para 10.08)

Schedule for laying Annual Accounts and Audit Report with Action Taken Note thereon of Major Port Trusts in the Parliament

Sl. No.	Description	
1.	Date of submission of draft Annual Accounts to the Audit	10th June
2.	Date of release of draft Audit Reports	10th August
3.	Date of submission of reply by the Port Trusts to the draft Audit Report	20th August
4.	Date of release of English version of Audit Report by the Audit	30th September
5.	Date of submission of Tax Auditor's Report to the Port Trust	20th October
6.	Date of filing of Annual Tax Return by the Port to Income Tax Department	31st October
7.	Date of submission of printed copies of English and Hindi versions of the Report to the Ministry by the Port Trust	10th November
8.	Laying of Reports in Parliament by the Ministry	Winter Session

Director General of Audit /
Pr.Accountant General /
Accountant General /
Pr. Director of Audit.

Annexure 12

(Referred to in Para 10.09)

Quarterly Progress Report on SARs sent to Headquarters for approval / being finalised by A.Gs/PDAs without approval of Headquarters for being placed before Parliament/Legislature for the Quarter ending……………….

1. ACCOUNTS NOT RECEIVED BY FIELD AUDIT OFFICES

Sr.No.	Name of Autonomous Body	Year of Accounts	Action taken by AG/PDA

2. ACCOUNTS RECEIVED BY FIELD AUDIT OFFICES

Sr.No.	Name of Autonomous Body	Year of Accounts	Date of Receipt of Accounts from A.B.	Present Status

3. SARs FINALLY ISSUED TO GOVT OF INDIA / STATE GOVTS.

Sr. No	Name of Autonomous Body	Year of Accounts	Date of Submiss-ion of accounts by A.B.	Duration of Audit (Date of commen cement and completion of audit)	Date of Issue of draft SAR to Orga-nisation	Date of Receipt of reply from AB	Date of Issue of final SAR to G.O.I./ State Govt.	Date on which audited accounts were placed before Parliament State Legislature	Remarks (Reasons for delay)

Note:The Quarterly Progress Report is to be sent on separate sheets for Central and State autonomous bodies. This list should contain names of only those bodies whose audited annual accounts/SARs are to be placed before the Parliament/State Legislature.

Annexure 13

(Referred to in Para 15.06)

DATASHEET FOR AUTONOMOUS BODIES

1. Name of the organization
2. When constituted
3. Legal status
4. Ministry / department mainly concerned
5. Organisational set up
6. Area of operation (territorial jurisdiction) and details of Head Office, Branch office etc.
7. Audit Officer
8. When audit entrusted first to CAG.
9. Objectives and major activities
10. Sources of financing
11. Deails of grants or other assistance received during the last 5 years
12. Nature of assistance (Grants / Loans etc)
13. Last annual accounts compiled for.
14. a) Value of assets}
    b) Income/Deficit} As per last audited accounts.
15. Particulars of audit completion.

Date of receipt of annual accounts	Date of certification	Date of presentation to Parliament / Legislature

16. Important findings of audit:
    Nature **Year of audit report**

17. Persistent irregularities / deficiencies and the periodicity of persistence
    Nature **First pointed out in Audit Report**

18. Important paragraphs included in the Conventional Audit Report:
    Brief particulars **Reference to Audit Report**

19. When review was last done.

20. Important Recommendations of PAC:
    Brief Particulars **Reference to PAC Report**

Annexure 14

(Referred to in Para 15.09)

ANNUAL RETURN ON COMPLETION OF AUDIT OF BODIES/AUTHORITIES UNDER SECTION 14(1), 14(2), 15(1) AND 15(2) OF THE CAG'S ACT 1971 FOR THE PRECEDING FINANCIAL YEAR ENDING 31ST MARCH ....

A. AUDIT UNDER SECTION 14(1)

INSTITUTIONS WHICH RECEIVED GRANTS/LOANS FOR RS.25 LAKHS OR MORE AND ATTRACTED SECTION 14(1) OF THE CAG'S ACT 1971 DURING THE YEAR.

S. No.	Name of Institution/ NGO	Period of accounts to be audited	Period of accounts audited during the year	Arrears of audit, if any	Reasons for arrears	Action taken to clear arrears	Remarks

B. AUDIT UNDER SECTION 14(2)

INSTITUTIONS WHICH RECEIVED GRANTS/LOANS FOR RS. 1 CRORE AND MORE DURING THE YEAR BUT DID NOT ATTRACT SECTION 14(1)

S. No.	Name of Institution/ NGO	Authority for taking up audit		Period of A/cs to be audited	Period of A/cs audited during the year	Arrears of audit, If any	Reasons for arrears	Action taken to clear the arrears	Remarks
		Ref. of this Office	Ref. from Govt						

C. AUDIT UNDER SECTION 15(1)

(a) Stage-I (Scrutiny of records of sanctioning authorities)

S. No.	Name of sanctioning authority	Period of A/cs for which scrutiny is to be done	Period of A/cs for which scrutiny has been done during the year	Arrears of audit, if any	Reasons for arrears	Action taken to clear the arrears	Remarks

(b) Stage II (Scrutiny of accounts of Grantee Institutions)

S. No.	Name of Grantee Institutions for scrutiny of A/cs	Period of A/cs for which scrutiny is to be done during the year	Period of A/cs for which scrutiny has been done during the year	Arrears of audit, if any	Reasons for arrears	Action taken to clear the arrears	Remarks

D AUDITS UNDER SECTION 15(2)

S. No.	Name of Corporation	Authority for undertaking such scrutiny		Period of A/cs for which authorisation made	Period of A/cs for which audit done	Arrears of audit, If any	Reasons for arrears	Action taken to clear the arrears	Remarks
		Ref. of this Office	Ref. from Govt						

Annexure 15

(Referred to in Para 15.09)

ANNUAL RETURN ON AUDIT OF BODIES AND AUTHORITIES COMING UNDER SECTION 20(2) OF THE CAG'S ACT 1971 FOR THE PERIOD ENDING 31st December………

Name and Address of Institution to be audited under section 20(2) during the year	Authority to take up audit under Sec 20(2)		Period of entrustment of audit by Govt. under section 20(2)	Year upto which A/cs have so far been audited and certified and reports sent to Govt./ Organisation	Letter No. & date with which Reports issued	In the case of delay in certifying the A/cs and issue of SAR indicate the date of receipt of A/cs and date of completion of audit	Period of A/cs for which certification of A/cs and issue of SARs are in arrears	Reasons for arrears and action taken to clear the same	Extent to which normal expenditure audit is in arrears reasons and action taken to clear the arrears	Remarks if any
	Ref. of Head Qrs. office giving approval	Ref of Govt entrusting audit								
1	2		3	4	5	6	7	8	9	10

Annexure 16

(Referred to in Para 15.09)

Annual Return on completion of audit of accounts of Autonomous Bodies and Authorities entrusted to CAG under section 19(2)/19(3)/ 20(1) of the CAGs Act, 1971 for the period ending 31st December

S. No.	Name and Address of the body/insitution to be audited	Authority for taking up audit (Please indicate Section of Parliamentary enactment for Sec 19(2) cases and letter No.& date of Govt. request for Sec. 19(3) / 20(1) cases).	Period of entrustment of audit u/s 19(3)/ 20(1)	Year up to which A/cs have so far been certified & Audit Report sent to Govt/ organisation.	Letter No. & date with which audited a/cs/ separate Audit Report were issued.	In case of delay in the certification of a/cs and issue of SAR indicate the reasons for delay including (i) date of receipt of a/cs and (ii) date of completion of audit.	Period for which certification of accounts and issue of SAR is in arrears
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)

Reasons for the arrears	Action taken for clearance of arrears	Extent to which normal expenditure audit is in arrears and the reasons there of. Steps taken to clear the arrears may also be indicated.	Remarks, if any.
(9)	(10)	(11)	(12)

Annexure 17

(Referred to in Para 15.10)

Instructions for the calculation of daily rates of Audit fees in respect of audit conducted by peripatetic audit parties of Non-Govt. funds:

1. Audit fee for the recovery of cost of Audit of non-Govt. funds should be calculated in accordance with the instructions contained in Govt. of India order No. 3 below FR 9(31) (Muthuswamy's Compilation of F.R. & S.R., Pt. I Seventh Edition) reproduced below:

   Average Cost = Minimum + (Maximum-Minimum) ´ x (3/4 – x/60)
   Where x is the length of time scale minus 5 i.e. on the basis of Direct charges calculated.
   Minimum means – minimum of the scale.
   Maximum means – maximum of the scale.

The figure of average cost would however change when there is any revision of scale.

2. To the average cost determined in para 1 would be added the elements of D.A., A.D.A., H.R.A. etc. based on the average cost wherever admissible.

3. Indirect charges would be calculated at 125% of total of Average Cost & Allowances as determined in para 1 & 2 above.

4. For working out the daily rates, the cost as worked out by adding items at (2) & (3) above has to be multiplied by 12 and divided by the actual number of working days. The number of days for working out the daily rates of audit fees in a year should be equal to the actual number of working days but not less than 220 days in the cases where all the Saturdays are holidays. In the cases where only second Saturday of every month is closed day, the number of days for working out the daily rates should be either the actual number of working days but not less than 260 days in a year.

5. The daily rates so worked out should be rounded to the nearest five rupees for each post separately.

Annexure 18

(Referred to in Para 15.10)

REGISTER FOR WATCHING RECOVERY
OF COST OF AUDIT **(S.Y. 338)**

Sl. No.	Name of body or authority audited	Period of account	Authority for undertaking audit	Dates of audit	No. of days taken	Strength of party with details of leave etc. availed of by the party	Rate of audit fee per day	Authority for fixing audit fee
1	2	3	4	5	6	7	8	9

Cost of audit re-coverable	Amount of arrears	Total	No. & date of demand note	Amount recovered	No. & date of credit intimation	S.O.'s initials	Remarks
10	11	12	13	14	15	16	17

(Authority: - 12-O&M/75.I)

Annexure 19

Authority for Contents of the Manual
(where necessary)

	PART-I CHAPTER-1	REFERENCE
1.	Para 1.01	Para 1.1of Brochure on Duties and Powers of C&AG
		Para 1.02 of Manual of Autonomous Bodies
		Para 1.4 of Circular dated 29.04.1985 printed in Compendium (P-5).
2.	Para 1.02	Para 1.03 of Manual of Autonomous Bodies
3.	Para 1.03	Para 1.01 of Manual of Autonomous Bodies
4.	Para 1.04	Para 2.2 of Circular dated 29.04.1985 printed in Compendium (P-9).
5.	Para 1.05	Para 2.6.11 of MSO (Audit)
6.	Para 1.06	Para 1.05 of Manual of Autonomous Bodies
7.	Para 1.07	Para 1.05 of Manual of Autonomous Bodies
		Para 1.11, 1.13, 1.17 of Performance Auditing Guidelines.
8.	Para 1.08	Para 9.04 of Manual of Autonomous Bodies
9.	Para 1.10	Para 1.08 of Manual of Autonomous Bodies
	CHAPTER-2	
10.	Para 2.02	Para 2.04 of Manual of Autonomous Bodies.
		Para 1.2, 1.3 & 1.5 of Circular dated 29.4.1985 printed in Compendium (P-5).
11.	Para .2.03	Para 2.04.02 of Manual of Autonomous Bodies
		Para 3.02 of circular dated 29.4.1985 (Page 10-11 of Compendium).
12.	Para 2.04	Para 2.04.03 of Manual of Autonomous Bodies and Para 6.5 of Brochure
13.	Para 2.05	Para 2.04.04, 2.04.05 of Manual of Autonomous Bodies and Para 6.6 of Brochure

14.	Para 2.06	Para 2.04.06 of Manual of Autonomous Bodies and Para 6.7 of Brochure
15.	Para 2.07	Para 2.04.08 of Manual of Autonomous Bodies
16.	Para 2.08	CAG's Circular letter No. 1296-Au.II/143-85 dated 6.9.1985 (Page 21 of Compendium).
17.	Para 2.09	Para 3.01.01 of Manual of Autonomous Bodies
18.	Para 2.10	Para 3.01.02 of Manual of Autonomous Bodies
19.	Para 2.11	Para 3.01.03 of Manual of Autonomous Bodies
20	Para 2.12	Para 3.01.04 of Manual of Autonomous Bodies
21.	Para 2.13	Para 3.01.06 of Manual of Autonomous Bodies
22.	Para 2.14	Para 2 of Circular letter No. 824-Au.II/90-86 KW dated 17.6.1987 printed in Compendium (P-35) & Para 1.15 of Circular dated 29.4.1985 printed in Compendium (P-7).
23.	Para 2.15	Para 3.01.05 of Manual of Autonomous Bodies
	CHAPTER-3	
24.	Para 3.01	Para 3.4 of Circular letter dated 29.4.1985 printed in Compendium (P-11).
25.	Para 3.02	Para 2.5.01 of Manual of Autonomous Bodies
26.	Para 3.03	Para 2.5.02 of Manual of Autonomous Bodies
27.	Para 3.04	Para 8.03 of Manual of Autonomous Bodies
28.	Para 3.05	Para 2.05.03 of Manual of Autonomous Bodies
29.	Para 3.06	Para 8.02 of Manual of Autonomous Bodies
30.	Para 3.07	Para 8.05 of Manual of Autonomous Bodies
31.	Para 3.08	Para 2.05.04 of Manual of Autonomous Bodies
		Para 1.15 of Circular dated 29.4.1985 printed in Compendium (Page-7).
32.	Para 3.09	Para 3.02.01 of Manual of Autonomous Bodies
33.	Para 3.10	Para 3.02.03 of Manual of Autonomous Bodies
34.	Para 3.11	Para 3.02.04 of Manual of Autonomous Bodies

35.	Para 3.12	Para 8.08 of Manual of Autonomous Bodies
36.	Para 3.13	Para 8.11 of Manual of Autonomous Bodies
	CHAPTER-4	
37.	Para 4.02	Para 8 of Brochure, (Page 15) Para 2.06.03 and 3.03.02 of Manual of Autonomous Bodies
38.	Para 4.03	Para 9 of Brochure (Page 15), Para 2.6.2 of MSO (Audit)
39.	Para 4.04	Para 2.06.04.2 of Manual of Autonomous Bodies
40.	Para 4.05	Para 2.06.04.3 of Manual of Autonomous Bodies
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139.	Para 15.13	CAG's circular letter No.1329-Audit.II/70-89 dated 4.10.1989 (Compendium Page-76) and No.122-129-Rep (AB)/242-02 dated 25.4.2003

Books to be consulted by the Auditors

1. Manual of Standing Orders(Audit)-Second Edition-2002
2. Auditing Standards of CAG of India, 2nd Edition
3. Manual of Instructions for Audit of Autonomous Bodies (1983)
4. Compendium of Amendment/Instructions to the Manual of Instructions for Audit of Autonomous Bodies (1991)
5. Performance Auditing Guidelines issued by C & AG
6. Manual of Information Technology Audit of CAG
7. Accounting Standards/Auditing and Assurance Standards issued by the Institute of Chartered Accountants of India
8. INTOSAI Guidelines for Internal Control Standards for the Public Sector
9. Internal control Questionnaire issued by Institute of Chartered Accountants of India
10. 7th ASOSAI Research Project-Guidelines on Audit Quality Management System
11. ASOSAI Guidelines for dealing with fraud and corruption
12. Style Guide- 2nd Edition issued by CAG
13. General Financial Rules 2005.
14. Guidelines on Preformance Audit of Regulatory Bodies First Edition (2004) issued by CAG.
15. How to Read a Balance Sheet, An ILO Programmed Book published by Oxford & IBH Publishing Co. Pvt. Ltd., New Delhi

For Use of IA&AD only

Manual of Instructions for
Audit of Autonomous Bodies

(Volume I)

Second Edition

Office of the
Comptroller and Auditor General of India

July 2007

Part I

Legal Framework and Related Procedures

Part II

Financial Audit of Autonomous Bodies

Part III

Performance Audit, Compliance Audit, Audit Quality Management Framework and Other Matters

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PREFACE

Article 149 of the Constitution of India and Section 23 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, empower the Comptroller and Auditor General to make regulations for carrying into effect the provisions of the Act that relate to the scope and extent of audit. These regulations are under preparation. In the meanwhile instructions for audit of autonomous bodies have been consolidated and manualised from time to time.

The first Manual of Instructions for the Audit of Autonomous Bodies was published in 1983. It was supplemented by a Compendium issued in 1991. Thereafter, a series of instructions have been issued. This edition consolidates these instructions and incorporates best audit practices consistent with the principles underlying the Uniform Format of Accounts prescribed by the Government of India.

The present edition has been prepared in two volumes. Volume I includes the legal framework for the audit of autonomous bodies, principles of financial audit of autonomous bodies, quality control in audit process and other matters. Volume II contains the Uniform Format of Accounts, Common framework for Financial Reporting for Port Trusts.

Audit procedures and practices cannot remain static and hence it is necessary to keep the contents of this manual under periodic review so that improvements can be made from time to time. Suggestions for improvement are welcome and will receive careful consideration.

New Delhi
Dated 5th July 2007

(VIJAYENDRA N. KAUL)
Comptroller & Auditor General of India

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Comptroller and Auditor General of India
10, Bahadur Shah Zafar Marg, New Delhi-110 124
Tel : 011-23231440 Fax : 011-23234014
Website :http://www.cag.gov.in