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**MANUAL OF THE OUTSIDE AUDIT DEPARTMENT
(GENERAL SECTOR)**

**MANUAL OF INSTRUCTIONS FOR AUDIT OF AUTONOMOUS BODIES
& COMPANIES**

(Seventh Edition, 2015)

ISSUED BY:

**THE PRINCIPAL ACCOUNTANT GENERAL (G&SSA), KARNATAKA,
BANGALORE- 560001.**

PREFACE TO THE SEVENTH EDITION

This is the seventh edition of the Manual of Instructions for Audit of Autonomous Bodies coming under this office. Since the issue of the Manual of Instructions for Audit of Autonomous Bodies (VI Edition) during 1993; several instructions were received from the office of the Comptroller and Auditor general of India.

Restructuring of the audit offices necessitated the revision of the provisions contained in the VI Edition. A compendium of Manual of Instruction for Audit of Autonomous Bodies has been issued by the office of CAG during the year 2010. Efforts have been made to include all these amendments/circulars/instructions of the CAG in this edition. The instructions in this Manual supplement the manuals issued by the CAG.

The Edition includes chapters dealing with the audit of the individual institutions modified/updated with reference to the instructions and decisions applicable to them. Besides, new chapters have also been added in respect of 26 Companies being subjected to audit by this office after restructuring. All the Chapters of VI the Edition of the Central Autonomous Bodies and Autonomous Bodies coming under the Principal Director of Audit (Central), Karnataka & Principal Accountant General (E&RSA) Karnataka respectively are deleted owing to transferring the institutions to the respective jurisdictions.

Apart from incorporating guidelines for certifying the accounts of the Autonomous Bodies and Companies, this manual contains audit practices consistent with auditing standards of SAI and INTOSAI. Suggestions for the improvement of the Manual are welcome.

Principal Accountant General (G&SSA)
Karnataka, Bangalore

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CHAPTER – I

Constitution, Strength and Functions of General and Social Sector Audit.

1.1 INTRODUCTION

The instructions in the Manual are applicable to the audit of Autonomous Bodies and Companies coming under the office of the Principal Accountant General (G&SSA) Karnataka, Bangalore for undertaking audits under Sections 14, 15, 19(2), 19(3) and 20 of the Comptroller and Auditor General's (Duties, powers and conditions of Service) Act, 1971.

1.02 Constitution and Functions of General Sector Audit

A. Constitution:

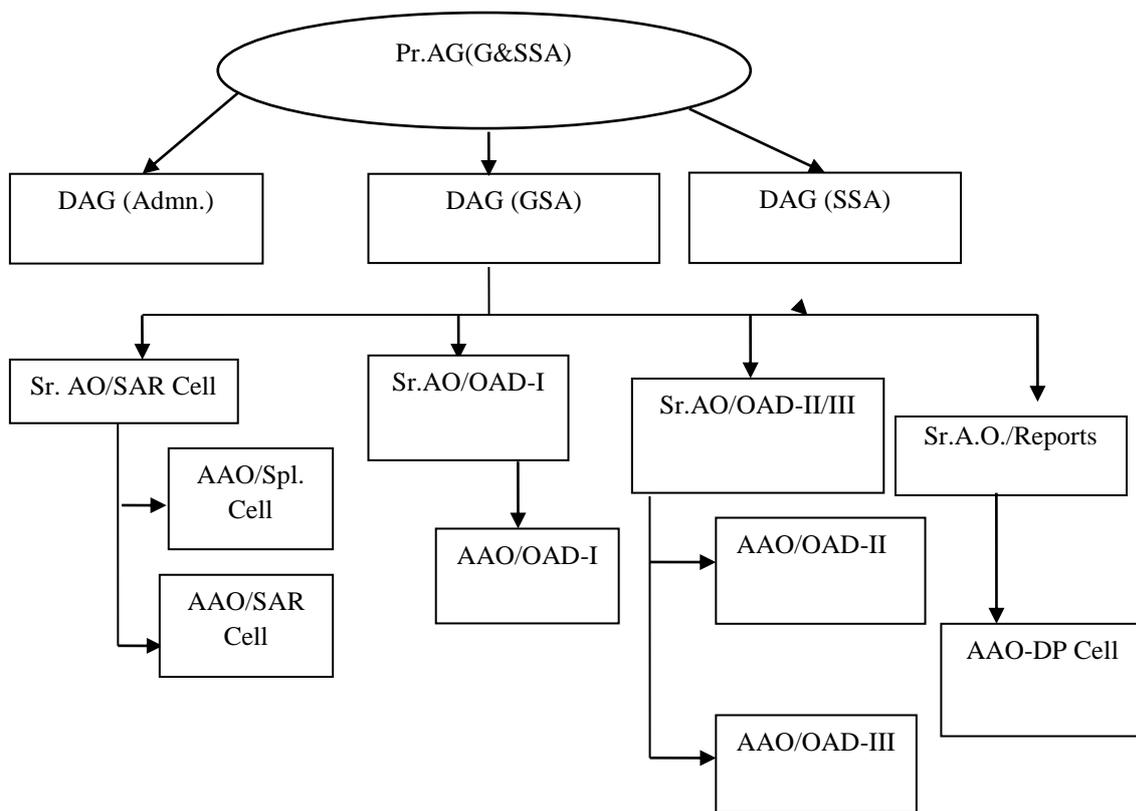
The office of the Comptroller and Auditor General of India has restructured the office of State Audit Offices on Sectoral basis. General Sector conducts the audit of accounts of State Departments/Agencies/PSUs/Autonomous Bodies grouped for the Sector in the office of the Principal Accountant General (G&SSA).

This manual is applicable to the audit of Autonomous Bodies and Government Companies under Sections 14, 15, 19(2), 19(3) and 20 of the CAG's (DPC) Act, 1971.

(Ref: CAG letter No.51-WR/ Restru/12-2012/Kar dated 12.04.2012)

B. Functions of Headquarter Sections (OAD –I/SAR Cell/Special Cell/Reports Section) of General Sector:

The chart below shows the organisational structure of the General Sector Audit of the Office of the Pr. Accountant General (General and Social Sector Audit), Karnataka, Bangalore.



The details of work of the three HQs Section of the General Sector Audit are as follows:-

OAD-I

The following are the main functions of OAD-I:-

1. Preparation of Audit Plan for the General Sector.
2. Preparation of local Audit/Review programmes of Audit Parties and for Supervising Officers.
3. All general correspondence with CAG, Government of India/State with regard to Sections 14, 15,19(2) and (3) and 20 of CAG's Act.
4. Sending general Circulars, orders etc to field parties.
5. Maintenance of Tour Diary and Leave Account of field parties.
6. Maintenance of Section Library with up to date statutes and Audit Reports from other Audit Offices.
7. Review of Budget documents & identification of schemes for audit u/s 14/15.
8. Half Yearly report of Inspection Reports.
9. Any works of general nature including Review of Gazette.

OAD-II & III

The following are the main functions of OAD-II & III:-

These Sections deal with transaction audit and follow up of Inspection Reports, Review Reports, correspondence and allied matters relating to all the Government Companies under with regard to Sections 15, 19(2) & (3) and 20 of CAG's DPC Act. In respect of these companies sections are keeping records, Inspection Reports, Board Meetings' Minutes, Correspondence files etc.

Special Cell (HQ)

This section deals with transaction audit and follow up of Inspection Reports, correspondence and allied matters relating to all the Autonomous Bodies and Government Companies falling under Housing and UDD with regard to Sections 14, 15, 19(2) and (3) and 20 of CAG's DPC Act and other records as detailed in pre-para in to these intimation.

SAR CELL (HQ)

The section deals with Certification Audit, issue of Separate Audit Reports relating to all the Autonomous Bodies and Government Companies with regard to Sections 19(2) and (3) and 20 of CAG's DPC Act .It Prepares consolidated master copy of all important orders of Government of India and Instructions from CAG of India in regard to Certification audit of Autonomous Bodies (SAR) Calling for accounts from bodies/authorities is with SAR Cell.

DP Cell

After vetting the Inspection Reports, the vetting sections send Important Observations Potential Draft Paragraphs likely to be printed in the CAG's Audit Reports for further processing in the DP Cell.

Reports Section

Important observations processed in the DP Cell as Drafts Paragraphs are further processed, printed and sent to the Headquarters (CAG's office) for possible inclusion in the CAG's Audit Report.

1.03 General Instructions to Audit Parties

Duties of AAOs

Audit Party consists of One AAO and one or two Sr. Auditors/Auditors. The AAO will be in charge of the party. The audit should be conducted in accordance with the instructions of the Manual of Instruction.

The duties and responsibilities as specified in the Manual of Standing Orders (Audit) are to be performed and discharged by the members of the party. In addition the AAO as in charge of the party should see that:

1. The allocation of work among the members of the party has been carried out in such a way as to complete the work within the time allowed as for the approved programme. If for any extraneous reasons, the work could not be completed within the time allowed, the AAO should seek for extension of time with justification to enable Special Cell (HQ) to obtain the sanction of the Group officer.
2. Specified items of work should be carried out by members of the party if asked for by the Sr. Deputy Accountant General (GSA) and the fact indicated in the Title Sheet.
3. The points marked for local verification should be verified by the AAO and put up to the Inspecting Officer (Sr. A.O./A.O.).
4. Files containing instructions for the conduct of audit of Autonomous Bodies are kept up to date for reference in the course of audit.
5. T.A.N are to be drafted and issued to the head of the institution/office after approval by the Sr. A.O/A.O.
6. The work diaries are written up daily and work diaries of all personnel of the party are put up to the Sr. A.O & diaries are promptly despatched to section at the end of the week so as to reach HQs Section on the first working day of the following week.
7. An account of the postage stamps is kept as per rules. When supervised by a Sr. A.O/A.O. all the responsibilities mentioned above will devolve on the AAO under the supervision of Sr. A.O/A.O.
8. Absence of members of the party is to be reported to Special Cell/HQs section on the third day of absence itself to avoid delay in posting substitutes.
9. Any delay in receipt of records/possibility of non-receipt of records should be reported to HQ section.
10. A monthly absentee Statement in respect of the members of the party is to be sent to HQ section on the last working day of every month.

Duties of the Supervising Officer/ Sr. A.O. /A.O.

1. The Supervising Officer shall call on the Chief Executive of the Autonomous Body and have general discussion with him at the time of commencement of audit.
2. While supervising the work of the local audit party he should to ensure that prescribed quantum of checks have been exercised by the party
3. If the sanctioning officer finds that any of the irregularities noticed during the course of audit could be considered for processing into Draft paras for incorporation in Audit report, he should see that a Para is drafted separately, arrange for collection of copies of all relevant key documents, and response of the institution obtained.
4. The TAN prepared by AAO should be approved by him before it is issued to the head of office locally.
5. The items of work checked by him personally should be recorded in the Title Sheet to the IR.
6. The Supervising / Inspecting officer should write the report and should not delegate it to the AAO.
7. He should discuss the draft Inspection report with the Chief Executive/head of the office of the Autonomous Body or departmental officer as the case may be, and obtain his signature in token of verification of the facts and figures and having discussed the draft IR.
8. All Audit officers on tour should report to the Sr.DAG (GSA) once in every month about their contribution to Audit Report and general assessment of work done by the audit parties supervised by them during the period covered by the report. A copy of the report sent to the Sr.DAG (GSA) may be endorsed to the PRL.AG (G&SSA).

1.04 Instruction to be followed by field parties in general

1. On the first day of audit the party members should have an “Entry meeting” with the Head of Office and inform the audit plan and records and documents required and request the head of office and other officers and staff to be available in the office throughout the period of audit. Minutes of the entry

meeting should be documented and should form part of the Inspection Report papers

2. On concluding audit, an “Exit meeting” should be conducted. The Draft Inspection Report/deficiencies noted in respect of units audited should be discussed in such meetings. If the Head of Office is not available, the meetings should be conducted with the next higher Authority.
3. Tour diaries should be written up for each institution of audit done by him. After obtaining counter signature of the Group officer diaries should be forwarded positively on the last working day of every month.
4. Where party members on camp stay at places 8 k.ms away from the place of duty, individual requests with justification should be sent to headquarters section for obtaining permission of the Group Officer for such stay.
5. Leave applications and handing over/taking over charge reports with full particulars of the work completed / pending completion and list of records handed over/received should be directly sent to OAD-I (HQ).
6. Except in unforeseen and emergent cases, leave should be got sanctioned in advance and in cases of emergencies there should be intimation to HQrs followed by a proper application. The details of leave should be marked in the Attendance Register by the senior most member of the party immediately on receipt of the application or intimation regarding absence.
7. In the course of audit, if a day is declared holiday the loss of party day should be made up in the same camp if three or more days are left for the course of audit. No extension will be allowed in such cases. If less than three days are left, the audit can be extended, however it should be adjusted in the next camp.
8. The draft reports on local audit should be sent to the HQs so that it may be received in HQs section within five days of completion of audit.
9. The draft LAR should contain the following documents also.
 - (a) Title Sheets fully filled up in all respects.
 - (b) List of service books checked (with percentage of check exercised)
 - (c) List of records checked.
 - (d) In the case of Section 14 institution, questionnaire duly filled in

- (e) Dated Audit Enquiries, dated acknowledgement, replies with copies of Government orders, circulars, Letters, departmental instruction relevant to the audit enquiries.
 - (f) Potential Draft paras should be supported by relevant key documents.
10. Previous LARs received from HQs should be verified and paras that can be dropped should be indicated. Outstanding paras in the previous LARs should be incorporated in the current Inspection Report. If previous IRs has not been received for verification, the fact may be stated in the Title sheet.

CHAPTER – II

INTRODUCTION:

2.01 Coverage

The Provisions contained in this Manual are intended to assist in the conduct of audit of all bodies and authorities which 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 programmes and policies of Government essentially out of financial assistance from Government. Such bodies and authorities include, amongst others, Boards, Corporations, Universities, Colleges, other educational institutions, research organisations and Government Company coming under General Sector in line with the restructuring of the department etc. These provisions do not apply to Commercial Corporations like ESCOMs, Road Transport Corporations etc., except that in relation to watch over utilisation of Government assistance, the relevant provisions would need to be taken note of.

(Para 1.01 of the 6th edition of the Manual)

2.02 Basic Authority for audit of Autonomous Bodies

The functions of the Comptroller and Auditor General of India are derived from the provisions of Articles 149 to 151 of the Constitution of India. Article 149 provides that the Comptroller and Auditor General of India 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 the Parliament. The Parliament pursuant to the provisions of the said Articles of the Constitution of India has passed the Comptroller and Auditor Generals (Duties, Powers and Conditions of Service) Act, 1971, as amended in 1976, 1984 and 1987 Sections 14, 15, 19 and 20 of the Act empower the CAG of India to conduct audit of bodies/authorities and perform such other duties and exercise such powers in relation to them as prescribed under the Act.

(Para 1.01 of CAG's Manual 2010)

2.03. Several State enactments also provide for certain powers and duties to be performed by the Comptroller and Auditor General. Since Parliament alone can provide for his duties and powers, those provided in the State Acts are valid so

long as they are not inconsistent with Parliamentary enactments and the requirement for entrustment of such duties and powers under the provisions of the CAGs (DPC) Act, 1971 are duly complied with.

Meaning of ‘Body’ or ‘Authority’

- i. The word “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.

- Eg: - a. Vice Chancellor of a University (person exercising power)
 b. Corporation (A body exercising power)

- ii. The term “Body” has been interpreted to mean an aggregate of persons whether incorporated or unincorporated.

- Companies registered under Indian Companies Act.
- Institutions or organisations set up as autonomous organisations under specific statutes
- 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.

Example of aggregate of persons unincorporated

Committee formed for celebration of festivals in temples and churches.

(Para 1.02 of CAG’s Manual 2010)

2.04 Applicability of various Sections of the CAG’s Act

The duties and powers of the CAG with reference to the audit of Autonomous Bodies flow from the statute. However, it is also desirable to persuade the Government to include in the conditions of grants, loans or investments an enabling clause to the effect that the books and accounts of the recipient institutions shall be made available to the CAG for his scrutiny or audit wherever and whenever, necessary. It is clarified in this connection that provisions of Sections 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.

(Para 1.04 of CAG's Manual 2010)

2.05 Audit Objective and Scope

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 Section 14, 19 and 20 of the Act are three fold. The first is to check that the transactions comply with 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). In practice, however, certification of annual accounts is undertaken only under the provisions of Sections 19 and 20.

(Para 1.05 of CAG's Manual 2010 and Para 2.6.11 of MSO (Audit))

2.06 Audit in Public Interest

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”.

(Para 1.06 of CAG's Manual 2010)

2.07 Performance Audit

It is inherent in the powers vested with 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 meanings 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 outputs, 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.

(Para 1.07 of CAG's Manual 2010)

2.08 Code of Conduct

It is not permissible to Audit to make independent enquiries of the tax payer or the general public, unless such a course is expressly authorised by statutory provisions or executive orders.

(Ref: Para 1.06 of the 6th edition of the Manual)

2.09 Repeal and Saving

The instructions in this manual are as per the instruction of Manual of Instruction for Audit of Autonomous Bodies (second edition, 2002) issued by the office of the Comptroller and Auditor General of India, and supplemental to instruction 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, would need clarification from the office of CAG. In cases of doubt reference may be made to the office of the Comptroller and Auditor General of India.

(Para 1.10 of CAG's Manual 2010)

CHAPTER III

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

3.01 Legal Provisions

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. The provisions of Section 14 of DPC Act is reproduced below.

Section 14(1):

Section 14(1) provides for audit by the Comptroller and Auditor General, of the accounts of Autonomous Bodies which are considered to be substantially financed from the Consolidated Fund in any year, in terms of the explanations given to that sub-section. According to the explanation, an Autonomous Body which is in receipt of a grant or loan from the Consolidated Fund of India or of any States or of any Union Territories of not less than Rupees Twenty-five lakh , such grant or loan being not less than Seventy-five percent of the total expenditure in a year, is considered as substantially financed.

Where anybody 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 CAG shall, subject to the provisions of any law for the time being applicable to the body or authority as the case may be, audit all receipts and expenditure of that body or authority and report on the receipts and expenditure audited by him.

Explanation – Where the amount of such grant or loan in a financial year is not less than rupees twenty five lakh and not less than seventy five *per cent* of the total expenditure of that body or authority, such body or authority shall be deemed, for the purpose of this subsection, to be substantially financed by such grants or loans as the case may be.

Section 14(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 State etc. audit all receipts and expenditure of any body or Authority of the amounts of such grants and/ or loans from the consolidated fund etc. in a financial year is not less than rupees one crore.

Section 14(3): Where the receipts and expenditure of any body or Authority are, by virtue of the fulfilment of the conditions specified in sub section (1) or sub Section (2), audited by the CAG 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 Subsection (1) or Sub Section (2) are not fulfilled during any of the two subsequent years.

(Para 2.01 of CAG's Manual 2010)

3.02 Essential Ingredients

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.
- (ii) The terms 'body' and 'Authority' used in the Act 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 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.
- (iv) The Autonomous Body must be "substantially financed" by grant or loan in accordance with the explanation given in the Section.
- (i) An institution which receives grant or loan of rupees one crore and above and such grant or loan forms more than seventy five *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)
- (ii) Under Section 20(2), CAG can propose to President/Governor/Administrator to undertake the audit of accounts of any body or Authority not entrusted to CAG. This may, however, be done only if CAG is of the opinion.
 - (i) That such audit is necessary in public interest and
 - (ii) That there is substantial interest of Central or State or Union Territory Government in such body or Authority.
- (vi) Audit will be 'subject to the provisions of any law for the time being in force' applicable to the Autonomous Body or Authority concerned.

(Para 2.02 of CAG's Manual 2010) & (Para 5.04 of CAG's Manual 2010)

Explanatory Notes

3.03 Grants/Loans from Consolidated Fund Only

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

(Para 2.03 of CAG's Manual 2010)

3.04 Assignment of Government Revenue

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 grant for the purpose of Section 14.

(Para 2.04 of CAG's Manual 2010)

3.05 Unspent grants/loans of previous years

If the aggregate of grant or loan in any financial year together with the carried over unutilized 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 under Section 14 (1) if the other condition i.e., the assistance not being less than 75 per cent of the total expenditure of that body/authority in that year is also fulfilled.

(Para 2.05 of CAG's Manual 2010)

3.06 Total Expenditure

The terms '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 (eg. 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 good, disbursement of loans, etc.

should also be treated as expenditure. However, payments, purely of deposit nature (eg. deposits for works done, income tax recoveries, advance to staff, Investment of cash between office and bank etc) should not be regarded as expenditure for the purpose of Section 14.

(Para 2.06 of CAG's Manual 2010)

3.07 Governing laws of the Autonomous Bodies

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.

(Para 2.07 of CAG's Manual 2010)

3.08 Audit of bodies/authorities working under an Apex body

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.

(Para 2.08 of CAG's Manual 2010)

3.09 Procedure for taking up Audit

Collection of data

The first step necessary before any audit is taken up under Section 14 is to identify every year the Autonomous Bodies that attract audit under Section 14. For this purpose, a list of Autonomous Bodies in receipt of grants and loans from

the consolidated fund has to be compiled. The sanctioning authorities, both in Central Government and State Government, endorse copies of sanctions of grant and loans to the audit office and suitable procedure for the receipt and scrutiny (and the Action necessary) should be evolved. It is necessary that a record be kept in respect 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 (eg. Register of Grants in GFR Form 39 maintained by sanctioning Authority) either by personal contact or by obtaining periodical returns. For this purpose, the following working schedule has to be drawn up where by data of grants and loans disbursed in every financial year to various Autonomous Bodies can be obtained /collected. Secretaries of various Government Departments and Heads of Departments are to be addressed during the month of April every year, to furnish before 30th of June, a list of Autonomous Bodies in receipt of grants and loans during the financial year. The data so collected must be posted in a register kept for that purpose and there from a list of institutions that are in receipt of grant or loan or both of not less than Rs 25 lakh should be prepared and the register should be submitted to the Branch Officer on the 15th of every month. In respect of all such bodies/institutions which received Rs 25 lakh and above, the sanctioning authorities of grants and loans should be addressed to make available the accounts of the respective bodies for the concerned year before 30th September.

(Para 2.09 of CAG's Manual 2010 and Rule 29 of GFR 2005)

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

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 audit-ability, 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

Financial Code (Ex: KFC). 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.

(Para 2.10 of CAG's Manual 2010)

3.11 Working arrangement

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 delay in determining the bodies that should be audited, a suitable working arrangement may be evolved in consultation with the Government/Departments and compliance thereof strictly watched. Further, for expediting the identification of bodies attracting audit under section 14, officials may be assigned to scrutinize the records of grants and loans kept by the sanctioning authorities to initiate timely Action. A system should be streamlined so that no Autonomous Body is left out inadvertently.

(Para 2.11 of CAG's Manual 2010)

3.12 List of Autonomous Bodies to be audited

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 is proposed to 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. The particulars regarding notification etc. should be recorded in the Gazette Notification Register which should be submitted to the branch Officer on 15th of every month. Similarly a Register of such Autonomous Bodies, the audit of accounts of which is to be undertaken, should be maintained. Programme for audit of the Autonomous Bodies under Section 14 should be chalked out, keeping in view of the periodicity and duration prescribed for audit of the institution.

(Para 2.12 of CAG's Manual 2010)

3.13 Compilation of State-wise list

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.

(Para 2.13 of CAG's Manual 2010)

3.14 Taking up audit under Section 14(2)/15(2)/20(2).

The decision for 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.

(Para 2.14 of CAG's Manual 2010 and Para 2 of Circular Lr. No. 824-AuII-86 KW dt. 17.6.1987)

3.15 Auditors appointed for audit of Autonomous Body

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 purpose by the Autonomous Body.

Where, however, no regular Auditors have been appointed and / or annual audit has been in arrears for a considerably long period, there is no objection for audit under Section 14 to be taken up first, but in such cases, audit should be conducted as to see that in case the CAG is required to certify the accounts also, the accounts can be duly certified.

(Para 2.15 of CAG's Manual 2010)

3.16. Conduct of Audit

3.16.01 The Autonomous Bodies or authorities that may come up for audit under Section 14 may fall broadly under the following categories:

- i. Commercial undertaking incorporated under Acts of Parliament or State legislatures;
- ii. Public utility undertaking incorporated under Acts of Parliament or State legislatures;
- iii. Promotional undertaking established in the same manner as (i) and (ii) above;
- iv. Bodies and authorities constituted for educational, cultural, scientific and social welfare development;
- v. Authorities and corporations constituted by Act of Legislatures for development of urban/rural areas including such bodies set up for decentralized local Government;
- vi. Consumer and producer co-operatives which receive substantial assistance from Government; and
- vii. Companies other than Government Companies as defined in the Companies Act, 2013.

(Ref: Para 2.03.01 of the 6th edition of the Manual)

3.16.02 The particular procedure and modalities to be adopted for audit are found to differ in respect of each of these organizations, but the main objective of audit by the Comptroller and Auditor General in all these cases will be to ascertain how the funds provided by Governments have been Actually used and to identify the factors that have led to less than efficient uses, so that the legislatures which have voted the funds might have an opportunity to know the position.

(Ref: Para 2.03.02 of the 6th edition of the Manual)

3.16.03 Financial and Operational Auditing:

The duties of audit in respect of these organizations can be broadly grouped under two categories, viz., (i) financial auditing and (ii) Operational auditing. Financial auditing is a critical review of the controls and financial records of an organization that leads to an opinion on the accuracy and fairness of the financial Statements and adequacy of the safeguards available against errors and losses. In respect of organizations for which the Comptroller and Auditor General Acts as the sole auditor, this function is essentially performed in his capacity as auditor of the organizations under Section 19 and 20 of the Audit Act, 1971. In respects of organizations, where the comptroller and Auditor General is not the sole auditor, but he is an auditor under section 14, the task of financial auditing is usually performed by the auditor appointed by the organization (e.g., chartered accountant) though the Comptroller and Auditor General may exercise a check of the efficiency of such auditing. The Procedure of financial auditing is indicated in the form of questionnaire in **Annexure I**.

(Ref: Para 2.03.03 of the 6th edition of the Manual)

3.16.04 Scope of Operational Auditing:

Operational management auditing is an extension of the financial audit going beyond what is generally considered as the accounting function; it deals primarily with non- financial aspects that sooner or later are quantitatively expressed in the financial records of the organization. In a sense, audit under section 14 should be construed as intended to go beyond the financial audit already conducted by other auditors and hence is akin to operational or management auditing. Audit under Section 14 is hence a second audit of the organization for an objective entirely different from the one for which the organization/Government has appointed auditors for the annual certification of accounts.

(Ref: Para 2.03.04 of the 6th edition of the Manual)

3.16.05 Review of programmes and their implementations:

The scope and extent of audit under section 14 naturally vary in accordance with the specific provisions pertaining to each organization. Functions of financial and operational auditing are combined where the Comptroller and Auditor General Act as a sole auditor. Where he is the second auditor, he Acts essentially as operational or management auditor, though it may be necessary for him to test check the work done by the first auditor. As auditor under Section 14, his function

is not merely to see that the accounts represent a true and fair picture of the transactions for the year but also to examine whether value for money spent has been realized and what, if any, specific lapses have occurred in this regard. To effectively appraise the same, it is necessary to examine the various policies, plans and programmes, to identify deficiencies in detailed planning and in execution and to bring to light various lacunae in procedures and methods as well as particular lapses on the part of institutions and individuals. Audit under Section 14 will include, as an integral part, a review and appraisal of the efficiency and effectiveness of the programme and their implementation procedures. It carries with it the need to discover and inform the legislature of the problems of implementation and consequential failures and shortcomings in the implementation of the programmes and policies.

(Ref: Para 2.03.05 of the 6th edition of the Manual)

3.16.06 Periodicity of Audit:

The result of audit under section 14, as already mentioned earlier, has to be reported to Parliament/ Legislature. But having regard to the scope of audit as stated in previous paragraphs, an analysis in depth cannot be conducted every year. Such an annual presentation is prima facie, not possible with due regard not only to the time and expenditure involved but also the limited space available in the conventional Audit Report. Further, an in-depth analysis of the type mentioned above has to be taken into consideration results over a period of year and cannot confine to one year alone. In such circumstances an annual presentation under Section 14 could mean a repetition of points without the objectives of audit being achieved. It is hence necessary that such audit is taken up once in period of 3-4 years for each organization, except in cases where the provisions of Section 14 become applicable only intermittently.

(Ref: Para 2.03.06 of the 6th edition of the Manual)

3.16.07 Points for scrutiny:

In the context of the above objectives and periodicity of audit under Section 14, it should be reviewed whether:

- i. Objectives of the organization had been already defined, are in conformity with the Government's policies and decisions and the objectives as Stated in the memorandum of association or other

- charter establishing the organization are within the knowledge of all concerned;
- ii. Policies and programmes are drawn up in accordance with the stated objectives and are being implemented by specific and well-defined procedures;
 - iii. Procedures are followed, as intended;
 - iv. System exists for collection reliable progress reports on implementation of policies and programmes;
 - v. Progress is, from time to time, reported to the governing body of the organization/ Government with adequate, timely and accurate reports; and
 - vi. An effective control exists over various areas of implementation to check leakage, loss, avoidable and wasteful expenditure, etc.
- (Ref: Para 2.03.07 of the 6th edition of the Manual)

3.16.08 Analysis of Activities:

For this purpose, audit must be familiar with the various aspects of the organizations and the Activities can be analyzed under suitable heading as indicated below:

- i. Organizational set up.
- ii. Management process.
- iii. Research and development.
- iv. Personnel policies and management.
- v. Materials management.
- vi. Finance, accounts and audit.
- vii. Works.

(Ref: Para 2.03.08 of the 6th edition of the Manual)

03.16.09 Questionnaire for Audit

With a view to conducting audit under Section 14, a questionnaire relevant to the organization covering the various aspects of audit under Section 14 has been compiled by the Comptroller and Auditor General to enable the party undertaking the work so that audit is systematic and efficiently performed and the same is given in **Annexure I**. Raising a good question is often the key to the questionnaire, however, precludes the auditor from bringing the full range of his

capabilities to bear on the performance of the audit assignment. The questionnaire is hence an important tool and only one of the tools in the hands of audit. The questionnaire is neither exhaustive nor relevant to each and every organization taken up for audit. It has to be amended both in wording and content with due regard to various factors governing the organization under audit. They are only intended to serve as a broad guidelines as to what is expected to be achieved by audit under Section 14. Based on replies obtained in writing or from the records of the organization, suitably drafted questions, the auditor has to apply his mind and intelligence for framing his conclusions.

(Ref: Para 2.03.09 of the 6th edition of the Manual)

3.16.10 Report on Results of Audit:

The findings of audit as a result of this examination in-depth should be communicated in the form of a report to the organization and Government concerned, their replies/ comments obtained and thereafter the final conclusions should be examined to see whether the results are such that they should be reported to Parliament/Legislature. Based on the conclusions so reached, draft paragraphs should be prepared and processed in accordance with the existing procedures therefore.

(Ref: Para 2.03.10 of the 6th edition of the Manual)

3.16.11 The results of audit under section 14 have to be incorporated in the Comptroller and Auditor General Report (General Sector) of the Union or the State Government, as the case may be, in the chapter relating to “Financial assistance to Bodies and Authorities”. The more important irregularities may be mentioned individually in addition to general comments about types of irregularities relating to a group of organizations, preferably of the same category.

(Ref: Para 2.03.11 of the 6th edition of the Manual)

3.16.12 The more common types of irregularities noticed in the audit under Section 14 of various types of institutions is detailed in **Annexure II** for guidance.

(Ref: Para 2.03.12 of the 6th edition of the Manual)

3.16.13 when two or more Governments render financial assistance to a body or Authority the audit comments should appear in the reports of all the Governments

that finance the body/authority. However, the Accountant General (G &SSA) may exercise his discretion to decide with due regard to the magnitude of the grant or loan given by the Governments concerned, object of such assistance, control exercised by the Governments, nature of objections raised in relation to the assistance given by various Governments etc. and decide as to which particular report or reports should contain the audit paragraphs or observations. Copies of all relevant material should be sent to the concerned Accountant General (G&SSA) for further processing in their State and Central Government, normally the material has to appear in the State Report. If, however, the material is considered worth mentioning also in the Central Report, there is no objection to the State Accountant General (Audit) finalizing the Para in consultation with the Governments and forwarding the same to the Director of Audit, Central Revenue or Commerce, Works and Miscellaneous, as the case may be, for inclusion in the Central (General Sector) Audit Report.

(Ref: Para 2.03.13 of the 6th edition of the Manual)

3.16.14 The audit of the accounts of Companies that attract section 14 and are under economic sector, has to be conducted by the Accountant General (E&RSA). If a Company attracts Section 14, the Accountant General (E&RSA) may be requested to take up the audit. The results of audit will however, be incorporated in the chapter relating to “Financial Assistance” given by Government in the Civil Audit Report.

Note: It is for the Pr. Accountant General (G&SSA) concerned to decide finally whether anything is to be included or not in the relevant Audit Report. In case of serious difference of opinion between the Accountant General (E&RSA) and the Accountant General (G&SSA) in this matter, the same should be reported to the Comptroller and Auditor General for orders.

(Ref: Para 2.03.14 of the 6th edition of the Manual)

3.16.15 Consequent on the amendment to section 14 with effect from 1983-84 accounts, the audit of institutions coming under section 14 is to be conducted on annual basis. In the circumstances the Annual Returns for Section 14(1) and 14(2) audits is to be furnished in the revised format given in **Annexure III** so as to reach headquarters by 20th April each year instead of by 31st October. The Return should show the position of audits conducted during the preceding financial year.

{(Authority-para 8(1)(2), Circular No.39-Audit II/1985, Letter No. 1748-Audit/18-85 dated 21.11.1985) (Ref: Para 2.01.15A of the 6th edition of the Manual)

3.16.16 Audit of institutions subject to audit by the examiner of Local Fund Accounts and the Registrar of Co-operative Societies should also be conducted on an annual basis. As regards the audit of transactions of the individual units thereof, it will be adequate if major units are covered once in three years. Ordinarily other units may not require detailed transactions AUDIT unless the need is felt by the Pr. Accountant General (G&SSA) in which the periodicity will have to be determined on the basis of the assessment of the need.

(AUTHORITY- Circular No-6-Audit/1986, Letter No.193-Audit II/143-85 dated 14.02.1986) (Ref: Para 2.01.16 of the 6th edition of the Manual)

3.16.17 As regards the applicability of section 14(1) or 14(3) in regard to institutions received grant or loans through another Autonomous Body which is itself financed by Government Eg: U.G.C., ICAR, C.S.I.R. etc., it is clarified that since the Fund of the body (UGC) is a statutory fund in terms of section 16 of the UGC Act 1956, the grants paid out of this fund by the UGC cannot be termed as grants paid out of the Consolidated Fund of India or State and hence the same should not be taken into account for the purpose of applying the provisions of section 14 of CAG's (DPC) Act 1971.

(AUTHORITY: Circular No.18 Audit II/87, letter No. 1262-Audit II/151-82 dated 3.9.1987) (Ref: Para 2.03.17 of the 6th edition of the Manual)

CHAPTER – IV

Audit under Section 15

4.01 Provisions of Section 15

This section deals with 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 fulfilment of the conditions subject to which such grant or loan is given.

(Para 3.01 of CAG's Manual 2010)

4.02 Explanation of Provisions for Audit under Section 15

Audit under Section 15 has two parts. The first part relates to the statutory responsibility of the CAG to scrutinize the procedures by which the sanctioning authorities satisfy themselves about the utilization of grants and loans given for specific purpose. The second part gives the CAG the right to access to the books and accounts of the Autonomous Body, subject to certain restrictions. 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 CAG 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 order under which the corporation established, provides for audit by someone other than the Comptroller and Auditor General.

(Para 3.02 of CAG's Manual 2010)

4.03 Scrutiny of procedure

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 Government for ensuring that the objective of giving the assistance is achieved, avoiding the risk of misuse or sub-optimal use.

(Para 3.06 of CAG's Manual 2010)

4.04 Scrutiny of accounts of the assisted body

The second part of the audit under Section 15(1) consists of scrutiny of the books and accounts of the assisted body receiving grants/loans. 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 of such audit should come up for comment in 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 the conditions governing the grant or loan have duly been observed.

(Para 3.07 of CAG's Manual 2010)

4.05 Access to records

In cases in which the law by or under which a corporation is established provides for audit by someone other than the Comptroller and Auditor General, access to its records can be there only if the Government concerned issues a specific authorization in public interest. Such authorization can, however, be given only (1) after prior consultation with the Comptroller and Auditor General and (11) after giving the concerned entity a reasonable opportunity of making representations with regard to such authorization. The initiative for making such request normally lies with the Government concerned.

(Para 3.08 of CAG's Manual 2010 and Para 1.15 of Circular dated 29.4.1985 Compendium –Page 7)

4.06 Procedure for collection of information regarding Grants/Loans.

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 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 working arrangement

adopted for collection of data for Section 14 should itself enable the audit office 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.

(Para 3.09 of CAG's Manual 2010)

4.07 List of sanctioning authorities to be audited

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 Authority.

(Para 3.10 of CAG's Manual 2010)

4.08 Intimation of audit programme

In so far as the scrutiny of books of 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 programmes to the institution to be locally audited with instructions to keep relevant documents ready for audit and to render necessary facilities.

(Para 3.11 of CAG's Manual 2010)

4.09 Conduct of audit:

4.09.01 Two stages of audit:

Audit under section 15 has two stages; (i) a statutory responsibility to scrutinize the procedure by which the authority sanctioning the grant or loan for specific purposes, satisfied itself as to the fulfilment of the prescribed conditions of the grant and loan and (ii) an enabling right to scrutinize the records of the grant receiving body, subject to certain specified limitations. As audit under the enabling right is rarely conducted, the audit under section 15 would, in the main, be restricted to scrutiny of the records of the sanctioning Authority.

(Ref: Para 3.03.01 of the 6th edition of the Manual)

4.09.02 Check of Systems and Procedure:

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 is, however, unavoidable to formulate opinion on the system as a whole. 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 mis-utilisation or sub-optimal use of scarce resources. The rules and regulations should cover aspects like verification of antecedents and the capability of the grant receiving authorities to implement the programme with efficiency and economy. It should also provide for adequate checks and balance, in the system to get timely feedback of 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 infractions.

(Ref: Para 3.03.02 of the 6th edition of the Manual)

4.09.03 Watch over receipt of returns:

Inherent in the system of scrutiny of the procedure is the need for examining the adequacy of prescribed returns and reports from the grant receiving authorities and the use to which they are put by the sanctioning authority in assessing the proper utilization of the assistance. In other words, auditors have to critically examine if the existing system of reporting to the sanctioning authority and the surveillance of the sanctioning authority over the grant receiving institutions are adequate to keep constant watch over proper utilization of assistance given.

(Ref: Para 3.03.03 of the 6th edition of the Manual)

4.09.04 Check of representative samples:

As already mentioned, in order to formulate any opinion on the efficiency of a system, scrutiny of individual cases would be essential through proper sampling; the samples should be representative. In the audit of the system an analytical approach is essential to locate the weaknesses or deficiencies in the system of controls.

(Ref: Para 3.03.04 of the 6th edition of the Manual)

4.09.05 Scrutiny of Books of Autonomous Bodies:

The second part of the audit consists of scrutiny of books of accounts of the Autonomous Body. As a matter of prudence, it would be preferable to defer examination of books of accounts of the Autonomous Body until they are audited and certified. The prevalence of deficiencies in arrangement for such audits should come up for comment in the audit report. During audit it has to be ensured

that the Autonomous Body has actually complied with the prescribed procedures for reporting utilization that the grant/loan has actually been utilized and that conditions governing the grant or loan have been duly observed.

(Ref: Para 3.03.05 of the 6th edition of the Manual)

4.09.06 Points requiring attention in Audit:

Some of the specific points to which attention can be given in audit under section 15 can be detailed as under, though the list is, by no means, to be considered exhaustive:

- i. Has the sanctioning authority prescribed clear-cut procedures for satisfying itself that the grants and loans are being utilized for the purpose for which they were given such procedure may provide for
 - (a) submission of periodic progress reports;
 - (b) submission of audited statements of accounts; and
 - (c) inspection of the grantee institutions.
- ii. Are all the conditions of the grants and loans in particular, the vital ones-being fulfilled.
- iii. Are progress reports received from the Autonomous Bodies and are they reviewed and appropriate Action taken?
- iv. If any irregularity was noticed during inspection or scrutiny of records, what action was taken thereon?
- v. Are the registers of grants and loans, as prescribed in financial rules, maintained, properly posted, and reviewed at appropriate levels and action taken?
- vi. Is a register of assets created out of Government grants maintained and is it ensured that the assets are put to intended use?
- vii. Are there cases of diversion of use of assets or their sales? If so, what action was taken?
- viii. Is the excess grant/loan worked out and recovered?
- ix. Is any legal or other coercive action taken against defaulting grantees and is there stoppage of payment or subsequent grants to defaulters?
- x. In regard to loans, what is the position of recovery and is the control over it adequate?
- xi. How is it ascertained that the general objective of a scheme is being fulfilled? Is there any system of obtaining performance/achievement reports and scrutiny thereof?
- xii. Are sanctions accorded by those competent to do so?

The right of access to the books and accounts of bodies or authorities under Section 15(1) will be limited to checking whether the grant or loan received from Government has been duly shown as receipt in the accounts of the body or authority, whether the grant or loan has been fully utilized for the purpose or objects for which they were sanctioned and the financial procedure, if any, prescribed in this behalf has been observed, whether unspent balance, if any,

has been refunded to Government and whether the conditions attached to the grant or loans have been fulfilled.

(Ref: Para 3.03.06 of the 6th edition of the Manual)

4.09.07 Performance Review

A review of the performance objective can be usefully made over a period of years; for instance, if a scheme of grants in aid of promotions of sports has operated for 10 years at the end of which there has been very little achievement, this can be commented, though it may not exclusively be related to procedures.

Further, there may be defects in the scheme or sanction itself which may be against an effective procedure to achieve the purposes for which the grants/loans are utilized. Such deficiencies should also come up for scrutiny and comment in an audit under section 15.

(Ref: Para 3.03.07 of the 6th edition of the Manual)

4.09.08 Co-ordination with Audit under sections 19 and 20;

In respect of certain Autonomous Bodies, the Comptroller and Auditor General also acts as an auditor under section 19 and 20 and it is not the case that the same audit officer is to perform audit under section 15 as well. In all such cases, it is not necessary for the audit officer under section 15 to conduct a scrutiny of the records of the Autonomous Body as well. At the same time, the audit officer under section 19 or 20 need not wait for communication from the audit officer of the sanctioning authority for performance of audit under section 15. In all such cases, points noticed in audit of the sanctioning authorities and of the Autonomous Bodies relating to grants and loans for specific purposes must be communicated by the respective audit offices to their counterparts. The results of audit so communicated must be properly co-ordinated by suitable feedback between the two audit offices so as to ensure that matter relating to audit under section 15 can suitably be processed by the audit officer of the sanctioning authority for mention in the conventional audit report.

(Ref: Para 3.03.08 of the 6th edition of the Manual)

4.09.09 Review of accounts when access to records is not available:

There are several Autonomous Bodies like municipalities, universities, co-operative societies, etc., for which access to their records is not available in view of the provisions in Section 15(2) of the Audit Act, 1971. Several such organizations are audited by the Controller, State Accounts Department, Government of Karnataka or the Director of Co-operative audit or Chartered Accountant. In all such cases, a system may be evolved in consultation with the Government, whereby the audit offices receive copies of their audited accounts and audit reports or in the alternative, are made available at certain specified offices. For instance, in the case of co-operative societies, it may not be possible

to obtain copies of all accounts and reports. In all such cases, a system should be established for a critical scrutiny of the audited accounts of the Autonomous Bodies and the audit reports, so as to cull out points which have relevance to the utilization of grants, loans, etc., and to watch follow-up action taken by the sanctioning authorities with reference to the reports, the results of such scrutiny under section 15 audit can be suitably processed by the audit officer of the sanctioning authority for mention in the conventional audit report.
(Ref: Para 3.03.09 of the 6th edition of the Manual)

4.09.10 Reporting results of Audit:

Unlike in Section 14, Section 15 does not specifically provide for reporting the results of audit of loans/grants for specific purpose in the Audit Report. Since expenditure out of the consolidated Fund is involved, reporting on results of audit under section 15 will fall automatically within the purview of the section 13 of the Audit Act, 1971. Important irregularities noticed in the scrutiny of procedures should, therefore, be commented in a report, replies obtained and paragraphs processed for the conventional audit report according to procedures prescribed therefore.

(Ref: Para 3.03.10 of the 6th edition of the Manual)

4.09.11 Pursuance of findings of Audit:

Audit under the Section being primarily 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 and or their superior officers and Government; the objections need not be conveyed or corresponded with the Autonomous Bodies directly. The facts, however, will have to be got confirmed by the Autonomous Body.

(Ref: Para 3.03.11 of the 6th edition of the Manual)

4.09.12

With a view to enable the Comptroller and Auditor General's office to assess the volume of work involved under Section 15 a return should be furnished in the format given at Statement at **Annexure IV** (Annexure 'B'- C &D) so as to reach headquarters office by 20th April each year. The return should show the position of Audit conducted during the preceding financial year.

(AUTHORITY: Circular No.39-Audit II/1985, Letter No. 1748- Audit II-18-85 dated 21.11.1985 and Para 3.03.11A of the 6th edition of the Manual)

4.09.13 The more common types of irregularities noticed so far in the audit under section 15 is detailed in **Annexure V** for guidance.

(Ref: Para 3.03.12 of the 6th edition of the Manual)

4.10 Reporting results of audit

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 prescribed procedure.

(Para 3.12 of CAG's Manual 2010)

4.11 Pursuance of findings of audit

Auditor 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/Government. The objection should not be conveyed to the Autonomous Bodies direct.

(Para 3.13 of CAG's Manual 2010)

CHAPTER - V

Audit under Section 19 of the CAG's (Duties, Powers and conditions of Service) Act, 1971

5.01 Legal Provisions

Section 19 of the Comptroller and Auditor General's (Duties Powers & Conditions of Service Act, 1971 deals with the audit of the accounts of Government Companies and corporations and has three sub sections. Section 19(1) deals with the duties and powers of the Comptroller and Auditor General in relation to the audit of the accounts of Government Companies in accordance with the provisions of the Companies Act, 2013. Section 19(2) deals with audit of the accounts of corporations (not being Companies) established by or under law made by parliament and section 19(3) deals with audit of accounts of corporations established by the Act of State Legislature. Section 19 A (1) provides that 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.

(Para 4.01 of CAG's Manual 2010)

5.1.1 Government Companies under 19(1)

Section 19 (1) provides that duties and powers of the CAG in relation to the audit of the accounts of Government Companies (both Central and State) shall be performed and exercised by him in accordance with the provisions of the Companies Act 2013.

(Para 4.01 of CAG's Manual 2010)

As the audit of Government Companies/Commercial Corporations under Economic Sector are undertaken by the office of Accountant General (E &RSA). Economic Sector Audit Manual may be referred for information thereon.

5.1.2 Audit of corporation established under Acts of Parliament [Sec.19 (2)]

Section 19(2) envisages that the duties and powers of the Comptroller and Auditor General in relation to the audit of the accounts of corporation established by or under any law made by the Parliament shall be performed and exercised by him in accordance with the provisions of the respective legislations. The word

'legislation' used in the section refers not only to provisions of the parent Acts relating to the corporations but also to rules and regulations framed by competent authorities by virtue of the powers vested in them under the relevant Acts of parliament.

(Para 4.02 of CAG's Manual 2010)

5.1.3 Conditions for taking up audit. [Under Section 19(2)]

General Condition:

(i) The body must be a corporation established by or under any law made by the Parliament.

(ii) The relevant legislation of the corporation should provide for audit by the CAG. Under Section 19(2), the duty is cast on the CAG by specific provisions in Parliamentary enactment. However, it has been decided by the Ministry of Finance, Government of India that no enactment by Government would provide for duties to be discharged and powers to be exercised by the CAG without prior consultation with him in the matter by the Ministry concerned through Finance Ministry. Where there is no provision in the relevant legislation for audit by CAG, its audit can be entrusted to the CAG under section 20. If the legislation provides for audit by other agencies and Government proposes to have a second audit by the CAG as well, the matter may be referred to HQ office for further examination. The audit is taken up essentially for purposes of certification of annual accounts but there is no objection to take up such audit for certain specified purpose as well.

(Para 4.02 of CAG's Manual 2010 & Para 4.01.03.01 of the 6th edition of the Manual)

5.1.4 Audit of Corporations established by State [Section 19(3)]

Section 19(3) provides that if the Governor of a State or the Administrator of Union Territory having a Legislative Assembly finds that it is necessary in the public interest to entrust the audit of any corporation to the Comptroller and Auditor General may do so after giving reasonable opportunity to the corporation for making representation with regard to such audit. For standard terms and conditions for entrustment of audit, refer to **Annexure VI**

(Para 2.62 of MSO (Audit) and Para 4.03 of CAG's Manual 2010)

5.1.5 Conditions for taking up audit under Section 19(3)

1. The Corporation should be one established by law made by the legislature.
2. The Governor or the Administrator should be of the opinion that such audit is to be done in the public interest.
3. The Governor or the Administrator formally requests the CAG for the proposed audit.
4. Before the request for the audit is made, the Governor/Administrator should consult the CAG on the proposal.
5. The Corporation has been given reasonable opportunity to make representations with regard to the proposal for the audit.
6. As the audit is in the interest of both the Government and the Autonomous Body, it is undertaken on the terms and conditions as agreed upon between the CAG and the Government concerned. When the Government inform their intention to the Principal Accountant General for entrusting the audit to the CAG by a specific Communication, there is no objection for corresponding with the Government in the matter. But it is necessary that in every case prior and specific clearance from the CAG is obtained by the Principal Accountant General before a decision to accept or reject a proposal is conveyed to Government.

As per Section 19 A in respect of all audits to be undertaken under Sub section 19(1), 19(2) and 19(3) it is obligatory to place the reports of CAG before the respective legislature. This fact should be brought to the specific notice of the institutions as well as the Govt. before taking up audit.

(Para 4.07 to 4.09 of CAG's Manual 2010)

5.02 Procedure for taking up audit under 19(2)

In respect of audit under section 19(2) the proposals are received through the concerned Director of Audit. After noting the details in the "Section 19(2)/19(3) Register" copies of the documents connected with the audit under section 19(2) are transferred to the DAG (Central) for arranging the audit. The proposals for taking up audit under Section 19(3) are received in Special Cell (HQ). In every case the proposal is to be examined and recommendations sent to HQ office. On receipt of the approval of CAG, it is necessary to convey to the Government, the terms and conditions under which audit can be undertaken. The audit arrangement is complete on receipt of a formal request in the name of the Governor addressed

to the CAG. The letter of request must indicate compliance of the mandatory requirement of the sections of Act, so as to avoid possible legal complications at a later date.

Immediately on receipt of the formal request, after noting the details in the 'Section 19(2)/19(3) Register' copies of all relevant papers are handed over to DAG (Inspection /OAD I(HQ) for taking up the audit of the Autonomous Body. Arrangement should be made by him for the conduct of audit of the body.

In cases where Government proposals for audit are received very late or the compliance of formalities take considerable time, the backlog of audit has to be overtaken. In such cases, it will be necessary to work out in consultation with the Government and the organization concerned, a time schedule for clearance of arrears of audit and steps will be taken to ensure that audit is completed according to the agreed schedule.

(Para 4.10 to 4.13 of CAG's Manual 2010)

5.03 Proposals for superimposed audit

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

(Para 4.14 of CAG's Manual 2010)

5.04 Examination of proposals for Audit of Autonomous Bodies

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. 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.

(Para 4.15 & 4.16 of CAG's Manual 2010)

5.05 Audit of State Corporations:

5.05.01 Section 19(3) provides for audit, in public interest, of accounts of corporations established by Acts of State and Union Territory Legislatures. Unlike Section 20(1) which provides also for settlement of terms and conditions for entrusting the audit, Section 19(3) makes no such provision. In practice, however, it has been found that it is in the mutual interest of Govt. and the Autonomous Body that the terms and conditions are settled in respect of audit under section 19(3) also. For standard terms and conditions for entrustment of audit are given vide **Annexure VI**.

(Ref: Para 4.01.04.01 of the sixth edition of the Manual)

5.06 Audit Results

Comments on Accounts

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

(Para 4.17 of CAG's Manual 2010)&(Para 4.18 of CAG's Manual 2010)

5.07 Laying of reports in relation to accounts of Government Companies and corporations

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.

(Para 4.19 of CAG's Manual 2010)

5.08. Audit in public interest

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 has to be of the Govt. 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.

(Para 4.01.04.02 of the sixth edition of the Manual)

5.08.01: Another requirement of section 19(3) is that no audit can be entrusted to the Comptroller and Auditor General except after giving a reasonable opportunity 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 the decision, as the requirement is only for a consultation. While considering proposals of Government in this matter, it should be seen in audit that a reasonable opportunity had been given by Govt. to the Autonomous Body as it is mandatory to do so and omission to do so can vitiate the order of Govt. entrusting audit to the Comptroller and Auditor General.

(Para 4.01.04.03 of the sixth edition of the Manual)

5.08.02 The third requirement of section 19(3) is that the request of the Govt. is made only after consultation with the Comptroller and Auditor General Govt. may inform its intention to the Accountant General (G&SSA) for entrusting the audit

to the Comptroller and Auditor General by a specific communication and there is no objection to the audit officer corresponding with the Government in the matter. But it is necessary that in every case, prior and specific clearance before a decision to accept or reject a proposal is conveyed to Government.

(Para 4.01.04.04 of the sixth edition of the Manual)

5.08.03 Immediately on receipt of the request, arrangements should be made to contact the Autonomous Body and to bring about a working arrangement for conduct of audit and issue of audit certificate with audit report thereon.

Inter alia, the arrangements should give due attention to the following points.

- i. The date by which accounts will be made available for audit.
- ii. The time required and a tentative period during which audit will be conducted
- iii. Adequate internal arrangement within the organization for ensuring availability of all records for audit, supply of replies to preliminary memos of audit in time & arrangement for discussion of reports/audit objections.
- iv. Period by which draft audit report will be issued and replies furnished by the organization.
- v. Period by which the finalized audit report with audit certificate will be issued.

In cases where Government's proposals for audit were are received very late or the compliance of formalities take considerable time, then backlog of audit has to be overtaken. In such cases, it will be necessary to work out in consultation with the Government and the organization concerned, a time schedule for clearance of arrears of audit and steps will have to be taken to ensure that audit is completed according to agreed schedule.

(Para 4.01.04.08 of the sixth edition of the Manual)

5.08.04 In terms of section 19A of the Audit Act 1971, the State Government is required to place before the Legislature every report of the Comptroller and Auditor General in respect of audits conducted under section 19(3). For this purpose, the State Government have fixed the following time schedule for all the Autonomous Bodies the audit of which has been entrusted to the Comptroller & Audit Officer:

- i. Availability of accounts.

- ii. Completion of audit.
- iii. Issue of draft audit report to the organization with copy to the Comptroller and Auditor General.
- iv. Receipt of replies to draft audit report and approval of the office of the Comptroller and Auditor General.
- v. Issue of finalized audit report and audit certificate.
- vi. Placing before the Legislature.

OAD Special cell should watch the receipt of the accounts from the organization on the due dates and arrange for the audit well in time so that the certified accounts and audit report thereon are sent to the Headquarters office/Principal Accountant General not later than 31st October following the close of financial year. The audit programme should be so arranged that all organizations required to be audited are taken up and completed between July and September each year.

Note: Experience has, however, revealed several cases of inordinate delays in the availability of accounts for audit, in the conduct of audit in obtaining replies to draft audit reports, etc., with the result that there has been accumulation of accounts for audit and certification. Since most of the autonomous bodies under audit by the Indian Audit and Accounts Dept. are financed to a great extent by the Governments, either directly or indirectly, and their audits are entrusted in public interest, it is necessary to ensure that the matter of delays is pursued with the Governments concerned and they are involved in evolving a crash programme for clearance. The problems causing delays can also be discussed with the Government at appropriate levels. In cases where the position has remained stagnant or the improvement is not adequate, it is preferable to report such cases in the conventional audit report, as well.

(Para 4.01.04.09 of the sixth edition of the Manual)

5.09 Control over audit

As audit under these sections involves discharge of prescribed statutory responsibility, it is essential that proper control is exercised in ensuring that audit is conducted according to schedule and there is no omission in conducting audit. For this purpose, relevant control registers and progress reports will have to be devised and scrutinized periodically at the level of Group officer. The due date for

such scrutiny, as fixed, should be noted in the Calendar of Returns for watching compliance.

To enable HQs office in monitoring progress of all audits, a progress report has to be sent to that office during the first week of each month indicating the names of Autonomous Bodies, position regarding availability of accounts, progress of audit etc. till all accounts due for certification are certified.

(Para 5.01.03 of Sixth edition of the Manual)

5.10 Audit under Section 19

In respect of all audits to be under taken under section 19(1), 19(2) or 19(3) of the accounts for the year 1983-84 onwards it is obligatory to place the reports of the Comptroller and Auditor General before the respective legislature under the new section 19A of the Comptroller and Auditor General's (Duties Power & Conditions of Service Act 1971). This should be brought to the specific notice of the institution as well as the Govt. before taking up audit. As per Section 19(A) the preparation of audit reports of autonomous institutions and laying them on the table of legislature is obligatory on the part of the Accountant General, as well as Government. To fulfil this statutory obligation of the following time schedules has been adopted.

a)	Submission of accounts by the organization for audit	30 th June of succeeding financial year.
b)	Draft audit report to be issued to the organizations by the Accountant General	25 th September
c)	Receipt of replies to audit comments from the organization by the Accountant General	15 th October
d)	Finalised Audit Report to be sent to Government for placing before the legislature	31 st October
e)	Due date for placing the Audit Report on the table of the Legislature	31 st December or in the earliest session after that date.

(Authority: Circular No. 2T-Audit II/1985 Letter No.983-Audit –II 176-TA I/80-11 dt. 10.07.1985 O.M.NO.FD.42. BUD. 84. dt.6th November 1984 of Govt. of Karnataka and Para 4.01.04.01A of the sixth edition of the Manual).

CHAPTER - VI

Audit under Section 20 of the CAG's (Duties, Powers and conditions of Service) Act, 1971

6.01 Legal provisions

Section 20 of the Comptroller and Auditor General's (Duties and Powers) Act 1971, deals with the audit of accounts of certain authorities or bodies the audit of which has not been entrusted to the CAG under other provisions of the Act.

- As regards the status of enactments passed prior to promulgation of the Constitution of India, the Ministry of Law have clarified that they are “existing laws” in terms of Article 366(1) of the Constitution and are not Laws made by Parliament for purposes of Section 19(2). In the circumstances, arrangement of audit in such cases can be under Section 20(1)
- Audit under Section 20(2) can be taken up only in exceptional cases with the approval of the Comptroller and Auditor general. Such cases should be referred first to the Comptroller and Auditor General of India and only on receipt of his approval reference to the Govt. Concerned for entrusting of audit should be made
- It has been decided by the Comptroller and Auditor General that his specific approval is necessary for undertaking new audits and for deleting an item reported to his office for reasons other than reorganisation of States. If, however, an institution is wound up and the audit ceases, a report only need be sent to his office for information

{(Para 5.01 of CAG's Manual 2010) & Para 5.01.01 6th edition of this manual}

6.02 Explanatory Notes

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.

(Para 5.02 of CAG's Manual 2010)

6.03 Entrustment of audit by the President or Governor or Administrator

Sub Section (1) of Section 20 authorises the President/ Governor/Administrator to entrust to CAG the audit of accounts of any authority or body not otherwise entrusted to him under any law made by the Parliament.

(Para 5.03 of CAG's Manual 2010)

6.04 Proposal by CAG

Similarly under Sub Section (2) of Section 20 Comptroller and Auditor General can propose to President/Governor/Administrator to undertake the audit of accounts of any body or Authority not entrusted to CAG. This may, however, be done only if CAG is of the opinion.

- (i) That such audit is necessary in public interest and
- (ii) That there is substantial interest of Central or State or Union Territory Government in such body or Authority.

(Para 5.04 of CAG's Manual 2010)

6.05 Terms and conditions for entrustment of audit

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

(Para 5.05 of CAG's Manual 2010)

6.05.01 Settlement of terms and conditions

Section 20(1) of the CAG's Act provides for the settlement of any terms and conditions for acceptance of audit by the CAG. 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 are given in **Annexure VII**

(Para 5.11 of CAG's Manual 2010)

6.06 No monetary limit

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.

(Para 5.06 of CAG's Manual 2010)

6.07 Formal request for audit by CAG

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.

(Para 5.07 of CAG's Manual 2010)

6.08 Audit in public Interest

One of the essential requirements of Section 20(1) is that audit can be entrusted to the CAG 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.

(Para 5.08 of CAG's Manual 2010)

6.09 Opportunity to make representation by Autonomous Bodies

Another requirement of the two sub section is that audit can be entrusted to the CAG only after giving a reasonable opportunity to the Autonomous Body to make representation 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 it-self provides for or permits audit being entrusted to the CAG. While the decision to entrust the audit will be of Government, it is not obligatory that Autonomous Body should concur with that decision as the requirement is only for a 'consultation'. While considering the proposal of Government in the 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 CAG.

(Para 4.05 and Para 5.09 of CAG's Manual 2010)

6.10 Consultation with CAG

The request for entrustment of audit under Section 20(1) is made only after consultation with CAG. Government may inform its intention to the concerned audit office for entrusting the audit to the CAG by a specific communication. But

it is necessary that, prior and specific clearance from CAG is obtained by the PAG before a decision to accept or reject a proposal is conveyed to the Government.

(Para 5.10 of CAG's Manual 2010)

6.11 Period of entrustment of Audit

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 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 simultaneously be sent to head quarters also.

(Para 5.12 of CAG's Manual 2010, CAG's Circular No. 403/TAI (RGL 19-84-11 dt. 25.3.1985 and CAG's Circular No. 657/Au II/9-84 dt. 22.5.1985)

6.12 Entrustment procedure

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 instruction to take up audit are issued by the CAG to the field office.

(Para 5.14 of CAG's Manual 2010)

6.13 Proposals of audit of State Autonomous Bodies

The proposals for taking up audit under Section 20(1) of the Act in the 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 Head quarters.

(Para 5.15 of CAG's Manual 2010 and Circular No. 649-AuII/143-85 dt.29.4.1985)

6.14 Special cases of entrustment of Audit

In some special cases the audit under Section 20(1) 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.

(Para 4.12 to 4.14 of CAG's Manual 2010 and CAG's Circular No. 33-Au II/143-85 dt. 20.1.1987)

6.15 Proposals from field offices

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 3.14 of this manual subject to the approval of Headquarters office.

(Para 5.17 of CAG's Manual 2010)

6.16 Examination of proposals of audit of Autonomous Bodies

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.

(Para 5.18 of CAG's Manual 2010)

6.17 General Provisions and Interpretation:

6.17.01 The audit arrangement is complete only on receipt of a formal request in the name of the President/Governor/Administrator addressed to the Comptroller and Auditor General and it is advisable that a standard format is adopted. 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. The specimen form of request, adopted by Government of India is given in **Annexure VIII** it would not be appropriate to include in the bye-laws or rules of the body or authority providing for audit by the Comptroller and Auditor General before the process set forth is completed.

(Ref: Para 5.01.02.08 of the 6th edition of the Manual)

6.17.02 Immediately on receipt of the request arrangements should be made to contact the Autonomous Body and to bring about a working arrangement for conduct of audit and issue of audit certificate with audit report thereon. Inter alia, the arrangement should give due attention to the following points;

- i) The date by which accounts will be made available for audit,
- ii) The time required and a tentative period during which audit will be conducted;
- iii) Adequate internal arrangement within the organization for ensuring availability of all records for audit, supply of replies to preliminary memos of audit in time, arrangements for discussion of reports/audit objection;
- iv) Period by which draft audit report will be issued and replies furnished by the organization
- v) Period within which finalise audit report with audit certificate will be issued

In case where Governments proposals for audit received very late for the compliance of formalities take considerable time, then backlog of audit has to be overtaken. In such cases, it will be necessary to workout in consultation with the Government and Organization concerned, a time schedule for the clearance of arrears of audit and steps will have to be taken to ensure that audit is completed according to the agreed schedule.

(Ref: Para 5.01.02.09 of the 6th edition of the Manual)

6.17.03 The “Committee on papers laid on the table” (a Parliamentary committee) has recommended to the Government of India that the audited accounts of Autonomous Body assisted by Government should be placed before Parliament within a period of 9 months from the date of closure of annual accounts. For this purpose a period of 3 months has been considered adequate for the completion of accounts, 4 to 5 months for the completion of audit and issue of audit certificate,

and another month for placing before Parliament. These recommendations have been accepted by the Government of India and it is advisable that in the States also, a similar time schedule is adhered to.

Accordingly, the Government of Karnataka has prescribed that following time be followed by the Autonomous Bodies to enable the Comptroller and Auditor General of India and the State Government to perform their obligatory functions

a)	Submission of accounts by the organization for audit	30 th June of succeeding financial year
b)	Draft audit report to be issued to the organizations by the Accountant General	25 th September
c)	Receipts of replies to audit comments from the organizations by the Accountant General	15 th October
d)	Finalised Audit Report to be sent to Government for placing before the Legislature	31 st October
e)	Due date for the placing the Audit Report on the Table of the Legislature	31 st December or the earliest Section after that date

The Secretaries to Government of the Administrative Department concerned are responsible for placing the report before the legislature

(Authority: Govt's O.M.NO.FD.42 BUD dt. 6.11.1984 and Para 5.01.02.10 of Sixth Edition of the Manual)

In case of small organization, a time schedule for issue of audit certificate within 4 to 5 months of the closure of the year is advisable so that the problem of bunching or work could be suitable met with

Note: OAD Special cell should watch receipt of the accounts from the organization on the due date and arrange for the audit well in time so that the certified accounts and audit report thereon are sent to the Headquarters office/Principal AG not later than 31st October following the close of financial year. The audit programme should be so arranged that all organizations required to be audited are taken up and completed between July and September each year. Experience has, however, revealed several cases of inordinate delays in availability of accounts for audit, in conduct of audit, in obtaining replies to the

draft Audit Report etc., with the result that there has been accumulation of accounts for audit and certification. Since most of the Autonomous Bodies under audit by the Indian Audit and Accounts department are financed to a great extent by the Governments, either directly or indirectly, and their audits are entrusted in public interest, it is necessary to ensure that the matter of delays is pursued with the Governments concerned and they are involved in evolving a crash programme for clearance. The problems causing delays can also be discussed with the Government at appropriate levels. In case where the position has remained stagnant or the improvement is not adequate, it is preferable to report such cases in the Conventional Audit Report as well.

(Ref: Para 5.01.02.10 of the 6th edition of the Manual)

6.18 Other instructions

Certification of Accounts

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'.

(Para 5.20 of CAG's Manual 2010 and CAG's Circular No.364-AuditII/72-90 dt. 17.3.1992)

6.18.01 Independent audit certificate/SAR for each accounting period

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.

(Para 5.21 of CAG's Manual 2010 and CAG's Circular No. 165-Rep (AB)91-2003 dt. 23.5.2003)

6.18.02 Laying of audit reports on the accounts of bodies or authorities

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. In each case it will have to be ascertained from the Government concerned about this requirement at the time of entrustment of new audit.

(Para 5.22 of CAG's Manual 2010 and CAG's Circular No. 33/Audit II/143-85 dt. 20.1.1987)

6.19 Control over audit:

As audit under these sections involves discharge of prescribed statutory responsibilities, it is essential that proper control is exercised in ensuring that audit is conducted according to schedule and there is no omission in conduct of audit. For this purpose relevant control register and progress report will have to be devised and scrutinized periodically at the level of Group Officers. The due dates for such scrutiny, as determined, should be noted in the calendar of returns for watching compliance.

To enable headquarter office to monitor the progress of all audit, a progress report in the prescribed form has to be sent to that office during the first week of each month indicating the names of Autonomous Bodies position regarding availability of accounts, progress of audit etc. ,till all accounts due for certification are certified.

(Authority: Para 5.01.03 of the Sixth Edition of the Manual)

6.19.01 So far no audit has been taken up under Section 20(2) of CAG's DPC Act 1971. But there need be no legislation, subject to specific and general approval of the headquarters office, in suggesting the taking up the audit under Section 14(2) or Section 20(2) or in asking for the right of the access to the books of the body under Section 15(2) of the Act ibid subject to conditions laid down therein. A "return" for audits under Section 20(2) for the period ending 31st December may be sent to the headquarters office by 20th January each year in the format at **Annexure IX.**

(Authority: Circular No. 39/Audit-II/85, No.1748-AuditII/ 18-85 dated 21.11.1985 and Para 5.01.04 of the Sixth Edition of the Manual)

CHAPTER VII

A. Certification of accounts of Autonomous Bodies

7.01 Introductory

Provisions relating to the audit of accounts of Autonomous Bodies generally fall under two categories viz., one for watch over utilization of assistance rendered by Government, and another for certification of accounts. Though the scope of audit under Sections 14, 19 and 20 can cover both these aspects depending on the facts of each case, in practice the job of certification of annual accounts is undertaken only under the provisions of Sections 19 and 20. In cases where the CAG is the sole auditor, it will be advantageous to combine the audit of transactions and audit of annual accounts in one spell, unless for any special reason it becomes necessary to undertake audit of transactions separately from the audit of annual accounts.

(Para 6.01 of CAG's Manual 2010)

7.02 Meaning of certification of accounts

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

(Para 6.02 of CAG's Manual 2010)

7.03 Essential features of audit of financial Statement

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.
- 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 the 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.

(Para 6.03 of CAG's Manual 2010)

7.04 Certain detailed instructions for the procedure related to audit of specified records and transactions as contained in the Chapter IV of the manual of Commercial Audit are given in **Annexure X**. These instructions can be adopted with the advantage for audit of non-commercial Autonomous Bodies as well. These instructions are not exhaustive by themselves and can be varied/supplemented with the due regard to the requirements of audit of each organisation.

(Ref: Para 6.05.02 of the 6th edition of the Manual)

7.05 Transactions Audit and Accounts audit:

7.05.01

The certificate of annual accounts involves verification of the accounts with reference to the books of original entry, ledgers, etc., to see that the accounts are in accordance with the books. Inherent in the process of audit of the annual accounts is the assumption that the transactions appearing in the books of original accounts pertain to the organization, represent legitimate charge, and the books themselves record fully and faithfully all transactions pertaining to the organization for the period and nothing is left out. This can be ensured only by test check of the transactions. The procedure for checking up the transactions has been outlined in the form of a questionnaire in **Annexure I** The instructions contained in this chapter are restricted mainly to the checking of accounts, which have to be read along with instructions for audit of transactions.

(Ref: Para 6.06.01 of the 6th edition of the Manual)

7.05.02

Some of the general points to examine while conducting the audit of accounts of Autonomous Bodies are mentioned in **Annexure XI**.

(Ref: Para 6.06.02 of the 6th edition of the Manual)

7.06 Records for accounts audits:

As all transactions ultimately get reflected in the form of cash out flow or cash inflow, cash book constitutes the most important book of original entry. For various adjustments the journal is used. While cash book serves both as a book of original entry and also as a ledger, ledger accounts are maintained for consolidating transactions under appropriate classifications. The ledger balances are then listed in a trial balance from where items of Revenue Expenditure and Income are transformed to Income & Expenditure Accounts. The remaining items are transferred to the Balance sheet. It should be remembered that closing stock does not normally figure in the trial balance.

(Ref: Para 6.07 of the 6th edition of the Manual)

7.07 Check of trial balance:

Although trial balance is not a part of the compiled accounts, for audit of the annual account, it should form the starting point. The balances as extracted in the trial balance will have to be verified with reference to the ledger accounts. The ledger accounts in their turn will have to be checked with reference to the books of original entry like cash book and the journal.

(Ref: Para 6.08 of the 6th edition of the Manual)

7.08 Broad outline for accounts audit:

The method of auditing of annual accounts will be broadly as follows:

- i) Entries in the cash book and other books of original entries should be vouched and the postings tested.
- ii) The postings from the books of prime entry to the ledger accounts should be test checked.
- iii) The justification and Authority for each journal entry should be examined.
- iv) The ledger balances should be checked and agreed with schedules like debtors schedules and creditors' schedules etc.,

- v) Provisions for outstanding liabilities and annual income should be verified.
- vi) The Receipts & Payments accounts should be checked with reference to the cash book.
- vii) Items appearing in the Income & Expenditure accounts should be checked with the trial balance.
- viii) The ownership and continued existence of assets appearing in the Balance sheet should be verified and adequacy of the provisions for items like depreciation, bad debts etc., checked.

(Ref: Para 6.09 of the 6th edition of the Manual)

7.09 Need for Internal control:

A considerable time has to be spent on the routine work of checking such as vouching etc., but in any organization it will hardly be possible to do such checking in any great details without engaging an unmanageably large number of persons on the work.

(Para 6.10 of the 6th edition of the Manual)

7.09.01 The extent of check to be exercised in audit will depend upon the system of internal control operating in the organization. Internal control is an arrangement which provides for proper division and definition of tasks and responsibilities, introduction of an appropriate accounting system and the institution of forms of internal check. By internal check is meant the checks on day to day transactions which operate continuously as part of the routine system whereby the work of another is checked, the object being the prevention or early detection of errors or fraud. Another essential characteristic of the systems of internal control is the existence of skilled managerial supervision and reviews including internal audit. It is the responsibility of the auditors to examine the systems of internal control in order to assess its efficiency before determining the extent or quantum of checks and planning the audit.

(Ref: Para 6.10.01 of the 6th edition of the Manual)

7.09.02 The efficiency of internal control is bound to vary from organization and as such any general quantum that is presented can only be to indicate the minimum check that has to be exercised to ensure that the accounts represent a true and fair picture of the organization where the internal check is found satisfactory. In an organization where the internal control is defective in certain areas, it may be necessary to recommend to the organization to strengthen the same indicating the drawbacks but at the same time, to certify the accounts, the extent of checks has to be increased to an adequate extent. In the circumstances, it is not possible to have uniform quantum of audit for all organizations and it has to be fixed with reference to facts of each case, with due regard to the minimum that is necessary for cases having satisfactory internal control. Besides, the various organizations under audit will have different system of accounting and set of books and it will not be possible to envisage and prescribe the quantum of checks for all cases generally. A quantum of audit generally considered necessary has, however, been prescribed in the 'Memorandum of subsidiary instructions regarding the extent of Audit'. In cases where audit of selected period/ records reveals serious irregularities, there will be no objection to increase the quantum on the spot and to have it approved later. In respect of records/ documents for which no quantum is prescribed the same may be determined locally. In cases where the quantum of checks of particular institutions has already been prescribed, such quantum may be followed in respect of those institutions. In other cases, the quantum of checks prescribed in the Memorandum of subsidiary Instructions may be followed. It has been suggested by the Comptroller and Auditor General that,

- i) For each organization a specified quantum of audit is determined with due regard to general instructions and facts of the case,
- ii) The quantum is reviewed from time to time and
- iii) The quantum prescribed is treated as secret and not disclosed to the organization.

(Ref: Para 6.10.02 of the 6th edition of the Manual)

7.09.03 Since Audit of organizations is conducted locally by experienced staff under adequate supervision, it has not been considered necessary to prescribe separate quantum for each category of members comprising the audit party. The

work has to be organized in such a way that the team as a whole is responsible for the audit and certification of accounts and the name of the official who ensured the check is available in the audit programme book. It is also pointed out that in respect of each record a general scrutiny of records of periods not selected must also be conducted to ensure that they do not reveal any abnormal features in which case they should be subjected to adequate scrutiny.

(Ref: Para 6.10.03 of the 6th edition of the Manual)

7.10 Requirements of Internal Control

In particular, the system of internal control over the following aspect would need to be noted by the auditor.

- i) Accounting of cash receipts and payments:
- ii) Realisation of receipts and avoidance of loss due to negligence, delayed actions:
- iii) Sanctions to expenditure and watch progress of expenditure vis-à-vis budget of Autonomous Body:
- iv) Purchase, account, issue utilization and physical existence of stores and stocks:
- v) Execution of construction programme:
- vi) Disbursement of grants, subsidy, scholarship, etc., and their utilization by the recipients:
- vii) Utilization of Govt. assistance for specified purpose and
- viii) Review of objectives of the Autonomous Body etc.,

(Ref: Para 6.11 of the 6th edition of the Manual)

7.11 Need for vouching of entries:

Mere checking of posting and castings is not proof that the books contain true entries in respect of all transaction. The duty of the auditor is to ascertain whether the books are actually correct in accordance with the best of his information and he obtains this information from the documents from which the books have been written up. This examination of the evidence offered in substantiation of the entries in the book, including such examinations of the proof to ensure that no entries had been omitted from the books, is known as vouching. While it is not possible to deal exhaustively within the frame work of these instructions all

aspects of audit, the salient features of vouching are mentioned in the following paragraph.

(Ref: Para 6.12 of the 6th edition of the Manual)

7.12 Vouching of payments:

- a) must be addressed to the organization under audit
- b) relate to the affairs of the organization under audit
- c) are properly authorized:
- d) pertain to the period under audit and
- e) do not bear any signs of having already been used for another payment.

The Vouching of payment will include examination of the Authority for payment reconciliation with liability discharged or assets acquired verification of rates and quantum of payment and tracing of acknowledgment by the payee. Vouching of income will aim at ensuring that monies for supplies and services have been either received or accounted for as recoverable, that all receipts have been properly brought to account immediately, that the system of control in force does not leave scope for fraud or defalcation. Check of classification is also an important aspect of vouching. Journal entries should be checked with reference to evidence, authority and narrative. Journal entries may have a material bearing on the accounts. Vouching of journal entries is thus very important. The check of entries to certain extent is determined with reference to the nature of the organization and the adequacy of the system of internal control.

(Ref: Para 6.13 of the 6th edition of the Manual)

7.13 Points to be seen in checking the accounts:

Apart from the necessary routine checking of postings, castings and vouching, the following aspects should also be kept in view while auditing the accounts of an organization.

- i) Check of opening balance:

- ii) Locking for exceptional transactions which have resulted in charges of credits of a material amount to the accounting period;
- iii) Vouching all capital expenditure;
- iv) Verifying existence and ownership of assets and check basis of valuation and provision for depreciation;

In the case of organizations which do not earn revenue of their own, it has been decided that no depreciation need be written off till the assets exhaust their useful life or till they are disposed off.

- v) Ascertaining the system of stock-taking, test –checking stock sheets and valuation and obtain certificate from responsible officials
- vi) Checking bank reconciliation and obtaining certificate from bankers
- vii) Examine classification as between capital and revenue;
- viii) Ensuring adequacy or otherwise of provisions for outstanding liabilities, bad debts, damage or deterioration in value of assets, fixed and current;
- ix) Making sure that all income has been brought to account:
- x) Seeing that all allowance, discounts, etc. are authorized and admissible;
- xi) Examining carefully commitments for capital expenditure not provided in the accounts and ensuring that ascertained liabilities are not shown as contingent liabilities;
- xii) Reviewing balances of sundry debtors, advances, etc., analyzing their pendency and ensuring that their recovery is enforced and that none represents fictitious balances;
- xiii) Comparing important items in Income & Expenditure Account with corresponding items in the previous year and ascertaining the reasons for material variation:
- xiv) Seeing if credits from any source of income have come down:
- xv) Examining the schedules showing the composition of each item in the Balance Sheet and comparing such items with corresponding figures for the previous period: considering carefully all material changes:
- xvi) Considering the values placed on current assets:
- xvii) Ascertaining if there has been any changes in the basis of accounting having material effect on the accounts of the year under audit:

xviii) Examining particularly the booking against items which qualify for grants/assistance to prevent attempts at securing inflated assistance from Government:

xix) Looking for assets created or expenditure incurred which have not been productive: and

xx) Looking for charges/transaction falling beyond the scope of authorized activities of the organization

(Ref: Para 6.14 of the 6th edition of the Manual)

7.14 Cases of inability to certify the accounts:

Where the audit party feels that it is un-desirable to certify accounts even subject to observations, the specific points in support of such an opinion must be indicated. Cases where large numbers of vouchers, receipt books and other supporting documents have not been made available or cases in which basic records have not been maintained where there are clear indications of misappropriations, fraud or misrepresentation of facts in accounts or accounts as compiled materially inaccurate requiring revision, etc., would fall in this category. In such a case the audit party must bring the points to the notice of the Chief Executive of the Autonomous Bodies and also address the head office so as to enable headquarter to take appropriate Action.

In all such cases where it is not considered safe to certify the accounts, the office of the Comptroller and Auditor General should also be kept informed of the position indicating the reasons for non certification of the accounts.

Strictly speaking, it would not be advisable to take a stand that audit certificate would not be issued, if the Government or the Autonomous Bodies insist of such certificate. What is open to audit is to certify the accounts with observations. In cases where the observations are of such nature as would not warrant certification of accounts as exhibiting true and fair the organization or the Government, to issue an audit certificate in such a case making it abundantly clear in the certificate that in view of the observations in the separate audit report the accounts cannot be said to exhibit a true and fair picture.

(Ref: Para 6.15 of the 6th edition of the Manual)

7.15 Correction of accounts:

One of the points that need to be looked into before certification, is the need or otherwise for correction of accounts, as presented for audit before they are certified. Correction of accounts should not be insisted as a matter of course for rectification of every mistake that is noticed in audit and the request for correction should be made only sparingly in cases where the Autonomous Body is either willing to carry out without delay to avoid audit comments or the corrections are such that they effect the fundamental correctness of the accounts to be certified. The cases where the Autonomous Body is willing to carry out the corrections in future accounts, it shall normally be agreed to and the cases where it is necessary to the current year's accounts must be cancelled should be such that it is not in a position to certify the accounts as representing a true and fair picture of the Autonomous Body.

(Ref: Para 6.16 of the 6th edition of the Manual)

7.16 Superimposed audit of Autonomous Bodies under Section 19(3) and 20(1) of CAG's Act 1971.

In cases of Corporation Autonomous Bodies and authorities where super imposed audit under Section 19(3)/20(1) of the CAG's(DPC) Act 1971 is undertaken, the position regarding certification of annual accounts and issue of separate audit report is as under

a. Certification of Accounts.

- (i) The certification of accounts need not be done by the Comptroller and Auditor General of India in cases where he is not the sole auditor but doing a superimposed audit under Section 19(3)/20(1) irrespective of the fact whether the primary auditors are appointed on his advice/recommendation or not,
- (ii) In case where primary auditors are appointed on CAG's/recommendation and they function under CAG's/direction, CAG should have a right to comment on and supplement their report on the accounts.

b. Issue of separate Audit Reports

- i. Whether the accounts are certified by the CAG's as superimposed audit or not certified as superimposed audit, it is necessary to prepare separate audit reports for corporations audited under Section 19(3) and send it to Government

for being laid before the State Legislature in view of the provisions of Section 19A of the Act.

ii. Where the CAG certifies the accounts as sole auditor under section 20 of the Act the laying of his separate audit reports before the legislature concerned will depend on the requirements of the laws governing the bodies/authorities audited or the recommendations of the appropriate committees of the Parliament State Legislature.

iii. In the case of superimposed audit under section 20 a report on audit is to be issued to Government and important points thereof may be included in the conventional Audit Report.

(Para 6.17 of Sixth edition of this manual)

B. CERTIFICATION/AUDIT OF GOVERNMENT COMPANIES

Audit of Government Companies under General Sector:

7.17 Audit Mandate

The nationalized industries and State Undertakings, whether of the Central, State or Union Territory Governments, which function on commercial lines, and commercial accounts come under the audit of the Comptroller and Auditor General of India can be broadly grouped into the following categories:

- (i) Government Companies (as defined in Section 2(45) of the Companies Act, 2013), i.e. Companies in which the Central, State and/or Union Territory Governments own not less than 51 *per cent* of the paid up share capital;
- (ii) Statutory bodies wholly or mainly financed by Government and set up under Act of Parliament and/or State or Union Territory Legislature; and
- (iii) Concerns, i.e. Government commercial and quasi- commercial departmental undertakings, that are managed departmentally.

Government Company is governed by the Companies Act, 2013 and by all legislation applicable to limited liability Companies in general. The term “Government Company” includes a subsidiary of a Government Company.

7.18 Statutory Bodies

The Statutory Corporations, Boards, etc. are governed by the respective Acts of Parliament / State or Union Territory Legislature, which contain detailed provisions in regard to their scope and functions, etc. Specific provisions are

usually made in the governing Acts for Parliamentary control over certain aspects like budgeting and audit and presentation of an annual report to the Parliament / State or Union Territory Legislature on the overall functioning of the concern.

By virtue of the provisions of Section 19 (2) of the Act, audit of the accounts of Corporations established by or under law made by Parliament is to be conducted by the Comptroller and Auditor General in accordance with the provisions of the respective legislation.

Under Section 19(3) of the Act, audit of accounts of Corporations established by or under law made by a State/ Union Territory Legislature can be entrusted to the Comptroller and Auditor General by the Governor of the State or the Administrator of the Union Territory after consultation with the Comptroller and Auditor General to make representation with regard to the proposal for such audit.

7.19 Departmental Undertakings

Departmentally managed concerns are directly under a ministry or department and are subject to Government rules and procedures, sometimes with minor modifications.

7.20 Audit Objectives and Scope

The fundamental objectives of audit of accounts of Companies/corporations are to ascertain whether the Financial Statements:

- (i) Present a true and fair view of the entity's financial position;
- (ii) Are prepared in accordance with the Accounting Standards and laws, if any, governing the entities;
- (iii) Are presented with due consideration to the circumstances of the audited entity;
- (iv) Contain sufficient disclosure about their various elements, including any unusual items; and
- (v) Various elements thereof are properly evaluated, measured and presented.

The detailed audit of Government Company is conducted by Statutory Auditors appointed under the Companies Act by the Comptroller and Auditor General. The Comptroller and Auditor General can also issue directions to the Statutory

Auditors for conduct of audit, scrutinize their report and perform supplementary or test audit.

7.21 Appointment of Auditor of Government Company

7.21.01 Under Section 139 (5) of the Companies Act 2013 “Notwithstanding anything contained in sub-section (1) of Section 139 , in the case of a Government Company or any other Company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, the Comptroller and Auditor-General of India shall, in respect of a financial year, appoint an auditor duly qualified to be appointed as an auditor of Companies under this Act, within a period of one hundred and eighty days from the commencement of the financial year, who shall hold office till the conclusion of the annual general meeting.”

7.21.02 Under Section 139 (6) of the Companies Act 2013 “Notwithstanding anything contained in sub-section (1) of Section 139, the first auditor of a Company, other than a Government Company, shall be appointed by the Board of Directors within thirty days from the date of registration of the Company and in the case of failure of the Board to appoint such auditor, it shall inform the members of the Company, who shall within ninety days at an extraordinary general meeting appoint such auditor and such auditor shall hold office till the conclusion of the first annual general meeting”

Under Section 19(1) of the Comptroller and Auditor General’s (Duties, Powers and Conditions of Service) Act, 1971, audit of the accounts of Government Companies is to be conducted by the Comptroller and Auditor General in accordance with the provisions of the Companies Act, 1956.

7.22 Audit Arrangements

The Principal Accountants General concerned is responsible for the audit of State Government Companies, corporations and departmentally managed commercial undertakings.

7.23 Audit of Government Companies

Duties and responsibilities of the Comptroller and Auditor General in relation to the audit of Government Companies are described in the succeeding paragraphs:

i. Issue of Directions to Statutory Auditors

Statutory Auditors have to function within the parameters of the Companies Act, 1956. Their primary responsibility is to examine and certify the Profit and Loss Account and the Balance Sheet ensuring that they disclose a true and fair view of the Company's financial position. They are required to see that the managements have complied with various provisions of the Companies Act and the Generally Accepted Accounting Standards as well as the guidelines issued by the Institute of Chartered Accountants of India.

The Comptroller and Auditor General issues directions to the Statutory Auditors for conduct of audit under Section 143(5) of the Companies Act, 2013. In addition, sub-directions are issued to the Statutory Auditors by the Accountants General. The areas of weaknesses and those requiring special attention are identified and brought to the notice of the Statutory Auditors before the audit is taken up.

ii. Supplementary or Test Audit by the Comptroller and Auditor General

A Supplementary Audit, which is in the nature of an efficiency-cum-performance audit, is conducted by the Comptroller and Auditor General under Section 143(6) (a) of the Companies Act, 2013. This has the following primary objectives:

- (i) Verification of the technical accuracy of the accounting records, books of account and financial results with reference to the Accounting Standards.
- (ii) Detection or prevention of misstatements in and window dressing of the financial Statements.
- (iii) Examination of the achievement, by the Company, of the objectives for which it is established.
- (iv) Detection or prevention of frauds, misappropriation, and other Acts of omission or commission.
- (v) It should be specifically examined in the course of audit of Government Companies whether:

The provisions of the Companies Act, 2013 or the relevant statutes governing the Company concerned have been complied with;

- (i) There has been any material deviation from the objectives listed in the Company's Memorandum of Association and Articles of Association;
- (ii) Instructions of the Government of India, State Governments, Reserve Bank of India etc. have been followed in conducting financial transactions;
- (iii) Pronouncements of the Institute of Chartered Accountants of India (ICAI) relating to Accounting Standards (which are mandatory) and Standard Auditing Practices concerned have been complied with, and its guidance notes and opinions in regard to accrual accounting, reserves created during revaluation of fixed assets, expenditure incurred during construction, treatment of excise duty, debtors, loans and advances, investments, etc. have been adhered to;
- (iv) Accounting procedures for proper control over expenditure and realization of revenue are adequate;
- (v) There is any large accumulation of surplus stores/finished stock;
- (vi) The method of charging depreciation on the assets is reasonable;
- (vii) Bad and doubtful debts have been outstanding for long periods and, if so, the reasons therefore;
- (viii) Major contract agreements have been concluded in the Company's best interests and their terms and conditions have been enforced; and
- (ix) Internal control mechanism that assist the management in safeguarding assets and resources and in complying with laws and regulations, and provide assurance about the accuracy and completeness of accounting records and operate as desirable.

iii. Scrutiny of Statutory Auditors' Report

While examining the audit report of Statutory Auditor, it should, as far as possible, be seen that mention of any important defects or irregularities has not been omitted and that the report does not reveal any important point that would need to be further investigated

iv. Comments upon, or supplement to, audit report/Submission of Reports to Legislature

Under Section 143(6) (b) of the Companies Act, 2013, the Statutory Auditors Report on each Government Company and any comments upon or supplement to that report made by the Comptroller and Auditor General have to be laid before

the State Legislature, as the case may be, along with the Annual Report on the working and affairs of the Company prepared by the Government under the provisions of that section.

Major irregularities relating to Government Companies noticed in the course of audit are commented upon in the Report of the Comptroller and Auditor General, which also includes reviews on the performance of selected Companies.

7.24 Audit of Statutory Corporations

The Pr. Accountants General concerned are required to issue Separate Audit Reports (SARs) in respect of statutory corporations of which the Comptroller and Auditor General is the sole auditor. The Reports should contain comments on the accounts as well on their review, which should indicate the operational performance as well as the working results.

7.25 Points to be seen in general in all the Companies:

a) Transaction Audit

- (1) Review of Agenda and Board Minutes including points marked for verification.
- (2) Points marked for verification in the Audit Note Book and also to check items with reference to entries in the ANB.
- (3) Review of Cash/Bank book.
- (4) Review of income and expenditure with reference to major transactions.
- (5) Review of budget Vs Actual with reference to activities of the organisation.
- (6) Review of various reports such as internal audit, audit committee, sub committees, including corporate governance, purchase (KTPP Act), costing, pricing, sales, technical audit, stores verification (including material management), cash flow /funds flow Statement, production, machinery and equipment utilisation(including target/standard Vs actual), outstanding debtors, major works/contracts ,monitoring / progress reports The contracts for purchase of raw materials, the terms and conditions, delivery schedule, escalation in price, prices quoted and accepted and actual execution of the purchase orders may be

reviewed in detail. Besides, Purchase Manual, Accounts Manual, Stores Manual, Internal Audit Manual may also be reviewed.

(7) Implementation of R&D programme, energy conservation programme (electricity, water, human resources) and also pollution control measures.

(8) Review of pending cases with reference to payment of statutory levies and other cases (legal and staff matters).

(9) Acts and regulations specific to the Company are also to be reviewed so as to verify the compliance.

(10) System prevailing towards internal control and internal check including finalisation of contracts, agreements, purchase orders and adjustment of EMD/SD.

(11) Where Central Government has issued directions to the Company for audit of its cost accounting records, the reports issued by Cost Auditors may be reviewed.

(12) System of internal control:

a. Proper allocation of functional responsibilities within the organisation.

b. Proper operating and accounting procedures to ensure the accuracy and reliability of accounting data, efficiency of operation and safeguarding of assets.

c. Quality of personnel commensurate with their responsibilities and duties.

d. Review of work of one individual is checked by another whereby fraud/irregularities are minimized.

(13) Review the transactions based on the Auditors' qualification including the notes on the accounts and Supplementary Report thereon for the respective year of accounts.

(14) Purchase of machinery, equipment and spares and their utilisation.

(15) Review of revenue purchases.

(16) Receipt and utilisation of grants-in-aid.

(17) Transactions relating to import and export.

(18) Review of overall performance of the Company (all aspects such as amount spent on the activities and the amount realised).

(19) Procedure of stock verification, periodical report in respect of slow moving, damaged, obsolete items and sale of scrap.

(20) Periodical follow up of outstanding deposits, outstanding payments and outstanding stop-payment advice

(21) Investment of funds in the shares of other Companies and in Government securities. The return, received by the Company on these investments may be reviewed.

b) Accounts Audit

(1) Review of Board Minutes, Cash Book, Trial Balance, and Journal Vouchers including adjustment journals, payment vouchers for three months or up to the cut-off date of the next financial year, Bank Reconciliation Statement, ledger balances, Profit and loss account items and balance sheet items including accounting policies and notes on accounts, provision and appropriation.

(2) Review of public deposit accounts, bond repayment/redemption.

(3) Review of accounting of grants-capital and revenue.

(4) Compliance to the Provisions of Companies Act, Accounting Standards and special guidelines, if any.

(5) Review of Statutory Auditors' Report.

(6) Any specific transactions peculiar to any organisation having impact on the accounts.

(7) Verification of closing stock valuation (raw material in process, finished goods and goods in transit) including provision for obsolescence The inventory levels of raw materials, components and final products, excess holding of the raw materials, shortage of the same affecting the production schedule, action taken to record the quantity of raw materials required may be reviewed in detail. The stock verification reports, excess and shortage Statements with action taken to trace out and adjust the heavy shortages and final orders passed may be reviewed in detail.

(8) Review of ledger balances such as Debtors, Advances, Creditors and Liabilities (all) including all old items. The cases of huge sundry debtors may be

reviewed in detail with reference to the age of the debts and action taken for recovery and subsequent write off of debts.

(9) Review of provision towards gratuity, leave encashment, bonus, dividend, wage settlement and all sub ledger balances including provision for bad and doubtful items.

(10) Correctness in compilation of the accounts with reference to computerisation of accounts.

(11) Reconciliation between cost and financial records.

(12) Reconciliation of inventory i.e., book balance of inventory with physical balances.

NOTE- As on 31st March 2015, there were 8 Autonomous Bodies & 26 Government Companies subject to Certification of Accounts and Audit under the Principal Accountant General (General & Social Sector Audit) Karnataka, Bangalore, as detailed **in Annexure XII**

Chapter- VIII

Format of Accounts of Autonomous Bodies & Govt Companies.

8.01 Format of Accounts

The 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. 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. 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. The Autonomous Bodies under State Governments may follow the format of accounts as prescribed in the respective Acts governing the bodies.

(Rule 209(6) xiii of GFR 2005, Para 7.01, 7.02, 7.04 of CAG's Manual 2010, CAG's Circulars No. 103-AuII/88-2000 dt. 27.3.2002, 201-Rep (AB)/67-99 dt. 8.7.2002, 131-Rep (AB) 71-2004 dt. 14.8.2006)

8.02 Components of Financial Statements

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 accounts.

- 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 Account's.
- vi) Statement of Receipts and Payments.

Each component of the Financial Statement 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.

(Para 7.05, 7.06 of CAG's Manual 2010)

8.03 Fundamental Accounting Assumption

Certain fundamental accounting assumptions underline the preparation and presentation of financial Statements. These assumptions though, are not usually stated in 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.

* **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 revenue, costs, assets and liabilities are recognized 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.

(Para 7.07 of CAG's Manual 2010)

8.04 Salient features of the Uniform Format of accounts

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. These formats 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.

(Para 7.08 of CAG's Manual 2010)

8.05 Accounting Principles and Instructions 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 has 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.

(Para 7.09 of CAG's Manual 2010)

8.06 Accounting Standards

The common format of accounts has been prepared keeping in view of 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. A list of Accounting Standard issued so far by ICAI is given in **Annexure XIII**.

(Para 7.10 of CAG's Manual 2010)

8.07 Treatment of accounts not submitted in prescribed format

In case the Statement 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 finalize 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 accounts have not been compiled in the prescribed forms.

***(Para 7.11 of CAG's Manual 2010 and CAG's Circular DO letter No. 1418
Rep(C) 167-77 dt 30.10.1978)***

CHAPTER - IX

Audit Planning and Procedures

9.01 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. To achieve the aforesaid objective, the audit process can be broadly grouped into three phases.

(i) Planning

(ii) Executing

(iii) Reporting

(Para 8.01, 8.02 of CAG's Manual 2010)

9.02 Planning

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 internal control environment.

(Para 8.03 of CAG's Manual 2010)

9.03 Knowledge of the entity's business

Knowledge of the entity's business 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.
- Recognizing unusual circumstances.

Generally accepted auditing standards require that the auditor must obtain an understanding of the accounting system of entity.

(Para 8.04 of CAG's Manual 2010)

9.04 Establishing audit Objectives and Scope

In establishing objectives and scope the auditor ensures that it is according to the SAI's mandate or Authority.

(Para 8.05 of CAG's Manual 2010)

9.05 Audit objective

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 there on. 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.

(Para 8.06 of CAG's Manual 2010)

9.06 Scope

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.

(Para 8.07 of CAG's Manual 2010)

9.07 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 year's audits.
- Size of the auditee's both in financial terms as well as geographical distribution of units.
- Strength of auditee's internal controls.
- Statement of auditor's responsibilities.
- Level of assurance as per SAI's policy.
- Inherent risk in the accounting system of the auditee's accounts.
- Nature and type of audit evidences acceptable to the SAI and the users of the audit report.

(Para 8.07 of CAG's Manual 2010)

9.08 Determining Materiality

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; Materiality relates to the maximum possible misstatements and not to the most likely or known misstatements. 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.

(Para 8.08 of CAG's Manual 2010)

9.09 Materiality and Audit Risk

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.

(Para 8.09 of CAG's Manual 2010)

9.09.01 Factors in deciding materiality

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).

(Para 8.10 of CAG's Manual 2010)

9.10 Planning and reporting materiality

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, the concept underlines 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 terms in the Upper Error Limit) which can be tolerated in the account.

(Para 8.11 of CAG's Manual 2010)

9.11 Assessing Risk

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.

(Para 8.12 of CAG's Manual 2010)

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.

Types of Risk

- ***Inherent Risk:*** The susceptibility of the component to error that could be material. 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, which will not be detected or prevented on a timely basis by the internal controls in place.
- **Detection Risk:** Detection risk is the risk that the auditor's procedures will not detect an error that exists in the component.
- **Overall 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 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.

(Para 8.12 of CAG's Manual 2010)

9.12 Preparing Audit Plan

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.

(Para 8.16 of CAG's Manual 2010)

9.13 Objectives of an Audit Plan

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.

(Para 8.17 of CAG's Manual 2010)

9.14 Identification of significant audit Areas

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 objective and scope
- SAI's current policies.

(Para 8.18 of CAG's Manual 2010)

9.15 Determination of audit approach

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, whether analytical review can be used as a substantive test.

(Para 8.19 of CAG's Manual 2010)

9.16 Execution phase

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

(Para 8.27 of CAG's Manual 2010)

9.17 Statistical sampling for control procedure

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. In non-statistical sampling, the auditors make judgment to determine the sample size in the light of planned level of direction

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.

(Para 8.28 of CAG's Manual 2010)

9.18 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.

(Para 8.29 of CAG's Manual 2010)

9.19 Various statistical sampling methods

- Simple Random Sampling: This technique consists of Selecting the sample unit by unit (or item by item), ensuring equal probability of selection for every unit at each draw.
- 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.
- Probability Proportional to size (PPS):- Sampling assigns higher inclusion probability of selection 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.

(Para 8.30 of CAG's Manual 2010)

9.20 Performing Control Procedures and Compliance Testing Identifying key internal controls

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. For the purpose of evaluation of internal controls INTOSAI Guidelines for Internal Control Standards for the Public Sector and internal control questionnaire issued by the institute of Chartered Accountants of India may be referred to. (**Annexure XIV**)

(Para 8.32 of CAG's Manual 2010)

9.21 Types of internal controls

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.

(Para 8.33 of CAG's Manual 2010)

9.22 Testing procedures

The auditor cannot place any reliance on internal control based solely on his preliminary systems evaluation. He should carry 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. 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.

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.

(Para 8.34 of CAG's Manual 2010)

9.23 Performing substantive tests of details

Substantive Audit Procedure

Substantive tests are those tests of transaction and balances, and other procedures such as an analytical review, which seek to provide evidence as to the completeness, accuracy and validity of information in the accounting or in the financial statement. Analytical review is a recognized substantive procedure used to reduce the overall audit risk.

(Para 8.35 of CAG's Manual 2010)

9.24 Audit Evidence

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 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.

(Para 8.36 of CAG's Manual 2010)

9.25 Review of Working papers

Working papers are all documents related to a particular audit right from its planning phase to its final conclusion. Review of working paper should be done in accordance with INTOSAI standards which are as follows:

1. All evaluation and conclusions are soundly based and supported by competent, relevant and reasonable audit evidence as the foundation for the final audit opinion.
2. All errors, deficiencies and unusual matters have been properly identified and documented and brought to the attention of senior officers.
3. Recorded transactions have been measured and valued in accordance with established accounting and adopted policies.
4. The recorded transactions are in accordance with legislative Authority and subsidiary rules.
5. Recorded transactions have been properly classified and disclosed where applicable.

(Para 8.40 of CAG's Manual 2010)

9.26 INTOSAI Field Standards Review

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.”

(Para 8.41 of CAG's Manual 2010)

9.27 The Review Process

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.

(Para 8.42 of CAG's Manual 2010)

9.28 Reporting Phase

Deriving overall audit conclusion and evaluation of audit findings

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.

(Para 8.43 of CAG's Manual 2010)

9.29 Reporting Materiality

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.

(Para 8.44 of CAG's Manual 2010)

9.30 Determining opinion to be rendered after due consideration

Having independently considered the impact of (i) quantifiable errors and omissions, (ii) non-compliance with laws, rules and regulations (iii) deviation from disclosure requirements, the auditor has to finally decide which type of opinion is appropriate.

(Para 8.46 of CAG's Manual 2010)

CHAPTER – X

Procedure for conduct of Audit and preparation of reports.

10.01 Programme for local audit:

Audit under the sections 14, 15, 19 and 20 can be conducted only locally by scrutiny of records of the sanctioning authorities and Autonomous Bodies, for this purpose, it is necessary that the period required for completion of audit and composition of audit party or parties to take up the work, with adequate arrangement for supervision of the work, should be planned well in advance, with due regard to the time schedule within which the accounts should be certified. In the case of every Autonomous Body taken up for audit for the first time, it is advisable to obtain first hand information on the volume of work involved, number of branch units/ offices situated at various places, and the arrangements existing for co-ordination of financial and accounting work, if necessary, by discussion with those in charge of the Autonomous Body and chalk out a well-defined programme for audit of all units and co-ordination of results of audit before the accounts are certified. Where the work is justified, resident audit teams may be set up and audit can be arranged to be conducted in more than one spell as may be convenient.

(Ref: Para 7.01 of the 6th edition of the manual)

10.02 Audit of branch units:

Organisations like the Karnataka Housing Board, Karnataka Urban Infrastructure Development Corporation etc. have several branch units spread all over the country and the branch units are dealing with collection of receipts and disbursements. In addition, for their respective activities, the accounts and other records are locally kept and are subjected to audit either by the Principal Audit officer himself or by other Accountants General/Directors of Audit. In all such cases, it is the responsibility of the Principal Audit Officer to examine the arrangements in detail and to chalk out detailed programme for audit of the headquarters and branch units in such a way that he is in a position to certify the accounts by the prescribed period. For this purpose, there is no objection for arrangement of a rotational audit of the branch units in such a way that no branch units escape from audit altogether but when audit is taken up, due attention is paid

for audit of years that were skipped earlier. For this purpose, detailed instructions must be drawn up by the principal Audit officer and issued to the sub-audit offices and these instructions should, inter alia, cover the following aspects:

- i) The periodicity prescribed for the audit of each branch unit:
- ii) The time limit by which the audit should be concluded and report sent to the Principal Audit officer:
- iii) The documents to be sent to the sub-audit offices in connection with audit done and:
- iv) The nature of checks to be exercised in audit of the branch units and the statistical data on result of audit, if any, to be given

In addition, at the time of closure of each financial year the units that need check up for the year then closed should be taken note and concerned sub-offices intimated in time. Further the completion of rotational check of all branch units must be watched in the programme book of the main office, by allotting a separate section IV therefore, wherein all branch units will be detailed, names of sub audit offices noted and receipt of return of audit in the prescribed rotation watched.

(Ref: Para 7.02 of the 6th edition of the manual)

10.03 Local audit procedure:

The procedure regarding issue of notice intimating the programme of audit, commencement of audit, control over progress of work of the audit party, issue of audit memos discussions of the finding of audit with the management, drafting of the report, despatch of records to the head office, scrutiny of documents at the head office, processing of materials at the head office, despatch of inspection reports/audit reports, etc., followed for inspection of Government offices should be followed mutatis mutandis for the Autonomous Bodies as well.

(Ref: Para 7.03 of the 6th edition of the manual)

10.04 Reports to be drafted by the audit party:

In the case of audits for certification of annual accounts, the audit party will compile four documents:

- i) Draft separate audit report which will form part of the audit certificate on the audited accounts:

ii) Draft inspection report containing other points which, in the opinion of the audit party, need not form part of the audit certification and audit report:

iii) List of points treated as settled, subject to check at the time of next audit, and

iv) A Statement by the audit party that the prescribed audit certificate can be issued
In the case of audits under sections 14 and 15, reports mentioned at items (ii) and (iii) alone will be compiled. In addition, if in respect of all audits (whether under section 14,15,19 or 20) the audit party feels that there are points which can merit mention in the conventional audit report on the accounts of the Government concerned, separate draft paragraphs should also be compiled, duly supported by relevant key documents and replies of the management the preliminary audit memos.

The audit report/inspection report should be drafted invariably by the supervising officer of the audit party and a copy of the list of points settled on the spot subjected to check in next audit should be handed over to the Autonomous Body and acknowledgment taken.

Note: The Inspecting officer should discuss with the head of the organisation both the draft separate audit report and the draft inspection report. On receipt of the draft report from the audit party, OAD SPLCELL should issue the audit report within a week even if the vetting and issue of the inspection report is held up beyond the period.

In every case, the certificate of audit and the Audit Report must be signed by the Accountant General (Audit)/ Director of Audit concerned, Where no separate audit report is annexed to the audit certificate, the words “..... Subject to the observations in the appended Audit Report “Should be deleted. A copy each of Audit Report and Accounts as certified, together with a copy of the audit certificate should also be simultaneously endorsed to the Autonomous Body. A copy should also be endorsed to the office of the Comptroller and Auditor General in cases where the prior clearance of that office had been taken. It is also to be seen that the finalized Audit Report and audit certificate are issued within the time schedule agreed to in consultation with the organization and in any case within a period of not more than 4-5 months from the date the accounts were made available for audit. Further, at the time of forwarding the audit report to Government and the Autonomous Bodies, it is advisable to give the following in the forwarding letter:-

- i) Special points in the audit report which would require attention of Government as well;
- ii) Reason that contributed to delay in certification, if delay had occurred beyond the prescribed time limit; and
- iii) Government to be advised to inform the Accountant General (Audit)/ Director of Audit the date on which the documents were placed before Parliament/State legislature and to furnish copies of documents so placed with copies to the office of the Comptroller and Auditor General as well.

(Ref: Para 7.04 of the 6th edition of the manual)

10.05.01 Drafting of Audit Report

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 (General Sector)-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.

(Para 1.0.38 No. 39 Chapter 1 of INTOSAI Auditing Standard, Para 12.01 to 12.09 of CAG's Manual 2010, CAG's Circular 96-Audit(AP)4-2003 dt. 14.7.2003 113-Audit(AP)6-2003 dt. 27.8.2003 61-84.Rep(C)/30-2003 dt. 6.4.2004 62-Au(AP)4-2003 dt. 21.3.2005 and 117 Audit(AP)4-2003 dt. 8.6.2005)

10.05.02 Procedures to be followed while finalisation of the Report:

The following instructions have been issued by the Comptroller and Auditor General for the finalization of the audit reports and their issue with certified accounts to Government:-

- i) In any case where the accounts of an organization are not received within three months of the close of its financial year, the position should be taken special note of as the responsibility for any consequential delay at this stage would devolve on the organization.

- ii) Even after the audit is over, a large number of preliminary audit memos may remain to be replied to by the organization concerned. To avoid such a contingency, it is desirable that by a personal discussion with the heads of the institutions concerned, a working arrangement is arrived at whereby replies to the audit memos are furnished before the last day of audit. If for want of replies, to audit memos, finalization of the report is delayed, the facts should be brought to the notice of the Government/ organization Demi-officially.
- iv) The draft audit reports may be issued under a Demi-official letter to the head of the organization concerned calling for reply in three weeks. It is not necessary to send the draft reports to Government for comments except in rare cases of very important and /or controversial issues where it is desirable to ascertain simultaneously the comments of Government also. Failure to receive reply from the organization should be promptly brought to the notice of Government and also taken up with the concerned organization. It is desirable that replies to important audit observations proposed to be included in the audit reports are obtained, considered and reflected, wherever necessary, in the relevant paragraphs of the report. In case replies of the organization are not received in spite of best efforts, the report may be finalized including in it a specified comment on the non-receipt of replies.
- v) If the volume of work involved in the audit of an organization is found to be substantially more, audit in two spells may be undertaken in consultation with the concerned organization.
- vi) A copy of the draft audit report issued to the organization should be simultaneously sent to Headquarters office by name to the deputy Director in charge of the work in his office.
- vii) In case where Resident Audit parties are functioning, the material for audit report should be sent to headquarters office well in advance and should not wait till preparation of the draft audit report, only important cases which require comments/observations/Actions by Government should be sent to Government. The intention is not to send a series of paras one after another on all sorts of cases to Governments for replies; where a number of cases are found which are considered to be important for commenting in the audit report and issues involved are such that comment of Government in addition to the replies of the organization are necessary, such cases should be sent in convenient batches both

to Government and to Headquarter office for examination. In cases where audit of organization could not be completed due to non preparation of accounts by the concerned authorities, the audit of transactions of organization could be taken up and inspection report on the results of audit could be issued to Government and organization clearly bringing out the fact that compilation of final accounts had been delayed. If the audit reveals very serious irregularities, a suitable paragraph should be proposed for inclusion in the Conventional Audit Report commenting both on delay and regularities.

(Ref: Para 7.10.02 of the 6th edition of the manual)

10.06 Control over progress of audit and contents of Audit report:

As delays in presentation of documents before parliament have come up for criticism and it is necessary that audit report as finalized are complete in all respects, the following documents should also be sent to the office of the Comptroller and Auditor General of India:

- i) At the time of dispatch of draft report, a proforma on the progress of audit as given in **Annexure XV** (if the progress of work is at several stages indicate certain delays, reasons thereof should also be furnished).
- ii) Copies of key documents in respect of important points of irregularities brought out in the draft audit report.
- iii) A copy of reply furnished by the Autonomous Body to the draft report, at the time of dispatch of finalized audit report.
- iv) Replies to the remarks raised by the office of the Comptroller and Auditor General on the draft Audit report.
- v) Reasons for change, if any, made in the draft Audit report as cleared by the office of the Comptroller and Auditor General.

(Ref: Para 7.11 of the 6th edition of the manual)

10.07 Pursuance of Audit Report:

- i) Where the P.A.C desires to examine the Accounts and Audit Reports relating to some of the Autonomous Bodies; briefs can be prepared in regard to these and submitted for information of the Members of the Committee. Relevant objections could be dropped on the basis of the recommendations of the committee.

ii) In cases where the Audit reports are not discussed in the PAC or any financial committee, the points included in the Audit Reports should be pursued with the organization till they are finally settled.

Iii) There is no objection to the settlement of the paras of Audit Report being intimated to the auditee organization.

(Authority : Correction slip No. 4 dt 24-4-1990 File No. 143-Audit –II/85-KW-II and Para 7.11.01 of sixth edition of this manual)

10.08 Inspection Reports:

The Inspection Reports are expected to contain all minor and major points of objections that are likely to be included in the audit reports. These reports must also be drafted by the audit party, and sent to the Headquarters office under approval of the supervisory officer, within three days of completion of audit. Some of the points that can generally find mention in the inspection reports in addition to the paras taken to the Audit Report are as under:

- i) Non-availability of certain stamped receipts, voucher and subsidiary registers.
- ii) Incompleteness of certain registers and records.
- iii) Overpayments of not considerable magnitude.
- iv) Irregularities in sanctions of certain returns and defects in observance of certain appropriate procedures.
- v) Non-supply/maintenance of certain returns and defects in observance of certain prescribed procedures.

It should be ensured by internal arrangements that the points raised in inspection reports are complied with by the institution within a period of three months and the compliances are checked in next audit.

(Ref: Para 7.12 of the 6th edition of the manual)

10.08.01 Registration of objections:

All objections raised during audit and not settled on the spot should be incorporated in the relevant Inspection Report and settlement watched. If the money value of objections incorporated in the inspection report is considerable and accumulating over the years, with due regard to merit and period of objections, a specific paragraph can also be prepared, in addition, the objection should be registered in the audit office as under:

- i) All money value objections relating to recovery of grant, loan or any other payment made by Government should be recorded in the objection book maintained in the Audit office for the concerned major head or department, other money value objections need not be recorded in the objection book.
- ii) In respect of all cases of money value objections a note should be kept in section III of the programme book and compliance watched.
- iii) In addition, in respect of each institution under audit, a “Register of important results of audit” may be kept in which a continuous record of major types of irregularities noticed in audit is recorded. The entries are to be made in the register in the form of an epitome of each case duly approved by the Supervisory officer-in-charge of Inspection. The register may also be taken by the Inspection parties with them for scrutiny on the spot.

(Authority File No. 20-Audit III (90 & CS No. 2 dated 24-4-1990 and Para 7.12.01 of the Sixth edition of the manual)

10 .09 Materials for Conventional Audit Reports:

Audit of accounts of Autonomous Bodies throws up several points wherein the irregularities have been observed where assistance was released in advance in excess of needs, or adequate control had not been exercised at the Government level before release of assistance or after release of assistance. Further, it may be necessary to conduct a performance review of the affairs of the Autonomous Body vis-à-vis its objectives and programmes. For this purpose, a phased programme should be drawn up by each audit office so as to cover all important bodies over a time. In all such cases, where the responsibility to answer the points of objections or audit findings lies with the Government offices, the proper place to mention them is the Conventional Audit Reports.

(Ref: Para 7.13 of the 6th edition of the manual)

10.09.01 Periodicity of audit:

One of the essential requirements of section 19(3) and 20(1) is that audit can be entrusted to the Comptroller and Auditor General of India only in public interest and Government of India and State Government concerned can entrust the audit to CAG specifying the period of audit. In case the period of entrustment of audit 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 only after the legal formalities are completed. It will also not be proper to issue the separate Audit Reports for being placed before the parliament/State Legislature until entrustment of audit for that period has been made to the CAG. Government, may therefore be informed that delayed entrustment/continuance of audit may result in delay in completion of audit, certification of accounts and issue of audit Report/separate Audit Report and consequential delay in placing them before the parliament/State Legislature.

(Authority: Circular No.9 TAI/85 LrNr.403-TAI (RGL) 9-84-11 dt 25-3-85 and Para 7.13.01 of the Sixth edition of the manual)

To ensure timely completion of audit in such cases, a review of the period of entrustment of audit of all Autonomous Bodies coming under the purview of section 19(3) and section 20(1) of the CAG's Act, 1971 may be made in September of each year and a list of bodies/ institutions, the period by which entrustment of audit 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 entrustment of audit well in time. An intimation of the review having been completed and lists sent to Government may be simultaneously sent to the headquarters office. Necessary noting may be made in the calendar of Returns also.

(Authority:- Circular No. 18/Audit II/1985/LrNo.657 audit II 9-84 dt 22-5-1985 and Para 7.13.01 of the Sixth edition of this manual)

10.09.02 Annual return on the completion of audit of non-commercial/ autonomous institutions under section 19 and 20

An annual return for the period ending 31st December regarding completion of audit of non-commercial institutions undertaken under section 19(2), 19(3) and 20(1) of the CAG's Act 1971 may be sent to headquarters by 20th January each year in the proforma given at **Annexure XVI**.

The return may be prepared separately for institutions coming under:-

- a) Section 19(2) of the CAG's Act,1971
- b) Section 19(3) of the CAG's Act,1971

c) **Section 20(3) of the CAG's Act,1971**

For central institutions for which the:-

1. Report are required to be placed before the parliament and
2. Report are not required to be placed before the parliament

d) **Section 20(3) of the CAG's Act,1971**

For State institutions for which the :-

1. Reports are required to be placed before the State Legislature and
2. Reports are not required to be placed before the State Legislature

e) **Audit code as sub-auditor of another audit officer.**

1. Under section 19(2)/19(3) of the CAG's DPC Act,1971
2. Under section 20 of the CAG's Act,1971

(Authority:- Circular No.31 Audit II/85 Lr No. 1075-Audit –II) 18-TAI/85 vol II dt.22-7-1985 and Para 7.13.02 of the Sixth edition of the manual)

10.09.03 The Chapter on Financial assistance included in the Audit Report (General Sector) should give:-

- (i) A general/panoramic view of the funds, in whatever form, placed at the disposal of these bodies:
- (ii) The delays in preparation of accounts by these bodies:
- (iii) The audit arrangements for each class of institutions:
- (iv) The adequacy or otherwise of these audit arrangements; and
- (v) Significant audit findings to which attention of the Legislature deserves to be drawn.

Authority: - Director of audit's Do No.649/Audit-II/143-85 dt 29-4-1985 and Para 7.13.03 of the Sixth edition of the manual)

10.09.04 Audit Report (General Sector)- Inclusion of materials from the Reports of Examiner, Local funds/Register of co-operative Societies.

As the audit under section 14/15 of CAG's (DPC) Act 1971 cover the same areas as the audit by the examiner, Local funds accounts, Registrar of Co-operative societies etc., audit by Accountants General should be restricted to areas not covered by the Examiner, local funds accounts, Registrar of Co-operative Societies or according to their judgement, inadequately covered by and large, be supplementary to the audit done by other audit agencies.

In view of the foregoing, the chapter on Financial Assistance in the Audit Reports (General Sector) should in addition to the points referred to in Para 10.09.03 also include, Important irregularities noticed by the internal auditors, examiner Local funds accounts, Registrars of Co-operative Societies etc., giving due credit to those concerned authorities who first detected them. The Action taken or not by the concerned authorities on the irregularities so pointed out by them should also be clearly Stated. In regard to certain objections not considered fit to be taken or dropped by the other audit agencies in respect of a particular institution, Accountant General may come to their own conclusion after consultations with the other audit agencies, where necessary.

However, in the case of bodies/ institutions which do not come under the purview of audit, the question of including comments of other auditors like Examiner, local Fund Accounts, Register of co-operative societies etc., in the Audit Report (General Sector) does not arise, In such cases, included in the audit Report.

(Authority: - Circular No.35- Audit II/1985/Lr. No. 1398 Audit –II 273 -85 dt 4-10-1985 and Para 7.13.04 of the Sixth edition of the manual)

10.10 Reference to certain important review

The instructions given for conduct of audit under section 14 would apply, mutatis mutandis, for review of affairs of Autonomous Bodies, where the Comptroller and Auditor General Acts as the sole auditor. Some of the major reviews of Autonomous Bodies (audited under sections 14, 15, 19 or 20, as the case may be) that have appeared in the Audit Reports of Union Government (General Sector) or State Government (General Sector) may be referred from CAG's Reports.

(Ref: Para 7.14 of the 6th edition of the manual)

CHAPTER – XI

Separate Audit Reports

11.01 Meaning of Separate Audit Reports:

The Audit Reports prepared on Autonomous Bodies are required to be placed before parliament or State legislature in several cases. To distinguish this from the conventional audit reports on the account of the union and State Governments presented by the CAG under Art 151 of the constitution, these reports of Autonomous Bodies are conventionally laid as Separate Audit Reports (SARs).

(Ref: Para 7.05 of the 6th edition of the manual)

11.02 Separate Audit Reports

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/State Legislatures, in cases where the relevant 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 Committees. The form and contents of SAR and audit certificate are shown in **Annexure XVII**.

(Para 9.02 of CAG's Manual 2010 and CAG's Circular Ir. No. 191-197

Rep (AB) 20-86(iii) dt. 11.10.2000, 40-Rep (AB)91-2003 dt. 25.2.2004, 44-

Rep (AB) 91-2003 dt. 25.4.2006)

11.03 Separate audit reports and conventional audit reports:

Separate Audit reports (SARs) on Autonomous Bodies audited under section 19/20 of CAG's Act 1971 should contain only comments on accounts and existing procedure of including audit points in SAR may be discontinued. By delinking the audit comments from the SAR's more emphasis will be laid on the 'Comments on Accounts' which will be more on the commercial pattern and will be more effective. Observations arising out of transactions audit can be issued separately

and will not form part of certification of accounts. The comments on accounts will then be brief, concrete and more effective.

Important irregularities, points of interest and importance etc., noticed during audit of the organisation should be highlighted through the conventional audit report (CAR) as in case of other audits.

(Authority: Head Quarters DO Reg No.364 Audit II/72-90 dt: 17-3-1992)

(Ref: Para 7.06 of the 6th edition of the manual)

11.04 Drafting of Separate Audit Reports

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, the matter may be brought to the notice of the Government and suitable comment included in the Audit Report. Where the accounts submitted are not in the prescribed form, it would be preferable to finalize the certification of accounts and issue of the audit report without insisting on the accounts being recast in forms prescribed. 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.

(Para 9.08 of CAG's Manual 2010)

11.05 As the SARs are required to contain only “Comments on Accounts”, it should be ensured that the comments to be included in 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. 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. It should be ensured that an independent SAR audit certificate on the annual accounts of each accounting period is prepared and issued.

(Para 9.09 to 9.11 of CAG's Manual 2010, CAG's Circular letter Nos. 111-Rep (AB) 49-99 dt. 31.5.1999, 113-Audit (AP)/6-2003 dt. 27.8.2003, 165-Rep (AB) 91-2003 dt. 23.5.2003)

11.06 Reporting Standards

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 subject matter permits.

(Para 1.1 – Ch. IV Auditing Standards, Para 9.13 of CAG’s Manual 2010)

11.07 Contents of Separate Audit Reports

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.
- Corrections/rectification/revision 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 statement as they appear in Uniform Format of Accounts. 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.

(Para 9.15 of CAG’s Manual 2010, CAG’s Circular Lr. 40-Rep (AB) 91-2003 dt.

25.2.2004, 58/Rep (AB) 91-2003 dt. 23.5.2006, 39-Rep (AB)/91-2003 dt. 3.4.2006)

11.08 Effect of Comments on Accounts

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

(Para 9.18 of CAG’s Manual 2010, CAG’s Circular letter No. 40 Rep (AB)/91-003 dt. 25.2.2004)

11.09 Lack of response

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

(Para 9.19 of CAG's Manual 2010, CAG's Circular letter 40-Rep(AB)91-2003 dt. 25.2.2004)

11.10 Audit Certificate

In order to establish standards on the form and contents of auditor's report, the Institute of Chartered Accountants of India has issued Auditing and Assurance Standards 28 (AAS-28). The form of audit certificate, modified and revised in line with AAS-28 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.

(Para 9.20 of CAG's Manual 2010, CAG's Circular letter 44-Rep (AB) 91-2003 dt. 25.4.2006)

11.11 Issue of Management Letter

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 '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. It may be ensured that the 'management letter' is issued only at the time of issue of final SAR to the Autonomous Body. The 'management letter' will not require head quarters approval but a copy should be sent to head quarters along with draft SAR.

(Para 9.21 of CAG's Manual 2010, CAG's Circular letter 39-Rep (AB)91-2003dt. 3.4.2006)

11.12 Importance of scrutiny of separate audit reports:

The separate audit reports being important document which are excepted to be discussed by the Public Accounts Committee in the same manner as the conventional audit reports, The same care and attention have to be taken in their drafting and the standing instructions for drafting presentation, as applicable for the conventional audit reports, would apply, *mutatis mutandis*, for the separate audit reports as well. It is hence advisable that the contents of the separate audit reports or examining under the personal direction of Pr. Accountant General (G&SSA)/Director of Audit and where considered feasible, by the Report Section in the respective offices.

Approval to the separate audit report and the inspection report should be given only after scrutiny of the programme book and ensuring that on the face of entries therein, the audit has been satisfactorily completed.

(Ref: Para 7.07 of the 6th edition of the manual)

11.13 Finalisation of Separate Audit Reports

The draft SAR should be sent to the Autonomous Bodies concerned and their replies to various observations contained in it should be obtained. Replies received must be taken into account and incorporated if necessary in the SAR proposed to be issued. If no replies are received within the stipulated period SAR should be finalized and the fact of non-furnishing of replies should be indicated in the SAR. Separate Audit Reports on all legal service authorities (Central, State and District levels) will be finalized by the respective Pr. AG/AG (G&SSA). SARs on the Central and State Autonomous Bodies as detailed in the lists, which fall within the following criteria would also be finalized by the respective field audit officers.

• Central Autonomous Bodies	State Autonomous Bodies
1. Grants up to Rs 2 crore <i>per annum</i>	Grants up to Rs 1 crore <i>per annum</i>
2. If no grants are received- expenditure up to Rs 5 crore and below.	If no grants are received -expend to Rs 1 crore and below
3. If certification of accounts is in arrears up to 2 years	If certification is in arrears up to 3years
4. All SARDS on new audit may be sent to HQrs for approval for two years and	All SARDS on new audit may be sent to HQrs for approval for

thereafter, if directed by Head quarters two years and thereafter, if directed
by Head quarters

- Since the Authority for finalizing SARs in the cases indicated above vests with respective field audit offices, adequate attention to ensure time schedule and instruction issued by HQs to improve the quality of contents of SARs are strictly adhered to.

(CAG's Circular Ir. 173-Rep (AB) 27-84(1) dt. 10.9.1999, 3-rep (AB) 360-2000 dt.

8.1.2001, Para 10.01 to 10.04 of CAG's Manual 2010)

11.13.01 Submission of draft Separate Audit Reports to HQrs:

In all cases, except where SARs are to be placed before Parliament or State Legislatures the reports and accounts as audited must be submitted to Head quarters office for prior approval before they are sent to Government concerned for being placed before Parliament/State legislature. While forwarding draft/final SAR to HQs the following information/documents should invariably be furnished.

1. Two copies of draft SAR along with key documents.
2. Two copies of draft audit certificates.
3. One copy of authenticated annual accounts to be certified by the audit office.
4. Information in the preference given at **Annexure XVIII**.
5. In case of the Autonomous Bodies having branch/units, information on such units.
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 XIX**

(Para 10.5, 10.6 of CAG's Manual 2010, CAG's Circular Ir. Dt 10.9.2009, 301-Rep (AB)17-2004 dt. 21.9.2004, 249-Rep (AB)91-2003 dt. 1.8.2004)

11.14 Time Schedule

The work of certification of annual accounts and issue of SAR is required to be completed in a time bound manner.

Sl. No.	Task	Date
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1	Approved and authenticated annual accounts to be made available by the Autonomous Body to the concerned audit office and commencement of audit accounts.	30th June
2	Issue of draft SAR to the Chief Executive of the Autonomous Body	3 st 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 daft SAR to HQs for approval	21st September
5	Sending approved SAR by HQs to field office	2 st October
6	Issue of the final SAR in English Version with audit certificate to Government	31st October
7	Issue of Hind version	15th November

(Para 10.08 of CAG's Manual 2010, CAG's Circular Letter No. 173 Rep (AB) 27-84(1) dt. 10.9.2009)

11.15 Status Report

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 reports in form as at **Annexure XX** should be sent by 10th of every quarter (July, October, January, April). Requirement of furnishing quarterly reports should be noted in the Calendar of Returns to keep a watch on timely action.

(Para 10.09 of CAG's Manual 2010, CAG's Circular No. 3-Rep (AB)360-2000 dt.8.1.2001)

11.16 Delay in Submission of accounts

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. 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 Para 11.14 should be adhered to. In case of arrears in regard to finalization of accounts of State Autonomous Bodies, the matter may be taken up with the Chief Secretary. In the State Civil Audit Reports, Draft Para about delays

in submission of annual accounts of State Autonomous Bodies should invariably be included.

(Para 10.10 of CAG's Manual 2010, CAG's Circular dt. 10.9.1999)

11.17 Placing of report before Parliament/Legislature

The Committee on Papers Laid on the Table (1984 – 85) also pointed out in its 22nd Report 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 organization 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. In view of the above it is essential that statutory provision of Rules/Byelaws etc. governing respective organizations, 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. 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 audit report as placed before the Parliament/Legislature are complete in all respects and are the same as issued to Government by Audit.

(Para 10.12 to 10.14 of CAG's Manual 2010, CAG's Circular 125-Rep (AB)/5-2000 dt. 30.6.2000, Circular 26-Rep(AB)23-2000 dt. 2.2.2000)

11.17.01 Clearance of separate audit reports:

These separate audit reports are placed before parliament or State Legislature in cases covered by audit under section 19 and also where the relevant Acts, rules and /or regulation governing Autonomous Bodies provide for such submission or where the Government concern have decided to place the report and audited accounts before parliament or State legislature either of its own volition or on the directive of any parliamentary/ legislative committee. In all cases where the separate audit reports are to be placed before parliament or State legislature, the reports and accounts, as audited must be got cleared from the office of the Comptroller and Auditor General before they are sent to Government concerned for being placed before parliament State Legislature. In all other cases, the audit

reports can be finalised by the Pr. Accountant General (G&SSA)/Director of Audit concerned and issued under his signature without a prior clearance from the office of the comptroller and Auditor General.

(Ref: Para 7.08 of the 6th edition of the manual)

11.18 Replies of Autonomous Bodies to the separate audit reports:

The separate audit reports being reports on the annual accounts of the Autonomous Bodies, it will be sufficient if the draft reports are sent to the Autonomous Bodies concerned and their replies obtained, unless however, the reports contain certain observations for which the reply necessary is of the Government concerned. In the latter case, copies of draft reports should be sent to the Government also and their replies called for on the specific points. In every case, in the same way as in the case of paragraphs in conventional Audit reports, the replies of the Autonomous Bodies must be taken into account and incorporated before the audit report is finalised and issued. If however, facts Stated in the paragraph are questioned, their correctness should be got rechecked before mention and in case replies are not acceptable, reasons as to why the replies are not acceptable should be clearly specified.

(Ref: Para 7.09 of the 6th edition of the manual)

11.18 A In the case of world Bank projects audit of which comes under section 19/20 of the CAG's DPC Act 1971, important objections which may find place in the audit reports may also be communicated to the world bank along with the audit certificate. As these reports are considered in the meeting of the board, bodies etc and are not treated as confidential document till these are placed before the State legislature/Parliament. In case the World Bank projects are executed by Government departments which are audited under section 13 of the CAG's DPC Act 1971, important objections which appear in the audit reports prepared under the Act, Article 151 of the Constitution should be communicated to World Bank only after the audit reports A & E placed before the parliament/State legislature.

(Authority DO.No.896-T AI (RGL)/185-79 DT 25-7-1983)

The accounts of the World Bank projects are required to be audited in local audit in such a way that results of audit can be incorporated in the audit certificate which is required to be furnished within 9 months of the close of the financial

year. The audit certificate along with the accounts relating to World Bank project will incorporate all irregularities noticed in local audit, which are not important enough to be mentioned in the audit report.

The irregularities mentioned in the Audit Reports will be conveyed to the World Bank authorities after the Audit Report have been presented to the State legislature. The audit certificate may be issued accordingly.

(Authority: DO Lr No. 1754-TAI(RGL)/185-79 dt 9-12-1982)

Note: Based on the replies of the organisation and the comments of the office of the Comptroller and Auditor General the separate audit report should be finalised and issued. However, where there are variations from the original audit report which are not of a merely minor nature, fresh approval of the office of the Comptroller and Auditor General to the revised draft separate audit report should be obtained before issue to the organisation/Government.

(Ref: Para 7.09A of the 6th edition of the manual)

11.19 Despatch of finalised separate audit Report:

11.19.01 The separate audit report as finalised should be issued to Government along with a copy of the accounts and an audit certificate in the form given below:-

Audit Certificate:

I have examined the receipt and payment Accounts/Income & expenditure Accounts/ Profit and loss accounts for the year ended 31st March ----- and the balance sheet as on ---- of ---- I have obtained all the information and explanations that I have required, and subject to the observations in the appended Audit Report, I certify, as a result of my audit, that in my opinion these accounts and balance sheet are properly drawn up so as to exhibit a true and fair view of the State of affairs of the ----- according to the best of information and explanations given to me and as shown by the books of the organization.

Place-----

Date-----

Pr. Accountant General (G&SSA)/Director of Audit

(Strike out whichever is not applicable)

Authority: Circular Note Audit II/89 Letter No. 386) (Audit II/3-89 dt. 5-4-1989)

(Ref: Para 7.10.01 of the 6th edition of the manual)

CHAPTER – XII

Financial audit findings and conclusions

12.01 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 setting out the audit observations and conclusions in an appropriate form.

(Para 9.01 of CAG's Manual 2010)

12.02 The matters which the auditors have to report upon, could be classified into two categories

(i) Statements of fact, and

(ii) Opinions.

The Statement 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 auditor's 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 form 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 or loss/surplus/deficit for the year. 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.

(AAS 28 and Para 11.4 of CAG's Auditing Standards, Para 9.03, 9.04 of CAG's Manual 2010)

12.03 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.
- The Statements comply with statutory requirements and relevant regulations.
- The view presented by the financial statements is consistent with the auditors knowledge of audited entity, and
- There is adequate disclosure of all material matters relevant to the financial statements.

(Para 9.05 of CAG's Manual 2010, AAS 28 & Para 11.4 of Auditing Standards)

12.04 Qualified opinion

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

(a) There is limitation on the scope of auditors work, or

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

(AAS 28 and Para 11.4 of Auditing Standards, Para 9.06 f CAG's Manual 2010)

12.05 Aspects to be considered while qualifying reports

While qualifying a report, it is important to appreciate.

- (i) As to which of the various items (the statement 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 in their opinion subject to specific qualification mentioned; the accounts present a true and fair view.

(Para 9.07 of CAG's Manual 2010, AAS 28 & Para 11.4 of Auditing Standards)

12.06 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 misinformation 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 true 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.

(Para 9.14 of CAG's Manual 2010)

12.07 Revision of accounts

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 on accounts.

(Para 9.16 of CAG's Manual 2010, CAG's Circular letter 111-Rep(AB)/49-99 dt. 30.5.1999)

Chapter XIII

Performance Audit

Introduction

13.01: 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.

(Para 11.01 of CAG's Manual 2010)

13.02: Performance Auditing Guidelines applicable to the IA & AD have been introduced in May 2004 and amended in June 2014. They should be followed during the performance audit of Autonomous Bodies.

(Para 11.02 of CAG's Manual 2010)

13.03 Scope:

Performance auditing carried out by the Department is an independent, objective and reliable examination of whether Government undertakings, programs, systems, activities or organisations are performing in accordance with the principles of economy, efficiency & effectiveness and whether there is room for improvement.

Performance auditing seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement. Performance audits deliver new information, knowledge or value by:

- providing new analytical insights (broader or deeper analysis or new perspectives);
- making existing information more accessible to various stakeholders;

- providing an independent and authoritative view or conclusion based on audit evidence;
- Providing recommendations based on an analysis of audit findings.

(Para 1.4 & 1.5 of CAG's Performance Audit (P.A.) Guidelines, 2014)

13.04 Typically, Performance Audits address the issues of economy, efficiency and effectiveness.

As per *Regulation 68 of Regulations on Audit and Accounts, 2007* "Performance audit is an independent assessment or examination of the extent to which an organisation, programme or scheme operates economically, efficiently and effectively."

(Para 1.3 of CAG's Performance Audit (P.A.) Guidelines, 2014)

Economy, Efficiency and Effectiveness

Economy:-Minimising the cost of resources used by acquiring them in due time, appropriate quantity and quality and at the best price.

Efficiency: The relationship between resources employed and outputs delivered; in terms of quantity, quality and timing

Effectiveness: Meeting the objectives set and achieving the intended results.

(Para 1.6 to 1.10 of CAG's Performance Audit (P.A.) Guidelines, 2014)

13.05 Performance auditors may find answers to the following two basic questions:

- **Are things being done in the right way?**
- **Are the right things being done?**

The first question means, broadly speaking, whether policy decisions are being carried out properly. This question is usually associated with a assessment *vis-à-vis* norms *i.e.*, the performance auditor wants to know whether the executive has observed the rules or the requirements consistent with the programme. Up to this point, performance auditing is mainly concerned with different aspects of the economy or the efficiency of operations.

The scope for analysis becomes considerably greater by posing the second question, *i.e.*, whether the right things are being done. In other words, effectiveness of the operations would be examined by asking questions whether the adopted policies

have been suitably implemented. A performance auditor might, for instance, find a chosen measure ineffective and inconsistent with the policy objectives.

(Para 1.13 of CAG's Performance Audit (P.A.) Guidelines, 2014)

13.05.01 In the effort to find answer to the second question, adequate caution should be exercised by not going beyond the audit mandate by respecting the roles assigned to executive and audit. However, the correctness of the information or inputs that were considered while framing the policy and sufficiency of the programmes and resources to fulfil the policy objectives may be assessed and reported.

(Para 1.14 of CAG's Performance Audit (P.A.) Guidelines, 2014)

13.05.02 The main objective of performance auditing is to constructively promote economical, effective and efficient governance. It also contributes to accountability and transparency. Performance auditing promotes accountability by assisting those charged with governance and oversight responsibilities to improve performance. It does this by examining whether decisions by the legislature or the executive are efficiently and effectively prepared and implemented, and whether taxpayers or citizens have received value for money. It does not question the intentions and decisions of the legislature, but examines whether any shortcomings in the laws and regulations or their way of implementation have prevented the specified objectives from being achieved.

Performance auditing focuses on areas in which it can add value for citizens and which have the greatest potential for improvement. It provides constructive incentives for the responsible parties to take appropriate action. Performance auditing promotes transparency by affording parliament, taxpayers, those targeted by government policies, media and other stakeholders an insight into the management and outcomes of different Government activities. It thereby contributes in a direct way to providing useful information to the citizen, while also serving as a basis for learning and improvements.

(Para 1.15 of CAG's Performance Audit (P.A.) Guidelines, 2014)

13.06 Public Sector audits have certain basic elements (i) Three parties in the audit i.e. the auditor, the responsible party, intended user, (ii) the subject matter information and (iii) criteria to assess the subject matter.

(Para 1.16 of CAG's Performance Audit (P.A.) Guidelines, 2014)

The three parties

13.06.01 Public sector audit involves at least three separate parties: the auditor; the responsible party and the intended user. These are briefly described below:

(Para 1.17 of CAG's Performance Audit (P.A.) Guidelines, 2014)

The auditor: In public sector auditing, the role of auditor is fulfilled by the Department and by the persons delegated with the task of conducting audits. However, clear-cut demarcation of roles and responsibilities of officers and staff for various functions and processes is done through a hierarchical structure. Auditors in performance audits typically work in a team with different and complementing skills.

(Para 1.18 of CAG's Performance Audit (P.A.) Guidelines, 2014)

The responsible party: Responsible party would typically mean audited entity and those charged with governance. The role of responsible party may be shared by a range of individuals or entities, each with responsibility for a different aspect of the subject matter in some cases at different points in time. Some parties may be responsible for actions that have caused problems. Others may be able to initiate changes to address the recommendations resulting from a performance audit. Still others may be responsible for providing the auditor with information or evidence.

(Para 1.19 of CAG's Performance Audit (P.A.) Guidelines, 2014)

Intended users: The intended users are the persons for whom the auditor prepares the performance audit report. The legislature, government agencies and the public can all be intended users. A responsible party is also an intended user.

(Para 1.20 of CAG's Performance Audit (P.A.) Guidelines, 2014)

13.07 Subject matter

The subject matter of a performance audit need not be limited to specific programmes, entities or funds but can include activities (with their outputs, outcomes and impacts) or existing situations (including causes and consequences). The subject matter is determined by the objective and formulated in the audit questions.

(Para 1.21 of CAG's Performance Audit (P.A.) Guidelines, 2014)

13.08 Audit Criteria

Audit criteria within the context of performance audit are audit specific, reasonable standards of performance against which the economy, efficiency and effectiveness of operations can be evaluated and assessed. The auditor may sometimes be involved in developing or selecting the criteria that are relevant to the audit as discussed in Para 2.7 to 2.11 under Chapter 2 of CAG's Guidelines on Performance Auditing, 2014. (Para 1.22 of CAG's Performance Audit (P.A.) Guidelines, 2014)

Strategic Planning:

13.09: 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 i.e. risk parameters, financial materiality, significance, visibility and coverage of such activities, past audit finding etc.

(Para 11.03 of CAG's Manual 2010)

13.10: The first step involves identifying the various functional areas. Each parameter should be assigned rank of 'Low', 'Medium' or 'High' risk.

(Para 11.04 of CAG's Manual 2010)

Performance audit of regulatory bodies.

13.11 : 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 (& amended in 2014) 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.)

(Para 11.05 of CAG's Manual 2010)

Implementing the performance audit

13.12 This topic contains the practices and procedures to be followed by the audit team during the implementation of the performance audit. It covers the stages of performance audit during the field audit process, *i.e.*, after the audit planning and up to the stage of developing the audit findings and recommendations. The process of implementation of the performance audit steers through entry conference (with the Secretary of the Department by the Pr. Accountant General), issuance of audit engagement letter (addressed by the Pr. Accountant General to the Secretary/Chief Executive of the entity), data collection process, collecting audit evidence, developing audit findings and conclusions and developing recommendations.

(Para 5.1 of CAG's PA Guidelines 2014)

Field audit process:

13.13 The field audit process comprises the efforts made to collect, interpret and analyse data in relation to stated audit objectives and evaluating them against the pre-determined criteria. The steps involved in field audit process are discussed in succeeding paragraphs.

(Para 5.4 of CAG's PA Guidelines 2014)

Entry Meeting

13.14 Besides entry conference, the audit parties should also hold entry meeting(s) with the heads of the units before commencement of the audit of selected auditable units. During these meetings, the audit party should narrate the purpose, objectives of audit, timelines and cooperation expected from the head of the selected auditable

unit. The minutes of such entry meeting should be prepared and shared with the audited entity and acknowledgement requested

(Para 5.5 of CAG's PA Guidelines 2014)

Data Collection & Analysis

13.15 Data collection may be performed once, at repeated intervals or through continuous measurements as warranted. Information may be gathered on the basis of physical evidence, documents (including written statements), oral testimonies (interviews), or by other means depending on the objectives of the audit. The types of data to be obtained should be explainable and justifiable in terms of sufficiency, validity, reliability, relevance and reasonableness. A great deal of data (material produced by others specifically by the audited entity) is often used however the auditors may also produce certain data (its own source material) with the aid of questionnaires, surveys and direct observation.

(Para 5.6 of CAG's PA Guidelines 2014)

13.16 Quality in data collection and documentation is vital. It is important that the auditors seek information from different sources, since organisations, individuals in an organization, experts and interested parties have different perspectives and arguments to put forward. Data, information and knowledge are, broadly speaking, similar, linked concepts. Data is the primary facts. Data, which has been compiled, is transformed into information. Information, which is analysed and understood, will become knowledge. Data may be collected for different purposes during an audit, as part of the learning process, or in order to describe and analyse an outcome or a problem.

(Para 5.7 of CAG's PA Guidelines 2014)

13.17 The audit party has to call for the records from the audited entity in the form of executive and administrative files and other information essential for accomplishment of audit objectives. Records required should be called in a timely fashion from the authority responsible to provide the same in terms of the protocols defined in the entry conference and entry meeting. Information given by the audited entity (like filling up of Annexure in Performance Audit report) may be test checked with reference to the source and documented accordingly. File examination forms the

basis of performance audits. Files contain a wide range of types of evidence, such as the decisions of officials, the 'case records' of program beneficiaries and the records of Government programs. It is important to establish the nature, location and availability of records at the outset of a performance audit so that they can be examined effectively.

(Para 5.8 of CAG's PA Guidelines 2014)

13.18 Based on general experience, it is important to distinguish between the following components in the information gathering process:

- Records in form of documents, files
- Questions formulated to be answered by the audit.
- Data-collection techniques needed in order to answer the questions set (study of documentation, meetings, questionnaires, interviews *etc.*).
- Audit programs, i.e. the type of investigation that is needed for the data collection (such as sampling, case studies, secondary analysis, inquiries, 'before- and after analysis', comparable evaluations, *etc.*).
- Quantitative and qualitative analysis, applied to the data collected (for deeper analysis of the information collected).

(Para 5.9 of CAG's PA Guidelines 2014)

13.19 Most audits involve some type of analysis in order to understand or explain what has been observed. This could be done in the form of more detailed statistical analysis, discussions on the findings within the audit team, studies of documentation and working papers *etc.* The analysis might sometimes also require comparisons of findings between, for instance, subjects that work well and those that work less well; one or more subjects and an overview; and the audited area and a similar audit area in other states. Some methods of data analysis have been discussed in Chapter 4 of the Performance Audit Guidelines, 2014. The final stage in the analysis of data involves combining the results from different types of sources. Audit teams should refer to the Audit Design Matrix while carrying out data analysis and the adopting technique or tool thereof.

(Para 5.10 of CAG's PA Guidelines 2014)

Developing audit findings and conclusions:

13.20 Audit findings are the specific evidence gathered by the auditor to satisfy the audit objectives. Audit findings contain the following elements: *criteria* ('what should be'), *condition* ('what is'), and *effect* ('what are the consequences' – observed as well as 'reasonable and logical future impact'), plus *cause* ('why is there a deviation from norms or criteria'), when problems are found. However, all four elements are not always required in an audit; the element 'criteria' is for instance not always specifically addressed in the problem-oriented approach. Conclusions are statements deduced by the auditor from those findings after analysis of causes and effects of these findings. And finally, the recommendations are courses of action suggested by the auditor relating to the audit objectives.

(Para 5.11 of CAG's PA Guidelines 2014)

13.21 The Audit Design Matrix should be suitably updated at each stage of audit as the same was initially prepared based on the limited knowledge acquired during the pilot study and also to be linked with the audit findings matrix as defined in para no. 13.28. While developing the audit findings and conclusions, the reference is made not only to number of deviations but also to total number of cases test checked and the population size. The process of analyzing evidence, developing findings and producing recommendations to resolve identified areas of poor practice is summarised as following :

Audit criteria (what should be)-Audit evidence (what is)- Audit finding ('what is' compared with 'what should be')- Determine the causes and effects of the findings
Developing audit conclusions -Developing audit recommendations.

(Para 5.12 of CAG's PA Guidelines 2014)

13.22 Audit findings are arrived at by comparing the evidence to the criteria. These are based on the analysis of information collected during the audit. Further analysis of the nature and magnitude of the issue, will lead to the development of audit conclusions. These conclusions should be based on objectives, rationality and project-specific standards and criteria. Audit conclusions should be developed and evaluated throughout the various phases of performance audit. Potential conclusions identified in the planning stage or during the pilot study should be followed up in the detailed examination phase of the audit. Further, the audit team must determine whether the deficiency is an isolated instance or represents a generic or systemic

problem. Conclusions may also require the application of significant judgement and interpretation in answering the audit questions, due to the fact that audit evidence may be persuasive ("points towards the conclusion that...") rather than conclusive ("right/wrong") in nature. The need to be exact should be weighed against, what is reasonable, economical, and relevant for the purpose of involvement of Senior Management.

(Para 5.13 of CAG's PA Guidelines 2014)

13.23 The audit team may identify a cause-and-effect chain and have the option of reporting the findings and conclusions at different points in the chain. In this situation, the auditor should highlight the most critical deficiencies in the chain.

(Para 5.14 of CAG's PA Guidelines 2014)

13.24 Audit conclusions will confirm whether the entity's performance, with reference to the criteria laid down, was satisfactory or not. If it was not adequate, they will point either to the systemic deficiency or to the person(s) responsible, the cause and, if determinable, effect of the problem on the subject matter of the audit.

(Para 5.15 of CAG's PA Guidelines 2014)

Developing recommendations:

13.25 All performance audits ought to conclude with well thought-out recommendations, which should transcend inverted versions of audit conclusions or truisms and clearly spell out possible solutions, without taking over management's responsibilities. For developing recommendation, the underlying cause(s) of a finding should be identified, as this forms the basis for the recommendation. The cause is that which, if changed, would prevent similar findings.

(Para 5.16 of CAG's PA Guidelines 2014)

13.26 Recommendations emerge from identification of the 'cause' of audit findings, which ought to be addressed by the entity or those charged with governance. Recommendations should be well-founded and add value. It should be clear who and what is addressed by the recommendation, who is responsible for taking initiative and what the recommendations mean, i.e. how they will contribute to better

performance. Recommendations should be practical and be addressed to the entities having responsibility and competence for their implementation.

(Para 5.17 of CAG's PA Guidelines 2014)

13.27 The recommendations should be clear and be presented in a logical and rational fashion. They should be linked to the audit objectives, findings and conclusions. Together with the full text of the report they should make it possible for the reader that they are likely to significantly improve the conduct of government operations and programs, *e.g.* by lowering the costs and simplifying the administration of the services, by enhancing the quality and volume of the services, or by improving the effectiveness, the impact or the benefits for the society of the services. Sometimes, the cause may be outside the control of the entity under audit, in which case the recommendation should direct attention outside the audited entity, the governance structure. In some cases it is also important to present the arguments for and against various alternative proposals. By following the underlying arguments, the reader will be better able to understand the final recommendations emerging from identification of the 'cause' of audit findings, which ought to be addressed by the entity.

(Para 5.18 of CAG's PA Guidelines 2014)

Audit Findings Matrix

13.28 The audit teams are encouraged to prepare an Audit Findings Matrix indicating the audit findings *vis-à-vis* good practices and the potential audit recommendation along with the expected benefits in case the recommendation is implemented. It is meant to provide a link between the audit objectives, criteria, the audit observation and the recommendations emerging there from. The audit teams should link the Audit Findings Matrix with Audit Design Matrix and highlight the Para number as well as chapter number of the draft report against each of the audit objective where the observations are reported. This will help audit teams and those responsible for reviewing their work to ensure that the audit work completed aligns with the work planned.

The specimen of the Matrix is given hereunder:

Audit Findings Matrix:

Findings						Conclusions	Recommendations
Objective/ Sub objective	Audit Questions	Criteria	Evidence	Cause	Effects		

(Para 5.19 of CAG's PA Guidelines 2014)

Exit Meeting

13.29 The audit team leader or the Group Officer in charge should hold an exit meeting with the officer in charge of audited unit at the close of audit to seek his observations on the audit conclusions and recommendations, if not already received in response to the audit memos. The minutes of such exit meeting should be prepared and shared with the audited entity and acknowledgement requested.

(Para 5.20 of CAG's PA Guidelines 2014)

Supervision

13.30 Supervision of the implementation of the performance audit of the selected subjects will ensure that the audit is performed in accordance with the audit plan and the provisions of these guidelines. It will also ensure that the process is focused on the audit objectives and audit criteria and that the refinement of the criteria and audit programme is carried out as and when required. Concurrent supervision by group officers will fulfil this objective and make sure that their intervention is promptly applied, where necessary. The Pr. Accountant General should conduct mid-term appraisal to ensure that the work is being performed as per plan to avail the opportunity of providing timely guidance to the field audit parties.

(Para 5.21 of CAG's PA Guidelines 2014)

13.31 In cases, where the performance audits are conducted by different teams, within the administrative and technical control of one or more Accountants General, one or more mid-term workshops may assist in ensuring consistency of approach and techniques. Where necessary, a workshop on the results of performance audits conducted by a large number of teams across dispersed areas and under different audit control may be held to finalise consistent audit findings and recommendations.

(Para 5.22 of CAG's PA Guidelines 2014)

13.32 The quality control and supervision on the implementation of the performance audit by the Department's Senior Management is provided through approval of the audit implementation guidelines, periodic work-in-progress reports and guidance during the mid-term workshops.

(Para 5.23 of CAG's PA Guidelines 2014)

Evidence and documentation

13.33 Audit evidence is the information collected and used to support audit findings. It provides a factual basis for developing observations and concluding against audit objectives. As such, it is evidence which must support the contents of an audit report, including all observations leading to recommendations.

(Para 6.1 of CAG's PA Guidelines 2014)

C&AG of India's auditing standards

13.34 Standard 3(e) in chapter-III of the Auditing Standards of C&AG of India state: 'Competent, relevant and reasonable evidence should be obtained to support the auditor's judgment and conclusions regarding the organisation, programme, activity or function under audit.' The auditing standards further emphasise that:

- (i) data collection and sampling techniques should be carefully chosen;
- (ii) the auditors should have a sound understanding of techniques and procedures such as inspection, observation, enquiry and confirmation, to collect audit evidence; and
- (iii) the evidence should be competent, relevant and sufficient and as direct as possible.

The concept of competence, relevance and sufficiency of evidence, particularly in the context of performance audits, is elaborated in para 6.3 to para 6.5 of Performance Audit Guidelines, 2014.

(Para 6.2 of CAG's PA Guidelines 2014)

13.35 Considerations that determine the strength of evidence required are:

- If the observation is highly significant and material, it will require stronger evidence to sustain;
- The strength of evidence should be very high when the degree of risk associated with wrong conclusion is high;

- If previous experience suggests that the entity's documents are reliable, less corroboration of the evidence may be necessary; and
- Evidence needs to be more convincing, if the issue is controversial or sensitive.

(Para 6.6 of CAG's PA Guidelines 2014)

Factors affecting the evidence:

13.36 Some factors that may affect the competence, relevance and sufficiency of the evidence are:

- Samples selected are not representative (*sufficiency*);
- Evidence collected relate to an isolated occurrence (*sufficiency*);
- Evidence is incomplete and does not establish a cause and effect relationship (*sufficiency, relevance*);
- Evidence is conflicting (*competence*); and
- Evidence is biased (*competence*).

(Para 6.7 of CAG's PA Guidelines 2014)

Types of evidence

13.37 Evidence can be categorised with reference to their type as physical, oral, documentary or analytical.

Physical evidence is obtained through observation, photographs, charts, maps, graphs or other pictorial representations, *etc.*. It is desirable to corroborate physical evidence, particularly if it is crucial to any audit findings (linked to the audit objectives), with other types of evidences.

Oral evidence is the statement in response to audit inquiries or interviews. The statements made can either provide a background or a lead for further examination that may not be available through other forms of audit work or may provide corroborating evidence (*e.g.* beneficiary survey). The statements can be by the employees of the entity, beneficiaries, experts and consultants contacted to provide corroborative evidence, *etc.* It will be essential to corroborate the oral evidence, if the oral evidence is itself to be used as primary evidence rather than simply as a background or lead for further examination.

The corroboration of oral evidence could be:

- by written confirmation by the person interviewed;
- by weight of multiple independent sources disclosing same facts;

- by checking the records later; or
- by entrusting the collection of evidence to independent organisations of repute.

Documentary evidence in physical or electronic form is the most common form of audit evidence. These could be both internal as well as external. Some examples of internal documentary evidence are accounting and information records, copies of outgoing correspondence, plans, budgets, annual reports and internal audit reports, *etc.*

Analytical evidence stems from analysis and verification of data, which can involve computations, analysis of rates, trends and patterns, comparisons against standards and benchmarks, *etc.* The analysis and comparisons can be both numerical and non-numerical. The source of data analysed to develop an evidence should be indicated to facilitate acceptance by the entity.

(Para 6.8 of CAG's PA Guidelines 2014)

Sources of evidence

13.38 The sources of evidence may vary from case to case. The following are however some illustrative sources of evidence:

- *Policy statements and legislations* :policy documents, operating guidelines and manuals, administrative orders, *etc.* along with the background papers leading to their promulgation.
- *Published programme performance data* - budget, accounts including VLC outputs, plan documents, performance budgets and reports, programme documents, annual reports and replies or statements placed before Parliament and legislature.
- *Management reports and reviews* - internal reports and reviews, minutes of meetings, management information chain and information/performance reports, *etc.*
- *Files of the entity on the subject* - provide strong evidence to support audit findings. It may not be possible to examine all files of the entity due to time constraint. The selection of the files for examination will be guided by the audit objectives or the purpose of the investigation. Depending upon the subject of performance audit, the audit team may examine a sample selected at random. Some of the more important files that can provide the desired evidence are:
 - Strategic and operational planning files;
 - Budget files;
 - Management control, monitoring and review files;

- Internal audit reports, internal and external evaluations;
- Complaints and disputes *etc.*;
- *Databases* - maintained by the entity are important source of audit evidence; and
- *External sources* - independent surveys, evaluation, research, *etc.*

Evidence and documentation

- Website of audited entity, the regulators and other related entities. It may be ensured the website from which the audit evidence is being taken is reliable and updated. The source of such information should be shared with audited entity and suitably depicted in the audit report.
- Department's sources – evidence collected in previous audits and during finalisation of strategic plan could provide evidence in many cases.
- Auditors' observation – could form an important source of evidence, particularly when supported and corroborated by photograph, video recording, *etc.* and attested by the representative of the entity. The audit team should record a detailed description of the results of observation.
- Physical verification/*inspection* is an important source of evidence. Some of the measures to transform the observed evidence into competent evidence could be joint inspection in which the result of such inspection is certified by the representative of the entity holding responsible position, out-sourcing the physical observation to an agency of repute and supplementing the observed results with photograph, *etc.* attested by the representative of the entity.

(Para 6.9 of CAG's PA Guidelines 2014)

Documentation

13.39 Meticulous documentation of the evidence supports the audit conclusions and confirms that the audit was carried out in accordance with relevant standards. C&AG of India's Auditing Standards (paragraph 8, chapter III) state: “Auditors should adequately document the audit evidence in working papers, including the basis and extent of the planning, work performed and the findings of the audit. Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditor's significant findings and conclusions.”

(Para 6.10 of CAG's PA Guidelines 2014)

13.40 The Standards further add: “Adequate documentation is important for several reasons. It will:

- confirm and support the auditors' opinion and report;
- increase the efficiency and effectiveness of audit;
- serve as a source of information for preparing reports or answering any enquiries from the audited entity or from any other party;
- serve as evidence of the auditor's compliance with Auditing Standards;
- facilitate planning and supervision; and
- provide evidence of work done for future reference.”

(Para 6.11 of CAG's PA Guidelines 2014)

13.41 Good documentation of evidence helps ensure that:

- an adequate and defensible basis exists for the audit's observations, conclusions and recommendations;
- an effective link exists between successive audits; and
- appropriate basis exists for quality control in carrying out an audit and for subsequent third-party reviews.

(Para 6.12 of CAG's PA Guidelines 2014)

Working papers

13.42 All relevant documents and information collected and generated during a performance audit constitute the working papers. They include the documents recording the audit planning including the audit objectives, determination of criteria including the process of their determination, field audit and evidence gathering procedures, evidence analysis, the nature, timing and the extent of audit procedures performed and the process of arriving at the results of the audit tests *i.e.*, audit findings and conclusions. Ideally the working papers should consist of three sections – each linked to the other: planning; execution and reporting.

(Para 6.13 of CAG's PA Guidelines 2014)

13.43 Working papers also serve as a connecting link between the fieldwork and the audit report. These should, therefore, be complete and appropriately detailed to provide a clear trail of the audit. The confidentiality of the working papers should be

maintained and they should be retained for a period sufficient to meet the professional, legislative and legal requirements.

(Para 6.14 of CAG's PA Guidelines 2014)

13.44 Some of the broad characteristics which working papers should have are set out below:

- **Completeness and accuracy:** Provide support to audit conclusions and recommendations.
- **Clarity and conciseness:** Anyone using these papers should be able to understand the entire audit process without need for any supplementary examination.
- **Ease of preparation:** While the audit teams will be called upon to collect large volumes of working papers, to the extent they can use the entity prepared documents and reports, pre-printed standard audit stationery and automatically generated standard working paper formats, the time and effort may be optimised.
- **Legibility and neatness:** Applies particularly to photocopies.
- **Relevance:** Working papers should be restricted to matters, which are important, pertinent and useful for the purpose.
- **Ease of review:** The working papers should contain cross-references to the audit memoranda, discussion papers, audit observation, field audit report and performance audit report, as the case may be, to enable Accountants General and the supervisory authority to link the working papers to audit conclusions and recommendations.
- **Organisation and ease of reference:** The working papers may contain an omnibus, easy to follow, index with proper narration for all volumes in an audit summary file and an index for each of the working paper files.
- **Complete audit trail of analysis:** The working papers should be so organised so that even an uninitiated person can follow the trail of how the subject was selected, how evidence was gathered, what was the evidence collected and how audit conclusions were formulated. This should include evidence for the positive findings as well.

(Para 6.15 of CAG's PA Guidelines 2014)

Audit file

13.45 Documentation in a performance audit requires maintenance of audit file along with set of working papers. Audit file refers to one or more folders or other storage

media, in physical or electronic form, containing the records that describe the audit documentation for a specific engagement.

(Para 6.16 of CAG's PA Guidelines 2014)

13.46 Normally, the audit file should include the audit strategy, scope and methodology, the sample selection, nature, timing and extent of procedures performed, results of such procedures and the evidence obtained. It should also mention significant matters arising during the audit, the conclusions reached thereon and significant professional judgments made in reaching those conclusions. Audit file should also include discussions of significant matters with management, those charged with governance and others, including the nature of the significant matters discussed and when and with whom the discussions took place. Besides, a reference about as to why a particular audit team was chosen for a performance audit may be made clear in planning documents.

(Para 6.17 of CAG's PA Guidelines 2014)

13.47 Audit file should be properly indexed, referenced with and supplemented by the set of working papers. The auditor should summarise the audit documentation in an audit file and complete the administrative process of finishing the audit file on a timely basis. After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature. In case of multiple audit files, a master index of the files may be maintained in addition to the index of each audit file. The responsibility of ensuring documentation of evidence in support of all facts, figures and comments included in the audit report rest with the field audit offices conducting the audit.

(Para 6.18 of CAG's PA Guidelines 2014)

The reporting process

13.48 Every performance audit is to culminate in a report containing the audit findings and recommendations. Para 1.1 and 1.6 under Chapter IV of C&AG's Auditing Standards stipulate inter alia the following on reporting:

- On the completion of each audit assignment, the Auditor should prepare a written report setting out the audit observations and conclusions in an appropriate form; its content should be easy to understand, free from ambiguity and supported by

sufficient, competent and relevant audit evidence and be independent, objective, fair, complete, accurate, constructive and concise'.

- With regard to performance or value for money audits, the report should include a description of the scope and coverage of audit, objective of audit, area of audit, main findings in respect of the efficiency, economy and effectiveness (including impact) aspects of the area (subject matter) which was audited and recommendations suggesting the improvements that are needed'.

(Para 7.1 of CAG's PA Guidelines 2014)

13.49 The auditing standards further states that in contrast to compliance audit, which is subject to fairly specific requirements and expectations, performance audit is wide ranging in nature and is more open to judgement and interpretation; coverage is also more selective and may be carried out over a cycle of several years, rather than in one financial period; and it does not normally relate to particular financial or other statements. As a consequence, performance audit reports are varied and contain more discussion and reasoned argument.

(Para 7.2 of CAG's PA Guidelines 2014)

13.50 The reporting process is illustrated below:

The Reporting Process

Preparation of audit observations- Draft report issued to the entity- Response of the entity- Exit conference- Final Report- Response of the entity or those charged with Governance on Draft Final report- Draft Final report- Sr. Management response to the report

(Para 7.3 of CAG's PA Guidelines 2014)

Audit observations

13.51 An Audit Observation is defined as an area of potential control weakness, policy violation, financial misstatement, inefficiency in programme implementation and achievement of programme objectives, or other problematic issue identified during the audit. These reflect the specific evidence gathered by the auditor to satisfy the audit objectives, in order to be able to answer the audit questions and verify the stated hypothesis, *etc.* These serve to confirm the facts with the entity and help in development of audit findings and recommendation by exploring significant early

findings and recommendations with the entity and obtaining its preliminary response. They assist the performance auditor to detect at an early stage possible mistakes in understanding the subject, possible weaknesses in audit findings and the supporting evidence or the logic rather than wait till the entity points these out on receipt of the draft report.

(Para 7.4 of CAG's PA Guidelines 2014)

13.52 It is a good practice to develop audit observation in a modular fashion, containing the audit findings, conclusions and recommendations (where applicable) along with details of evidence, their sources and analysis, so that the portion containing audit findings, conclusions and recommendations can be used directly in the draft performance audit report. The audit teams should be encouraged to use Audit Design Matrix (Para No. 4.37 of Performance Audit Guidelines, 2014) as well as Audit Finding Matrix (Para No. 5.19 of Performance Audit Guidelines, 2014) for cross reference to ensure that nothing is left out and they have completed the work inconsonance with the Matrices *ibid*.

(Para 7.5 of CAG's PA Guidelines 2014)

Draft audit report

13.53 The draft audit report is to be prepared upon conclusion of the field audit of the controlling unit of the entity and all field units selected for audit. The purpose of preparation of the draft report is to seek formal response of the entity-in-chief (Secretary of the ministry/department). A reference to the auditing standards followed for conduct of audit should suitably be made in the draft report.

(Para 7.6 of CAG's PA Guidelines 2014)

13.54 It is important that the draft report describes the objectives and scope of the audit to enable the reader understand the purpose of the audit. Any limitation imposed on the scope of the audit, the reasons thereof and efforts made to resolve it should be indicated in the draft report. Accountants General may forward the draft performance audit report to the Government with a demi-official forwarding letter to the Secretary with a copy to the Financial Adviser to the ministry, which should contain the following:

- subject of the performance audit and reference to previous dialogues;
- gist of major audit findings and recommendations along with the risks and materiality of the issues;

- time limit for formal response;
- invitation to a formal discussion and presentation of the audit findings and conclusions; and the expected value additions to the programme management, if the recommendations are implemented.

(Para 7.7 of CAG's PA Guidelines 2014)

Response of the entity

13.55 It is important that the entity is persuaded to provide written response to the draft audit report. This may be achieved through correspondence, personal meetings and presentation of the draft audit report. Since the audit report is presented to the Parliament/State legislature, it is crucial that the response of the entity has the approval of the Secretary of the ministry/department. The attempt should be to get the audited entity to respond directly to each audit finding and recommendation so that these can be published in final audit report.

(Para 7.8 of CAG's PA Guidelines 2014)

Exit conference

13.56 The performance audit should be concluded with an exit conference with the Chief executive of the audited entity *e.g.* Secretary/ Pr. Secretary to the Government concerned as the case may be. Wherever, more than one department/agency is involved, representation from such agencies/departments should be insisted upon. The draft Audit report including the responses of the audited entity must be issued before the holding of the exit conference. The Accountant General or the Group officer should lead the exit conference. All audit findings, conclusions and recommendations are to be discussed and as far as possible direct responses of the audited entity are to be solicited and recorded. It is also a platform to arrive at an agreement with audited entity about audit conclusions and recommendations. It will also allow the audit team to clarify any point of doubt that the entity may like to raise. The minutes of exit conference should be recorded and endorsed to the entity with a request to acknowledge the minutes within two weeks stating that in case of non receipt of acknowledgement within stipulated period, it will be presumed that audited entity concurs with the minutes. In case, head of the audited entity does not respond to audit's request for holding exit conference, Accountant General should try

to convince the head of the entity to hold the conference. In case, the exit conference could not be held even after pursuance, this fact should be recorded in the report.

(Para 7.9 of CAG's PA Guidelines 2014)

Third party consultations

13.57 While third parties may not generally be the audited entities, their activities affect the program and service delivery, and audit reports often include commentary about their responsibilities and performance. Auditors should not communicate to third parties, neither in writing nor orally, any information they obtain in the course of audit work, except where doing so is necessary to discharge the statutory or otherwise prescribed responsibilities. In case any information is required from third parties, audited entity would requisition the same from the third party and provide to Audit. Further, where role of identified third parties is considered very significant to the audit conclusions and recommendations, the audited entities may be encouraged to bring out the concerns of those parties in their replies to audit.

(Para 7.10 of CAG's PA Guidelines 2014)

Observations of the headquarters on draft report

13.58 The supervision and review by the headquarters of the audit report prepared by field audit offices with particular reference to the audit findings and conclusions, recommendations, evidence, drafting, *etc* is a measure of quality control. The observations and suggestions for improvements by headquarters, which has not been involved on day-to-day basis with the conduct of the audit, provide assurance on the logical development of findings and conclusions, quality and validity of supporting evidence and objective approach. Review by the Department's Senior Management ensures that appropriate procedures have been followed by Accountants General in implementation of the audit. The modifications brought out in the report due to this process should be documented by highlighting the reasons thereof.

(Para 7.11 of CAG's PA Guidelines 2014)

Draft Final report

13.59 After incorporating the replies of audited entity and modifications suggested by headquarters, the draft final report should be prepared. The audited entity should be again given the opportunity to comment on the audit findings, conclusions and

recommendations. As such, Draft final report, after the approval of the Senior Management, including the responses of the audited entity/minutes of exit conference should be issued to the head of the audited entity or persons charged with governance as a numbered and confidential copy requesting responses to the audit conclusions and recommendations within a period of two weeks. The response of the audited entity to the conclusions and the recommendations received on the draft final report should be included in the final report.

(Para 7.12 of CAG's PA Guidelines 2014)

Final report

13.60 On approval of the report by Department's Senior Management, the Accountant General may send the bond copy of the report with appropriate annotations for the approval of the report by Comptroller and Auditor General, after which the report stands cleared for printing of the prescribed number of copies, signature copies for signature of the Comptroller and Auditor General in ink and others with his facsimile signature.

(Para 7.13 of CAG's PA Guidelines 2014)

13.61 The printed signature copies of the report are to be forwarded to the headquarters for signature of Comptroller and Auditor General. The signed copies of the report should be forwarded to the Government for placing it on the table of the Parliament/State legislatures. Simultaneously, intimation on forwarding of the report along with a signed copy of the report is to be sent to the Secretary to the President/Governor in respect of the reports relating to the Union and State Governments respectively. The remaining copies of the printed reports are forwarded to the Parliament/Secretariat on their request, generally on the day the report is presented.

(Para 7.14 of CAG's PA Guidelines 2014)

Characteristics of a good report

13.62 The following points need to be emphasised in regard to performance audit reports:

- The audit report should be complete i.e. all pertinent information required to satisfy the audit objective, including the information relating to the scope, criteria, evidence, conclusions and recommendations should be available in the report;
- The objectivity of audit report is ensured through fair conclusions and balanced content and tone. A report is balanced if it does not focus on criticism alone but contains fair assessment or evaluation, which would mean that good performance should also be reported;
- The audit report is convincing if the results of audit are presented persuasively and the conclusions and recommendations follow logically from the facts presented;
- The report should be easy to read and understand; it should be concise, no longer than necessary to convey the audit opinion and conclusions;
- Consistency of the report is secured by ensuring that it does not contain contradictory findings or conclusions in similar contexts or the conclusions on the same segment in different sections or parts of the report are not incompatible;
- The report is constructive if it manifests a remedial approach rather than a critical approach and includes appropriate recommendations; The report adds value to the entity, if it is timely.

(Para 7.15 of CAG's PA Guidelines 2014)

Structure of the report

13.63 The performance audit report should preferably be presented as per the following structure:

- Title: the subject of the performance audit;
- Executive summary: It provides the précis of the main report. The summary should not be very long and should contain only essential information. The major audit findings should be placed in the same sequence as the audit objectives and sub-objectives along with recommendations in brief;
- Introduction: It consists of a brief description of the subject of study, information on programme, activity, or institution, its objectives, inputs, implementation structure, expected outputs and outcome, *etc.* The introduction should be brief, yet sufficient to enable the reader understand the context of the programme;
- Audit objectives: They are the pivots of the performance audit, which set out the reason for undertaking the audit. The entire exercise of performance audit is built around the audit objectives. These should, therefore, be stated in simple and clear

terms. It is useful to set out the audit objectives and sub objectives within each audit objective in the form of complete statement/question;

- **Scope of audit:** It is defined in terms of the period of the programme covered in audit and segments of the programme audited should be set out precisely; **Audit methodology:** It describes methods used for data collection/evidence gathering and testing may be stated in brief. This adds to the acceptability of the audit findings and forms a statement for transparency of the audit procedure;
- **Audit criteria:** to arrive at the audit findings and conclusions with reference to each audit objective and sub-objective which should be stated with appropriate explanations; audit findings and conclusions made during an audit with reference to each objective should be stated;
- **Recommendations:** They should be presented along with the conclusions wherever applicable in a box or highlighted print; **Acknowledgement:** it may be useful to indicate or acknowledge in brief the co-operation, acceptance of the criteria/findings and recommendations by the entity. In case the co-operation or response was not forthcoming at any stage it may be indicated if it has resulted in any limitation along with its implication and the special efforts made by the Accountant General to seek cooperation or response;

Glossary of terms: It is helpful to the reader if explanations are provided in a glossary or easy-to-find footnotes. Glossary should be comprehensive, explaining all technical and uncommon terms used in the report.

(Para 7.16 of CAG's PA Guidelines 2014)

Enhancing the presentation and readability of the reports

13.64 Readers tend to focus on contents page, headings and subheadings, the executive summary, conclusions and recommendations and distinctive figures such as tables, charts, diagrams, maps, text boxes and photographs. These are to be used to full effect to draw the reader to the most important messages that the Department wants them to receive.

(Para 7.17 of CAG's PA Guidelines 2014)

13.65 Significant audit conclusions can be highlighted in box form. The audit findings should be illustrated with the use of graphs and charts and improve the visibility of the analysis and findings. Photographs can also be used to corroborate

findings. Facts, findings and conclusions may be reported in different paragraphs to clearly distinguish them.

(Para 7.18 of CAG's PA Guidelines 2014)

13.66 Titles for chapters and sections in the reports should be assertive rather than descriptive as this allows the reader to steer through the report better. The audit team needs to consider what data and information will help the reader understand the evidence or arguments. While designing a table, graph or chart, the explicit point that needs to be highlighted will lead to displays that are specific and meaningful. Titles and labels should be clear and concise. All data graphics and other illustrations should be self-explanatory, so that readers should not have to refer to the main text to understand them. Tables and other graphics containing data sourced from outside (including the audited entity) should have an acknowledgement of the source of such data.

(Para 7.19 of CAG's PA Guidelines 2014)

Audit implementation cycle

13.67 The diagram depicts the audit implementation cycle of a performance audit can be referred to para 7.20 of the CAG's guidelines on Performance Audit 2014.

(Para 7.20 of CAG's PA Guidelines 2014)

Timelines of Performance Audit

13.68 In order to ensure the timely completion of the performance audits and also that the topics may not lose their importance, all the performance audits should ideally be completed within a period of ten months. The audit implementation cycle i.e from the date of entry conference to the finalisation of the audit report by the headquarters should be completed preferably within this period. However, some additional time may be required for the complex All India Performance Audits or performance audits undertaken with the help of outside experts.

(Para 7.21 of CAG's PA Guidelines 2014)

Follow-up of Performance Audits

13.69 Performance audit reports are essentially a means to improving public sector performance and accountability. This can be achieved through implementation of the recommendations contained in the performance audits. Consistent and systematic follow-up process in the department may contribute significantly to the effectiveness

of Performance audit in improving the programme management. Follow-up refers to the situation where the auditor examines the corrective actions the audited entity, or another responsible party, has taken on the basis of the results of previous performance audits. It is an independent activity that increases the value added by the audit process by strengthening the impact of the audit and by improving future audit work. It also encourages the user of the reports and the audited entities to take the reports seriously and provides a useful learning basis and performance indicator for the auditors. A follow-up is not restricted to the implementation of recommendations but focuses on whether the audited entity has adequately addressed the problem and remedied the underlying conditions after sufficient time has been allowed for this process. When conducting a follow-up of audit reports, the auditor should concentrate on findings and recommendations that are still relevant at the time of the follow up and adopt an unbiased and independent approach.

(Para 8.1 of CAG's PA Guidelines 2014)

Objective of the follow-up programme

13.70 The follow-up of performance audit reports is aimed at the following objectives:

- *Assisting the legislature:* follow-up reports may provide valuable information to the committees of Parliament/State legislature for their examination of the Reports;
- *Achieving improvements in performance of the public sector program:* the prime reason for following up audit reports is to increase the probability that recommendations will be implemented and help in improving the performance of the audited entity;
- *Evaluating the Department's performance:* follow-up programme and outputs may be a good measure for assessing and evaluating department's performance and improvements in programme management, *etc.* anticipated at the time of planning the audit; and
- *Providing an input* to the strategic planning of performance audit by the Department.

(Para 8.2 of CAG's PA Guidelines 2014)

CHAPTER – XIV

Compliance Audit

14.01 Introduction

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.

(Para 12.01 of CAG's Manual 2010)

14.02 Mandate

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.

(Para 12.02 of CAG's Manual 2010)

14.03 Objectives of Compliance Audit

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 debit-able to the personal account of a contractor, employee or other individual, or is recoverable from him under any rule order, it is recorded as such in 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.

(Para 12.03 of CAG's Manual 2010)

14.04 Important points for scrutiny

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/ in-fructuous 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 **Annexure - XXI**.

(Para 12.04 of CAG's Manual 2010)

14.05 Measuring Audit Effectiveness

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 as the 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 weight-ages to be assigned to the identified parameters. For this purpose, Desirability Acceptability Matrix for allotment of weight-ages for Audit Reports should be followed as per instructions for Matrix issued from time to time.

(Para 12.05 of CAG's Manual 2010)

Periodicity of audit

14.06 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.

(Para 12.06 of CAG's Manual 2010)

Risk-based approach to audit

14.07 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.

(Para 12.07 of CAG's Manual 2010)

14.08 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:

- Bodies with a score of 6.5 and above may be classified as 'high risk',
- Those between 3 and 6.5 as 'medium risk'
- Autonomous Bodies scoring less than 3 as 'low risk'.

	Risk Factors	Weightage
A	Grant/expenditure for the last three years (Expenditure above Rs 20 crore-4 points, between Rs 10-20 crore -3 points, between Rs.5-10 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

(Para 12.08 of CAG's Manual 2010)

Chapter XV

Audit Quality Management Framework

Introduction

15.01 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.

(Para 13.01 of CAG's Manual 2010)

15.02 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 up gradation in line with the technological changes and development of new methodologies and practices.

(Para 13.02 of CAG's Manual 2010)

15.03 ‘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.

(Para 13.03 of CAG’s Manual 2010)

15.04 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.

(Para 13.04 of CAG’s Manual 2010)

15.05 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”.

(Para 13.05 of CAG’s Manual 2010)

I –Audit Planning, Execution, Reporting and Follow-up

Audit Planning

15.06 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.

(Para 13.06 of CAG's Manual 2010)

15.07 Audit Execution

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 (CAATs) 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.

(Para 13.07 of CAG's Manual 2010)

15.08 Audit Reporting and Follow up

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 pre determined 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.

(Para 13.08 of CAG's Manual 2010)

II - Continuous improvement through Technical Inspections, Internal Audit, Peer Review and Lessons Learnt Process

15.09 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.

(Para 13.09 of CAG's Manual 2010)

15.10 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.

(Para 13.10 of CAG's Manual 2010)

15.11 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). *(Para 13.11 of CAG's Manual 2010)*

Chapter XVI

Audit of Autonomous Bodies in a Computerized Environment.

Definition of IT Audit

16.01 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 efficiently”*. (Ron Weber)

(Para 14.01 of CAG’s Manual 2010)

16.02 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.

(Para 14.02 of CAG’s Manual 2010)

Objectives of IT Audit

16.03 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 re-engineered 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.

(Para 14.03 of CAG's Manual 2010)

Mandate for IT Audit

16.04 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.

(Para 14.04 of CAG's Manual 2010)

16.05 For detailed IT audit checks / instructions, while auditing in a computerized environment, **Manual of Information Technology Audit** of the Department may be referred to.

(Para 14.05 of CAG's Manual 2010)

CHAPTER – XVII

Audit of Grants-in-aid

17.01: General

The rules for the sanction and payment of grants-in-aid are contained in various departmental Codes and Manuals. The instructions in this chapter and elsewhere in this Manual are intended to serve as a guide only for detailed procedures and rules governing their sanction and utilization, the concerned departmental codes and /or manuals have to be made use of. The local audit parties should exercise their discretion in taking up and pursuing other irregularities or points which they may come across in the course of audit.

(Para 8.01 of the Sixth edition of the manual)

17.02 Processes in Grants-in-aid

- ***Pre-payment system***

Every payment of grants-in-aid on the pre-payment system involves three principal processes, viz.

- (i) Sanction of the grant
- (ii) Disbursement of the grant
- (iii) Utilization of the grant by grantee.

- ***Post-payment system***

In the case of post-payment system the processes at items No (i) and (ii) above only will be involved since the expenditure by the grantee precedes sanction.

(Para 8.02 of the Sixth edition of the manual)

17.03 Audit of Utilization

Audit should scrutinize the methods by which the departmental Authority issues utilization certificates in order to satisfy whether such certification is preceded by the sanctioning Authority being in possession, after verification where necessary, of satisfactory and complete proof of utilization of the grants in accordance with the prescribed terms and conditions. The records and Statements rendered by the grantees to the sanctioning Authority should be subjected to a critical and intelligent examination for ensuring proper utilization of the grant.

Note 1: It has been decided that in case where grants are paid by the Central Government to the State Government, Utilisation Certificates need not be called for from the State Government or the Central Government, where however, expenditure out of such grants is incurred by State Government in the shape of grants to local bodies or private institutions, Utilisation Certificates have to be obtained from the State Government.

Note 2: Utilisation Certificate should generally be issued in all other cases, even where the grants-in-aid are paid in kind.

Eg: In the Shape of vehicle, equipments, etc. unless it is an implied condition that the grant should be spent within a reasonable time even if no time limits are fixed by the sanctioning Authority. The expression 'reasonable time' should ordinarily be interpreted to mean 'one year' from the date of issue of the order sanctioning the grant. The local audit party has to see whether adequate steps have been taken by the grantee for furnishing the utilization certificate within the prescribed time limit.

(Para 8.03 of the Sixth edition of the manual)

17.04 Financial control over grantees

The CAG has directed that the compliance of the following instructions issued by the Government of India should be watched in audit.

- (i) Grants are made available as far as possible on the basis of specific schemes drawn up in sufficient details and duly approved.
- (ii) Periodical reports indicating the expenditure on each of the objects as detailed in the scheme are called for and scrutinized to check whether there have been any variations or unauthorized diversion of funds.
- (iii) The provisions of Rule 149 (3) of the General Financial Rules, 1963 regarding submission of an audited Statement of accounts should be insisted upon. There should also be a provision for the maintenance of an audited record of all assets acquired wholly or substantially out of Government grants. In the case of small institutions, however, the sanctioning Authority may exercise its discretion of exempting such institutions from the submission of accounts under Rules 149 (3) of the said rules.
- (iv) In respect of grants to non-Government or Autonomous Bodies, a condition may be laid down that the assets referred to in sub Para (iii) above should not,

without the prior sanction of the Government, be disposed of, encumbered or utilized for purposes other than those for which the grants were sanctioned.

(v) An undertaking should be obtained by the sanctioning authorities from the grantee institutions that they (the institutions) agree to be governed by the conditions of grants which result in creation of or acquisition of permanent or semi-permanent assets.

(vi) The grantee institution should maintain a register in the prescribed form, of permanent and semi-permanent assets acquired wholly or mainly out of Government grants. The register should be maintained by the grantee institutions separately in respect of each sanctioning Authority and a copy thereof furnished to the sanctioning authorities annually.

(vii) The sanctioning Authority should also maintain books of accounts, in the form prescribed, of permanent and semi-permanent assets acquired wholly or mainly out of Government grants. This record should be posted from the annual returns furnished by the grantee institutions under Sub-Para (vi) above.

(viii) The register of assets and books of accounts maintained by the grantee institutions and the sanctioning authorities respectively should be made available for scrutiny of audit.

(Para 8.04 of the Sixth edition of the manual)

17.05 Issue of Utilization certificate to Autonomous Bodies

Certain institutions receive grants not only from Government of India and various State Governments but also from bodies or authorities like the U.G.C, the I.C.A.R, etc. It has been clarified by the CAG that in the case of audit of institutions which are under our sole audit either under Section 19 or 20 of the CAG's Act 1971, Utilization certificates should be issued to those institutions. The form of utilization certificate to be furnished in such cases should be as follows:-

“Certified that the expenditure from the grants has been audited by this office and it has been found that the grant has been utilised for the purpose for which it was granted”.

In cases where breaches in the conditions attached to the grants have been noticed, or the grant has been utilized for the purposes other than those for which it was granted, details of such breaches should be given in lieu of Utilization certificate.

The certificate should be furnished to the authorities of the institutions with copies to the authorities who have sanctioned the grants-in-aid. The sanctioning Authority will furnish Utilization certificate in Form G.F.R 19 to the Accounts Officer concerned on the basis of the U.C furnished by us as auditors and such other checks as may have been prescribed by it to satisfy itself that the conditions on which the grant was sanctioned have been or are being fulfilled.

The Utilisation Certificates are to be signed by the Audit officer in charge of the HQrs section concerned.

(Para 8.05 of the Sixth edition of the manual)

Chapter XVIII

Recovery of cost of Audit

18.01 General:

The rules regulating the incidence of expenditure involved in audit of the accounts of bodies and authorities conducted by the Indian Audit and Accounts Department are laid down in Section VIII of Appendix 3 to Accounts Code, Volume-I. These

rules of incidence should be continued to be followed in regard to the audit of the accounts of bodies and authorities including corporations. In so far as audit under Section 14, 15, and 19 of the Audit Act, 1971 is concerned, the cost of audit is undertaken by the comptroller and Auditor General or by any officer under him as the sole auditor. In cases in which the audit of the accounts of the body or Authority is conducted by another agency and audit by the comptroller and Auditor General or any officer under him represents second or superimposed audit undertaken under section 14, 15 and 19, as the case may be the cost of such second or superimposed audit need not be recovered from the body or Authority concerned. As regards audit under Section 20 the same is required to be undertaken on such terms and conditions as may be agreed upon between the comptroller and auditor General and the concerned Government. One of the terms to be settled in this regard would relate to the recovery of the cost of audit of the Authority (vide standard terms and conditions given in **Annexure VII**). The recovery of the cost of audit in these will, therefore, be regulated by the agreement that will be arrived at in each case.

(Para 9.01 of the Sixth edition of the manual)

18.02 Method of calculation of audit fee:

The audit fee recoverable from bodies and authorities (other than those for which Resident Audit Offices/parties are sanctioned) is calculated as detailed her under.

(i) First the average cost of each category of non-gazetted post is calculated in accordance with the instructions contained in Muthuswamy's Compilation- Government of India order No.3, Below FR9(31) (Muthuswamy's compilation of FR & SR, Part-I seventh Edition) reproduced below:-

For Assistant Audit Officer, Senior Auditors and Auditors.

Average Cost: $A + (B - A) \left(\frac{3/4 - x}{60} \right)$ i.e basis of direct charges calculated.

Note: A-Minimum Pay

B-Maximum Pay

X-Length of time scale Minus 5

i) The charges in respect of Assistant Audit Officers who belong to the Gazetted Cadre are, however, to be included as direct charges.

ii) To the average cost as determined above would be added elements of DA,ADA,HRA,CCA etc.,(as admission to Bangalore). This gives the direct charges.

iii) The cost of gazette supervision of local audit parties and the work done in the Headquarters section is taken as 'indirect charges in respect of each and are computed at 125% of the 'direct charges'.

iv) The number of working days is determined by the Accountant General (Audit) and is presently taken as 256 days for institution having 6 working days in a week and 225 days for institution having 5 working days in a week after excluding Sundays, 2nd Saturdays/Saturdays, Casual leave Restricted Holidays, closed holidays and transit days. It should however, be seen that the number of working days in a year does not fall below 255 days (for institution having 6 working days in a week) and 224 days (for institution having 5 working days in a week). In a leap year the minimum should be 256 days and 225 days respectively.

v) The daily rates so worked out shall be rounded to the nearest five rupees for each post separately and audit fee recoverable for each member of the audit party is to be calculated based on this rate for the actual number of days spent in audit.

vi) The accuracy of the daily rates of audit fee so calculated should be got checked independently by the Internal Test Audit Section.

vii) The daily rates of audit fee so worked out and checked by the Internal Audit Section should be got approved by the Pr. AG/Accountant General within two months of the revision of the rates of pay and allowances necessitating the revision of audit fee. Immediately after the revision the rates should be intimated to the Comptroller and Auditor General of India indicating specifically that the rate have been got checked by the Internal Audit Section.

viii) The accuracy of the approved daily rate of audit fee should be got checked by the Director of Inspection at the time of Inspection and a report to this effect should be sent to the Comptroller and Auditor General.

ix) The application of the method of calculation as indicated above has been shown in the illustrations in **Annexure XXII**.

(Para 9.02 of the Sixth edition of the manual)

18.03. Watching the recovery of audit fee:

After the completion of audit of each institution under section 14 (where the Comptroller and Auditor General is the sole auditor), 19 and 20 of the Audit Act 1971, the head of the audit party should send, along with the audit reports, an extract of the attendance register indicating the attendance, transit, different kinds of leave availed, holidays etc, for all the members of the audit party/parties. The form in which this is to be sent is given in **Annexure XXIII**.

After the receipt of the attendance extract, OAD Special cell should calculate the audit fee recoverable from the institution with reference to the actual number of working days for which it was inspected by the members of the audit party/parties, and raise the demand for the recovery there of. Where, however, the audit fee has already been demanded, and if the revision of the emoluments of Central Government employees has taken effect then a supplementary demand should be raised wherever necessary.

The recovery of the audit fee so demanded should be watched through the register for watching Recovery of the Comptroller and Auditor General and indicated in Form2. The Register should be closed on the 15th of each month, striking the balance amount of audit fee due in respect of all the institution. Action taken for the recovery of arrears of audit fee should also be indicated at the time of closing the register. The register and the files should also be indicated at the time of closing register. The Registers and the files should also be made available for review by the Internal Test Audit officer half yearly according to the time schedule given below.

- | | |
|-----------------------|---------------|
| 1) April to September | By January 15 |
| 2) October to March | By July 15 |

Note:-In cases where Pr. Accountant General (G&SSA) Karnataka acts as sub-auditor, the demand for audit fee should be sent the Principal Audit Officer concerned with copy of the Institutions. The responsibility of watching the recovery devolves on the Principal Audit Officer. However, the demand can be adjusted in the Register only after receipt of a note of demand having been kept by the Principal Audit Officer.

(Para 9.03 of the Sixth edition of the manual)

18.04 Waiver of Audit fee: The recovery of audit fee for the audit of the accounts of the Treasurer of Charitable Endowments for India under Section 20(1) of the Audit Act, 1971 has been waived by the Government of India vide their letter No. F.I (10) B 174 of 30.01.1979 of the Ministry of Finance Department of Economic Affairs to the Comptroller and Auditor General.

(Para 9.04 of the Sixth edition of the manual)

18.05 The method of calculation of audit fee recoverable from the bodies and authorities for whom Resident Audit Offices/parties have been sanctioned is detailed in the manuals of the respective Resident Audit Offices

(Para 9.05 of the Sixth edition of the manual)

18.06.Review of performance of Autonomous Bodies- Recovery of cost of audit. No cost of audit for efficiency-cum-Performance (ECPA) reviews of Autonomous Bodies need be recovered even when cost of audit of accounts of these bodies are recovered.

AUTHORITY:- CIRCULAR No. 38/AUDIT-II/1985, LETTER NO 174 –AU-II 147-TAI/75 dated 7.11.1985. and para 9.06 of sixth edition of this manual)

CHAPTER – XIX

Other Matters

Introduction:

State Autonomous Bodies

19.01: Audit of State Autonomous Bodies is conducted by the respective Accountant General / Pr. Accountant General.

(Para 15.02 of CAG's 2010 Manual)

Audit of Autonomous Bodies having Branch Units

19.02: 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.

(Para 15.03 of CAG's 2010 Manual)

Records of Autonomous Bodies to be kept

19.03 In respect of every Autonomous Body under audit, whether under Sections 14, 19 or 20 it is necessary that the audit office maintains a complete set of records, consisting of the following:-

1. A Copy of the Enactment applicable to the Autonomous Body, if any.
2. 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.
3. Copies of orders relating to delegation of powers issued by the top managing body and powers and duties of various committees.
- 4 Annual Report from year to year.
- 5 Audited accounts and reports thereon as placed before parliament/legislature/Managing committee together with replies, if any, furnished to the reports.
6. Report of review and such other committees relating to the functioning of the body.

(Para 10.02.01 of the Sixth edition of the manual)

Programme Book

19.04 In addition to the general documents mentioned above, in respect of each audit it is necessary to maintain an audit programme book for the guidance of the audit parties visiting an organization from year to year. This Programme Book may be kept in three sections in cases where no audit of branch units is involved and in four sections where there are branch units to be audited.

- Section I of the Programme Book will deal with general out lines of the organization, the various wings functioning, powers and duties allocated to various office and wings extent of internal check available etc. It will also incorporate all orders of importance noticed during course of audit.
- Section II will specify the various basic records that are kept in the accounts and other branches and are to be checked in audit.
- Section III will record important points in previous audits that need pursuance in later audit, until finalization and also points that the organization has agreed to comply in future and report compliance in next audit.
- Section IV the completion of rotational check of all branch units, wherever they exist, must be watched diligently in all the branch units, names of sub-audit office, receipt of return of audit in the prescribed rotation.

(Para 10.02.02 of the Sixth edition of the manual)

Data sheet on Autonomous Bodies

19.05 In respect of every Autonomous Body under audit, it is necessary to maintain a data sheet of particulars as mentioned in **Annexure - XXIV**. This data sheet must be updated periodically.

(CAG's Ir. Rep (AB)/37-2007 dt. 26.2.2008, Para 15.06 of CAG's Manual 2010, Circular 65-93 Rep (AB)/193-2004 dt. 8.6.2006)

19.06 A complete database of Central and State Autonomous Bodies and Non-Government Organizations (NGOs) funded by grants/loans from Central and State Governments should be compiled and updated annually.

(Para 15.07 of CAG's Manual 2010)

Annual Returns

19.07 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 Returns on completion of audit of bodies/authorities under section 14(1), 14(2), 15(1) and 15 (2) of the CAG's Act, for the preceding financial year ending 31st March-required to be submitted by 20th April in proforma as at **Annexure - IV**.

(b) Annual Return on audit of Bodies and Authorities coming under section 20(2) of the Act for the period ending 31 December required to be submitted by 20th January in the proforma as at **Annexure - IX**.

(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 31st December required to be submitted by 20th January of the following year, in proforma in **Annexure - XVI**

(Para 15.08 of CAG's Manual 2010, 1748 Au-II/18-85 dt. 27.11.85, 1931 Au-II/7-86 dt. 11.12.1986)

Audit fees

19.08 Where the CAG 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 of ECPA reviews of Autonomous Bodies be recovered even where cost of audit of accounts of these bodies is being recovered.

(Para 15.10 of CAG's Manual 2010, Rule 211(4) GFR and CAG's Circular 156-Audit AB 62-97 dated 19.7.2005)

19.09: 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 and Tax Audit by Chartered Accountants are different and not linked.

(Para 15.11 of CAG's Manual 2010)

19.10 Completion report:

A list of audits entrusted to the Comptroller and Auditor General under section 19 and 20 of the Audit Act, 1971 is maintained in the office of the Comptroller and Auditor General, with a view to enabling his office to review the position regarding certification of accounts of Autonomous Bodies, after conducting the audit of such bodies under section 19(2), 19(3) and 20(1), an annual return for section of the Act in the proforma indicated in form 3 should be sent to Headquarters Office by the 20th January every year in the following two parts.

- i) Bodies/Authorities in respect of which certified accounts with audit reports thereon are required to be placed in parliament/State legislature and
- ii) Bodies/Authorities where certified accounts with Audit reports thereon are not required to be placed before parliament/State legislature.

(Para 10.03 of sixth edition of this manual)

19.11 List of Autonomous Bodies under audit:

A comprehensive list of Autonomous Bodies where accounts are audited under section 19(2), 19(3) and 20(1) of the Audit Act, 1971 by the Principal Accountant General (G&SSA), Karnataka is given in **Annexure XIII** for general information.

(Para 10.04 of sixth edition of this manual)

19.12 Calendar of Returns:

A list of various returns which are peculiar to OAD special cell and which are not included in the general list contained in volume-I of this Manual is given in **Annexure XXV**.

(Para 10.05 of sixth edition of this manual)

19.13..Corrections to the Manual:

19.13.01 Instructions and decisions of a permanent nature relating to OAD special cell should be incorporated in this Manual with reference to the number and date of letter, case, etc.

(Para 10.06.01 of sixth edition of this manual)

19.13.02 Draft correction slip

It involves the more incorporation of the orders issued by the Government, the Comptroller and Auditor General, and the Pr. Accountant General (G&SSA) will be approved by the senior/Deputy Accountant General (GSA) in other cases the draft correction slip should be submitted to the Pr. Accountant General (G&SSA) for approval.

(Para 10.06.02 of sixth edition of this manual)

19.13.03 After approval, each correction slip (typed) should be pasted in a separate register in serial order of issue. Full reference to the file leading to the approval and issue of each correction slip should also be submitted to the Audit Officer in charge of OAD special cell by the 15th of each month.

(Para 10.06.03 of sixth edition of this manual)

19.13.04 The Assistant Audit officer in OAD special cell is responsible for maintaining the manual update and for supplying the correction slips to the field staff and supervisory officers.

(Para 10.06.04 of sixth edition of this manual)

19.13.05 The inspection staff should also scrutinize at each inspection the relevant portion of the manual with a view to examining necessity of any amendment and to make suggestions accordingly.

(Para 10.06.05 of sixth edition of this manual)

19.13.06 Authority for contents of the Manual:

The Manual has been compiled with reference to the instructions given in the Manual of Instruction for audit of Autonomous Bodies issued by the Comptroller and Auditor General, instructions and clarification received from time to time and also the experience and knowledge gained in audit of Autonomous Bodies so far. An index of Authority linking the provisions of this manual with those of the manual of the Comptroller and Auditor General, the fifth Edition of this manual and other instructions and the compendium of Amendments/Instructions to the Manual of Instructions for audit of Autonomous Bodies are given at the end of this manual for general information.

(Para10.06.06 of sixth edition of this manual)

AUTONOMOUS BODIES

Chapter – XX

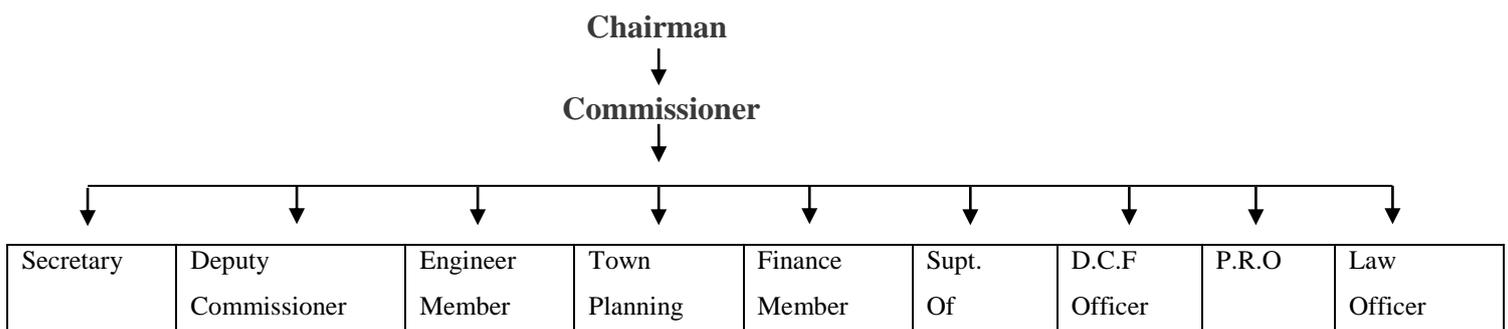
Audit of the Accounts of the Bangalore Development Authority.

20.01 Introduction:

The Bangalore Development Authority (BDA) came into being with effect from 6th January 1976 under a separate Act of the State Legislature viz. the BDA Act 1976. This Authority combined in itself the Planning functions of the City Planning Authority and the developmental functions of the erstwhile City Improvement Trust Board (CITB).

Development of Bangalore in a planned manner, creating quality infrastructure, provision of sites and services and catering to the housing needs of the under privileged are the focus areas of the BDA.

20.02 Organizational Chart:



			Member		Police			
--	--	--	--------	--	--------	--	--	--

P.R.O.-Public Relation Officer

D.C.F.- Deputy Conservator of Forest.

20.03 Functions:

The salient provisions of Bangalore Development Authority Act, which ensures planning, implementation as well as co-ordination, are mentioned below:

- Bangalore Development Authority as Planning Authority under the Karnataka Town and Country Planning Act is the agency for drawing up development plan and Town Planning schemes in Bangalore Metropolitan Area.
- The Authority can take up land acquisition and developmental schemes, housing schemes etc. Bangalore Development Authority has power for controlling the developments and enforcement of the plan and has also powers to implement developmental schemes.
- The Act empowers Bangalore Development Authority to issue directions to other Authorities connected with developmental Activities.
- The Act provides for proper co-ordination between BDA and the Bangalore City Corporation (BCC) which is the other important development agency, when development schemes are envisaged by either agency. The BCC has to perform its functions in respect of land use and development with the concurrence of Bangalore Development Authority.

20.04 Finance and Audit

20.04.01 The Authority should credit all the rents, profits and sale proceeds of all lands, buildings and other property vested in it under the Act to a fund called the Bangalore Development Fund. The Authority may also from time to time borrow with the previous sanction of the Government and subject to such conditions as may be prescribed in that behalf, any sum required, including by way of issue of debentures in the form sanctioned by the Government for the purposes of the Act.

Such borrowings contributions received from the Bangalore City Corporation or Local Authority, betterment tax and other sums due under the Act, and sums placed at the disposal of the Authority by Govt, shall also be credited to the Fund. The fund shall be applied for payments of charges incidental to the carrying out the purpose of the Act.

20.04.02 According to section 47 of the Act, the accounts of the Authority should be audited by an Authority appointed by Govt. The accounts were being audited by the Controller of State Accounts Department, up to the year 1976-77. The State Government have appointed the Comptroller and Auditor General as the auditor for five years from the years 1977-78 under Section 19(3) of the Audit Act 1971, and it is extended periodically.

20.05 Special Points to be seen:

- i. Selection procedure of the beneficiaries and allotment of sites under various categories to be consistent with provisions of the applicable Act and Rules.
- ii. The acquisition/direct purchase of land for implementation of various housing schemes.
- iii. De-notification of acquired land- Whether due procedure was followed and transparency maintained.
- iv. De-notification of developed land- Whether cost of development recovered from the beneficiaries.
- v. Payment of land compensation on the 40 % shares of the land by BDA on the land relinquished in favour of land owner.
- vi. Payment of land compensation to land owners of the de-notified land.
- vii. Levy and collection of betterment tax.
- viii. The development works to be executed as per Karnataka Transparency in Public Procurement (KTPP) Act and Rules.
- ix. Adequacy of Procedures as per the Rules to guard against encroachment and safety of assets of the Board.
- x. Targets and Actual of the projects and programme made including the carryover of programmes of earlier year/ backlog under various schemes.

- xi. Rules and regulations guide lines and other circulars issued by the Government from time to time, regarding implementation of the schemes and projects.
- xii. Agreements entered in to with the financial institutions for raising loans/funds raised by the Board and repayment of loans.
- xiii. System and procedure laid down for repayment of loans/land cost by the beneficiaries.
- xiv. Action taken to recover the loan in case of defaulters.
- xv. Resetting of higher interest loans by means of proper review.
- xvi. Utilisation of additional central assistance for special schemes.
- xvii. Implementation of various schemes.
- xviii. Takeover of Government loan.
- xix. Creation of infrastructure facilities including development of composite materials.
- xx. Details of amounts transferred out of old schemes by the districts and utilisation thereof.
- xxi. Status of receivables from the Government of Karnataka towards repayment of principal and interest, establishment expenses etc., steps taken to recover the dues and adjustment of advances from various agencies.
- xxii. Procedures followed for investment of surplus fund of the Authority.
- xxiii. Adequacy of Internal Control Mechanism.
- xxiv. Questionnaires in Annexure-I.
- xxv. Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- xxvi. Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- xxvii. Compliance Audit checks as detailed in Annexure XXI.
- xxviii. Audit Points detailed in Para 7.25 of the Chapter VII.

Chapter -XXI

Audit of the Account of Karnataka Slum Development Board

21.01 Constitution:

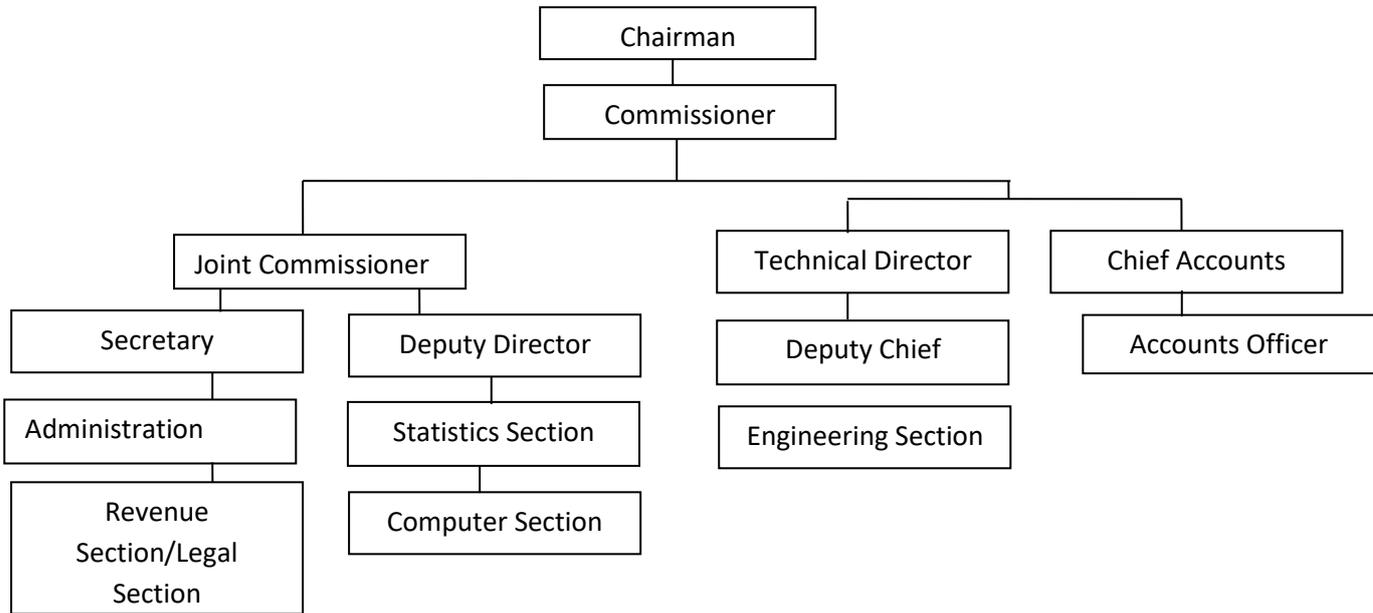
The Karnataka Slum Development Board is a Corporate Body established in July 1975 under Section 33 of the Karnataka Slum areas (improvement and clearance) Act 1973, for the improvement and clearance of the slums in State and to provide basic amenities and houses to the slum dwellers and social awareness to uplift the living conditions and income generation Activities of the urban poor.

It was re-designated as Karnataka Slum Development Board during 2010.

21.02 Constitution of the Board:

21.02.01 The Karnataka Slum Development Board has 8 nominated official members and 5 non-official members. Normally a non-official member is nominated as Chairman and in his absence, the Principal Secretary; Housing Department will look after the duties of the Chairman. The Commissioner of the Board is the Chief Executive Officer as per Section 37 of the Act and he has to carry out various functions of the Board as enumerated in the provisions of the Act. Karnataka Slum Areas (Improvement & Clearance) Act 1973 was suitably amended during 2002 and subsequently a few Rules were also amended during 2004 for the purpose of providing welfare measures to the poor slum dwellers.

21.02.02 Organisational Chart :



21.03 Objective: The main objectives of the Board are: -

- a. To take up Socio-economic survey of the slums, in order to study the socio-economic conditions of the slum dwellers.
- b. To identify and declare the slum areas as per Karnataka Slum Areas (Improvement and Clearance) Act 1973.
- c. To take up environmental improvement, clearance and redevelopment of the slums.
- d. To provide housing and infrastructural facilities to slum dwellers with Central, State assistance and HUDCO Loans.
- e. To enable the slum dwellers to live in hygienic condition by providing basic amenities, such as drinking water, street lights, roads, drains, community bathroom, storm water drain and community hall wherever possible.
- f. Scale up the delivery of civil amenities and provision of utilities with emphasis on universal access to the urban poor.
- g. Provision of basic services to urban poor including security of tenure at affordable prices, improved housing, water supply, sanitation and ensuring delivery of other already existing universal services of the Government for education, health and social security.

- h. IEC Activities are taken up to see that slum dwellers live in healthy and hygienic conditions.
- i. To provide social awareness and community development with the help of CBO/ NGO's.

21.04 Function :

For smooth functioning and to implement the programmes, the Board has been further bifurcated into different sections, divisions and sub-divisions. The Administrative set up of the Karnataka Slum Development Board consists of office of the Chairman, the Office of the Commissioner, Joint Commissioner, Technical Director, Joint Director (Plan & Statistics,) Chief Accounts Officer under different sections like Technical, Accounts, Revenue, Administration, Legal and Computer Wings. The functions of the Karnataka Slum Development Board intend to cover all the declared slum areas existing in the jurisdiction of City Corporation/City Municipalities/ Town Municipalities and Town Panchayats in the State for the slum improvement/Clearance/ Rehabilitation of the slum dwellers.

21.05 Finance, Accounts and Audit:

21.05.01: Section 41 of the Act provides application to the Board of provisions of chapter VII of the Karnataka Housing Board Act. 1962 relating to finance accounts and audit as they apply to the Housing Board.

21.05.02.01 Accordingly, the Board shall have a separate fund into which all moneys received by or on behalf of the Board by virtue of the Act, all proceeds of land or any other kind of property sold by the Board, all rents, and all interests, profits and other moneys accruing to the Board are to be paid in to the fund and it should normally be deposited in the Reserve Bank of India or in any scheduled Bank or invested in such securities as may be approved by the State Government.

21.05.02.02 The Board may accept grants, subventions, donations and gifts from the central Government or State or a local Authority or any individual or body, Government makes every year a grant to the Board, a sum equivalent to the administrative expenses of the Board

21.05.02.03 The Board may also, from time to time, with the previous sanction of the State Government and subject to the provisions of the Act and to such conditions as may be prescribed in the behalf, borrow, including by the issue of debentures in the form prescribed by the State Government, any sum required for the purposes of the Act.

21.05.02.04 All property, the fund and all other assets vesting in the Board shall be held and applied by it, subject to the provisions and for the purpose of the Act.

21.05.03.01 The forms and registers prescribed under the Karnataka public works accounts code shall be adopted to the extent that they are not inconsistent with the provisions of the Act and the Rules for maintaining the accounts of the Board in respect of lands and building constructed by the Board. In respect of other transactions of the Board, the forms and registers prescribed by the Karnataka Financial code and the Manual of contingent expenditure shall be adopted to the extent that they are not inconsistent with the provisions of the Act and the Rules.

21.05.03.02 The annual Statement of receipts and Expenditure shall be published in the Gazette.

21.05.04.01 The accounts of the Boards are to be audited annually by such person the State Government may appoint. The accounts were being audited by the Controller State accounts Department up to the year 1981-82. The State Government have appointed the Comptroller and Auditor General as the auditor for the five years from the year 1982-83 under section 19(3) of the CAG's DPC Act, 1971 and for further period of five years from 1987-88 to 1991-92 as extended periodically.

21.05.04.02 In terms of section 19(3) of CAG's (DPC) Act 1971, no other auditor will be appointed for any purpose whatsoever in connection with the accounts of the Board except with the prior approval of the Comptroller and Auditor General of India.

21.05.04.03 In terms of section 19(A) of the Audit Act, 1971, the audited accounts and the audit report thereon from the year 1963-84 are required to be placed before State Legislature. For this purpose a separate audit report has to be

prepared according to the guidelines given in this manual and the time schedule prescribed.

21.06 Special Points to be seen:

- i. Selection procedure of the beneficiaries and allotment of sites to slum dwellers to be consistent with provisions of the applicable Act and Rules.
- ii. The acquisition/direct purchase of land for implementation of various schemes for slum dwellers.
- iii. The development works to be executed as per Karnataka Transparency in Public Procurement (KTPP) Act and Rules, such as for drinking water, street lights, roads, drains, community bathroom, storm water drain and community hall etc.
- iv. Procedures followed in Identification and declaration of the slum areas as per Karnataka Slum Areas (Improvement and Clearance) Act 1973
- v. Target and Achievement of the projects and programme made including the carryover of programmes of earlier year/ backlog under various schemes.
- vi. Rules and regulations guide lines and other circulars issued by the Government from time to time, regarding implementation of the schemes and projects.
- vii. Procedures followed for investment of surplus fund of the Board.
- viii. Collection of Slum Development Cess from various Local Bodies and its Utilisation.
- ix. Handover of developed slums to Urban Local Bodies.
- x. Implementation of IEC activities in the rehabilitated/developed slums.
- xi. Adequacy of Internal Control Mechanism.
- xii. Questionnaires in Annexure-I.
- xiii. Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- xiv. Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- xv. Compliance Audit checks as detailed in Annexure XXI.
- xvi. Audit Points detailed in Para 7.25 of the Chapter VII.

Chapter-XXII

Audit of the Accounts of Karnataka Housing Board

22.01 Constitution

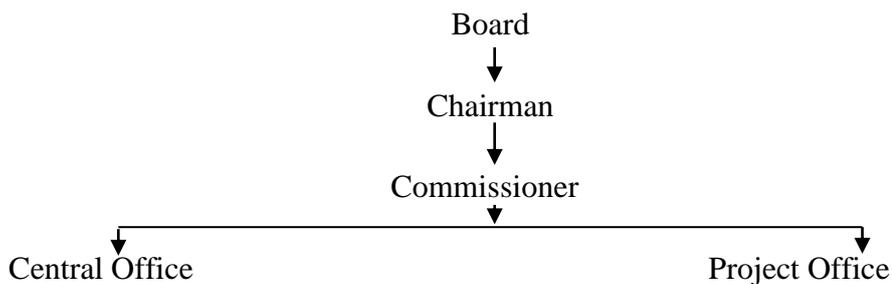
The Karnataka Housing Board was established under Section 3 of the Karnataka Housing Board Act, 1962 as a successor to Mysore Housing Board constituted in 1955.

22.02 Objective:

The primary objective of KHB is 'to make such schemes and to carry out such works as are necessary for the purpose of dealing with and satisfying the need of housing accommodation.'

22.03 Organisational Setup:

The Board consists of the Chairman and fifteen other members appointed by the State Government.



22.04 Finance, Accounts and Audit:

22.04.01.01 The Board should have a separate fund into which all moneys received by or on behalf of the board by virtue of the Act, all proceeds of land or any other kind of property sold by the Board, all rents and all interest profits and other moneys accruing to the Board, (are to be paid, and the fund) should normally be deposited in the Reserve Bank of India or in any scheduled Bank or invested in such securities as may be approved by the State Government.

22.04.01.02. The Board may accept grants, subventions, donations and gifts from the Central Government or State Government or Local Authority or any individual or body whether incorporated or not for all or any purpose of the Act. The State Government makes every year, a grant to the Board a sum equivalent to the administrative expenses of the Board.

22.04.01.03 The Board may also, from time to time with the previous sanction of the State Government and subject to the provisions of the Act and to such conditions as may be prescribed in that behalf, borrow, including by the issue of debentures in the form prescribed by the State Government any sum required for the purpose of the Act.

22.04.01.04 All property, the fund and all other assets vesting in the Board is to be held and applied by it, subject to the provisions and for the purpose of the Act.

22.04.02 The Forms and registers prescribed under the Karnataka Public Works Accounts Code should be adopted to the extent that they are not inconsistent with the provisions of the Act and the Rules for maintaining the accounts of the Board in respect of land and building construction by the Board. In respect of other transactions of the Board, the forms and register prescribed by the Karnataka Financial Code and Manual of Contingent Expenditure should be adopted to the extent that they are not inconsistent with the provisions of the Act and the Rules.

22.04.03 The Annual Statement of Receipts and Expenditure Should be published in the Gazette.

22.04.04.01 The Accounts of the Board are to be audited annually by such persons as the State Government may appoint under section 55(2) of the KHB Act 1962. The accounts were being audited by the Controller, State Accounts Department up to the year 1980-81. The State Government have appointed the Comptroller and auditor General as the auditor for five years from the year 1981-82 under section 19(3) of the Audit Act 1971 and continued for a further period upto 2014-15.

22.04.04.02 In terms of section 19(3) of CAG's Act 1971, no other Auditor will be appointed for any purpose whatsoever in connection with the accounts of the Board except with the prior approval of the Comptroller and Auditor General of India.

22.04.04.03 In terms of Section 19A of the Audit Act, 1971, the audited Accounts and the Audit Report thereon from the year 1983-84 are required to be placed before the State Legislature. For this purpose, a Separate Audit Report has to be

prepared according to the guidelines given in this Manual and the time schedule prescribed.

22.05 Special Points to be seen:

- i. Selection procedure of the beneficiaries and allotment of sites under various categories to be consistent with provisions of the applicable Act and Rules.
- ii. The acquisition/direct purchase of land for implementation of various housing schemes.
- iii. The development works to be executed as per Karnataka Transparency in Public Procurement (KTPP) Act and Rules.
- iv. Adequacy of Procedures to guard against encroachment and safety of assets of the Board.
- v. Payment of compensation to the land owners of the de-notified land.
- vi. Allotment of funds to the district offices and utilisation of funds including funds lying in fixed deposits and unspent balances including the position of implementation of various programmes.
- vii. Targets and Achievements of the projects and programme made including the carryover of programmes of earlier year/ backlog under various schemes.
- viii. Rules and regulations guide lines and other circulars issued by the Government from time to time, regarding implementation of the schemes and projects.
- ix. Mobilisation of funds by means of borrowings from various financial institutions including HUDCO/grant from Government and their effective utilisation.
- x. Agreements entered in to with the financial institutions for raising loans/funds raised by the Board and repayment of loans.
- xi. System and procedure laid down for repayment of loans by the beneficiaries.
- xii. Action taken to recover the loan in case of defaulters.
- xiii. Review of cash book, transfer of funds to district officers and return of unutilised funds to Board.

- xiv. Resetting of higher interest loans by means of proper review.
- xv. Utilisation of additional central assistance for special schemes.
- xvi. Implementation of various schemes.
- xvii. Takeover of Government loan.
- xviii. Creation of infrastructure facilities including development of composite materials.
- xix. Details of amounts transferred out of old schemes by the districts and utilisation thereof.
- xx. Status of receivables from the Government of Karnataka towards repayment of principal and interest, establishment expenses etc., steps taken to recover the dues and adjustment of advances from various agencies.
- xxi. Procedures followed for investment of surplus fund of the Board.
- xxii. Adequacy of Internal Control Mechanism.
- xxiii. Questionnaires in Annexure-I.
- xxiv. Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- xxv. Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- xxvi. Compliance Audit checks as detailed in Annexure XXI.
- xxvii. Audit Points detailed in Para 7.25 of the Chapter VII.

Chapter-XXIII

Audit of the Accounts of the Bangalore Water Supply and Sewerage Board

23.01 Introductory:

The Bangalore Water Supply and Sewerage Board is a corporate body, created under an Act of State Legislature during 1964 (Mysore Act No.36 of 1964). The Board has its headquarters at Bangalore. The working of the Board, its powers and functions are regulated by the Bangalore Water and Sewerage Act 1964 and the rules framed there under.

23.02 Functions:

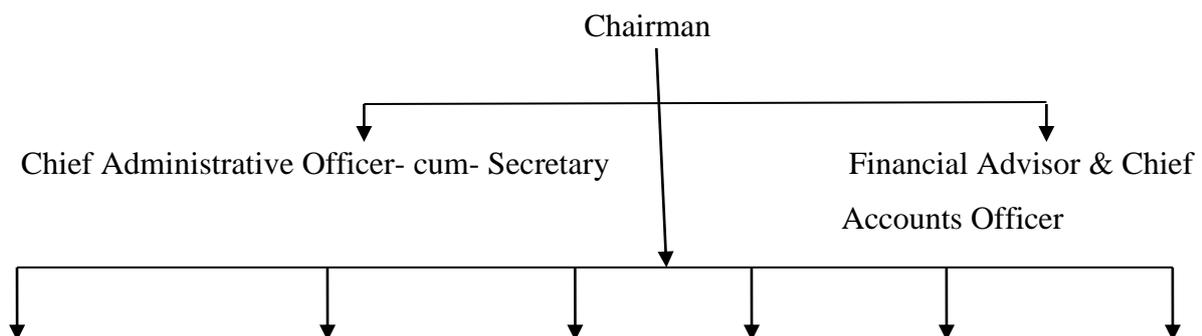
The Board has been charged with the general duty providing and improving the existing supply of water in the Bangalore Metropolitan Area and of making adequate provisions for the sewerage and the disposal of the sewage and also to exercise such powers and perform such functions as are necessary for this within the frame work of the Act. To attain this objective the following Activities are undertaken by the Board.

- i) Operation and maintenance of water supply and sewerage and giving satisfactory service to the general public of the Bangalore Metropolitan Area.
- ii) Conservation of drinking water
- iii) Planning and execution of water supply scheme viz., IV Stage (Phase-I and II) of Cauvery Water Supply Scheme to augment the existing supply to meet the increasing demand.
- iv) Remodelling the distribution system to supply the available water equitably.
- v) Generating and mobilizing finances for the new projects.
- vi) Providing overseas training for senior technical officers, to enable them to update their knowledge of public Health Engineering.

23.03 Organizational Setup:

There are 5 divisions and 20 sub-divisions, besides vigilance and equality control wings and a stock verification squad under the control of the Board.

Organisational Chart:



Engineer in Chief (Maintenance) Chief Engineer (Quality Assurance) Chief Engineer (Kaveri) Chief Engineer (Project) Chief Engineer (WWM) ACE (New Initiative)

23.04 Source of finance:

Bangalore Water Supply and Sewerage Board Act empower the Board to generate finances by levying water rates, rentals and other charges. Water rate is the main source of revenue which can be varied from time to time in order to get sufficient revenue. No grant-in-aid is given to the Board by the State Govt. but the loan or advance by the Govt. for new project approved by the Government. Board is also empowered to borrow, subject to limit prescribed under the Act, and amount required for meeting capital expenditure on projects and schemes approved by the Government.

23.05 Accounts:

The Financial Advisor is the head of the Finance and he has under his control Accounts, Audit and Revenue wings headed by an Asst Controller (Accounts), Accounts officer (Audit) and Accounts officer (revenue) respectively.

Accounts are drawn up in the form prescribed in the BWSSB Accounts Regulation 1964. According to Section 25 of the BWSSB Rules and Regulation 1964, the Annual Abstract Statements of Accounts of the Board are to be prepared in the format prescribed by the State Govt.

23.06 Audit:

According to section 25(2) of the Act, the Accounts of the Board should be audited annually by an Auditor appointed by the Govt. The Accounts of the Board were being audited by the Controller, State Accounts Dept. up to 1983-84. The State Govt. have entrusted the audit of the board since 1984-85 onwards to the Comptroller and Auditor General of India under Section 19(3) of the CAG's (DPC) ACT, 1971.

23.07 Audit procedure

One of the functions of audit will be to check whether the water rate, which is the main source of revenue to the Board, is being recovered as per provisions of the BWSSB Act. The Act empowers the Board to revise the water rate periodically to augment its revenue. Audit should see whether such revisions are effected periodically to cover the expenditure incurred by the Board. The registers and other records maintained in this connection should be test checked to ensure that the revenue realized is properly accounted for. It should also be seen in audit whether adequate internal audit system exists.

23.08 Finalization of Audit Report:

Certified Accounts of the Board along with Audit Reports are required to be placed before the State Legislature in terms of section 25(5) of the BWSSB Act 1964 read with section 19A(3) of the CAG's(DPC) Act 1971. For this purpose, an audit report has to be finalized after the completion of the Audit of the Accounts of the Board according to the time schedule prescribed. The draft Audit Report should be forwarded to the Comptroller and Auditor General of India and his approval obtained before Audit Report is the finalized. The finalized Audit Report should be forwarded to the State Govt. and the Board along with the Certified Accounts.

23.09 Special Points to be seen:

Whether adequate infrastructure was created and maintained consistent with the Action plan to ensure adequate water supply to all the areas coming under the jurisdiction of the Board.

- i. Whether a Sewerage Management Plan was formulated to create adequate infrastructure facilities to treat the Sewerage and maintain the facilities effectively.
- ii. Review of loss of revenue due to leakage of water in distribution network and unmetered water taps.
- iii. Review of availability of sewage linkage facilities for optimum utilisation of Sewage Treatment Plants (STPs) constructed by the Board.
- iv. Adherence to the provision of KTPP Act and Rules in the procurements and award of works contract.
- v. Deficiency/lapses in preparation of estimates.

vi. Ensure that administrative approval of the competent Authority or Government exists for the works before taking up the same for execution. Cases of deviations may be examined.

(viii) Verify whether

(a) The Actual expenditure incurred in the execution of works is within the approved estimate and;

(b) Any excess expenditure, incurred over the Tendered cost, has been reviewed and approved by the Board. Delay in obtaining approval for the revised estimate may also be reviewed.

(ix) Cases of execution of works, involving deviation from the approved estimates, may be reviewed with reference to extra expenditure, incurred by the Board and approvals received for the same in the High Level Committee Meeting of the Board may be reviewed.

(x) Cases of execution of extra items of works over and above the approved estimates, cost incurred thereon, and reasons for such excess may be reviewed by comparison between the tender document and the approved estimate.

(xi) Cases of the taking up the work and subsequent withdrawal and stoppage of the same by the Board for reasons of slow and unsatisfactory work and the financial impact of the same may be reviewed.

(xii) Compliance of directives/instructions, issued by the Government of Karnataka and obtaining prior approval of the Government, wherever necessary.

(xiii) Procedures followed in investment of surplus fund.

(xiv) Delay in commencing the programmes/activities resulting in escalation of cost and non-achievement of the objective.

(xv) Adequacy of quality control for the water being supplied and the sewage system.

(xvi) Adequacy of Internal Control Mechanism.

(xvii) Questionnaires in Annexure-I.

(xviii) Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.

(xix) Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.

(xx) Compliance Audit checks as detailed in Annexure XXI.

(xxi) Audit Points detailed in Para 7.25 of the Chapter VII.

Chapter XXIV

Karnataka State Legal Service Authority. (Including District Legal Service Authority).

24.01 Introduction:

There is lack of legal literacy in our country, financial difficulty and ignorance about the rights, the people belonging to middle class and weaker sections have failed to get justice. Therefore, it is necessary to increase the legal literacy and provide legal aid to the needy people to secure speedy and inexpensive justice.

The Constitution of India has assured equal opportunity of securing free legal aid to each and every citizen without any discrimination under Article 39A in the Directive Principles to State Policy. To assure it through legal framework, the Government of India enacted Legal Services Authorities Act, 1987.

The erstwhile Karnataka Legal Aid Board was merged with the Karnataka State Legal Services Authority on 10.4.1997 under the National Legal Service Authority Act, 1987. The Karnataka State Legal Services Authority Rules, 1986 and Regulations, 1997 have been framed.

24.02 Eligibility Criteria for providing Legal Services:

Section 12 of the Legal Services Authorities Act, 1987, contemplate that following persons are provided free legal aid services:

- a member of Scheduled Caste or Schedule Tribes ;
- a victim of trafficking human beings or beggar as referred to in Article 23 of the Constitution ;
- a woman or a child ;
- a mentally ill or otherwise disabled person;
- a person under circumstances of undeserved want such as being a victim of a mass disaster, ethnic violence, caste atrocity, flood, drought, earthquake or industrial disaster : or
- an industrial workman ;
- in custody, including custody in a protective home within the meaning of clause(g) of section 2 of the Immoral traffic (Prevention) Act, 1956 or in a juvenile home within the meaning of clause (j) of section 2 of the Juvenile Justice Act, 1986 or in a psychiatric hospital or psychiatric nursing home within the meaning of clause (g) of section 2 of the Mental Health Act, 1987 or
- in receipt of annual income of less than rupees one lakh or such other higher amount as may be prescribed by the State Government, if the case is before a Court other than the Supreme Court and less than rupees 1.25 Lakhs or such other higher amount as may be prescribed by the Central Government, if the case is before the Supreme Court.

Free legal aid means the expenses that may be incurred for a case in the Court, including advocates' fees. This aid will be provided to the entitled person right from the Court at the lowest level till the Supreme Court and also cases before different offices/forums.

24.03 **Objectives of the Institution-**

1. To provide Free Legal Aid Services
2. Free legal advice
3. Conciliation
4. Deciding cases pending in Courts through Lok Adalats.
5. Compromise through Mediation Centres
6. Disposal of cases through Alternative Dispute Resolution mechanisms
7. Pre litigation dispute resolution
8. Legal Literacy

24.04 Organizational Set-up

In addition to Karnataka State Legal Services Authority at Bangalore, 30 District Legal Services Authority, 7 Lok Adalats and 1 High Court Legal Committee have been set up in the State.

24.05 LEGAL AID CLINICS:

- a. Free Legal Aid Clinics in District and Taluka headquarters in the State and also free legal advice given through all legal aid clinics in the front offices in the Court premises and revenue offices.
- b. Free Legal Services Centres in the office premises of Child Development Project Officer which function for two days in a week.
- c. Free Legal aid clinic in Dharwad Institute of Mental Health and Neuro Sciences (DIMHANS) at Dharwad.
- d. Free legal services centre is functioning in the premises of NIMHANS, Bangalore.

24.06 Free Legal Advice Centres at Bangalore:

1. Karnataka State Legal Services Authority is rendering free legal advice to the public through toll free helpline.

24.07 LEGAL LITERACY:

Karnataka State Legal Service Authority through its DLSAs and TLSCs in the State is implementing the programmes enlisted in the Action Plan of National Legal Service Authority, New Delhi.

24.08 LOK ADALAT:

24.08.01 Karnataka State Legal Services Authority with the object of providing speedy and inexpensive justice to the litigant in the State and reducing the pendency in the Courts conducted Lok Adalats at Districts throughout the year.

24.08.02 PERMANENT LOK ADALAT:

Karnataka State Legal Services Authority has established Permanent Lok Adalats in the following district head quarters in the State.

1. Mysuru
2. Bengaluru
3. Belagavi
4. Dharwad
5. Kalaburagi
6. Mangaluru

24.08.03 MOBILE LOK ADALAT:

The Karnataka State Legal Services Authority is arranging Legal Literacy Programmes and Lok Adalats by “**Legal Literacy Chariot**” (three buses and one mini bus) at all the District head quarters and Taluk head quarters of the State.

24.09 MEDIATION CENTRE:

The Karnataka State Legal Services Authority has established 28 District Mediation Centres in various District Headquarters of the State to dispose cases through District Mediation centres in the State.

24.10 ALTERNATE DISPUTE RESOLUTION CENTRE:

Totally Rs. 30 crores was released from the 13th Finance Commission for the ADR Buildings.

24.11 VILLAGE LEGAL CARE AND SUPPORT CENTRE:

As per NALSA directions, 160 Village Legal Care and Support Centres are opened at various villages in the State of Karnataka i.e, in one Village of each

Taluka. These Centres function at Taluk Panchayath/ Local Body Office. Two Para Legal Volunteers and one Panel Advocate will visit this Centre one day in a week and give free Legal Aid/Advice.

24.12 Schemes :

24.12.01 VICTIM COMPENSATION SCHEME:

Under the Scheme, the Government releases funds every year to victims of sexual harassment, murder, attempt to murder etc.

24.12.02 NATIONAL PARA LEGAL VOLUNTEERS SCHEME:

Under the National Para Legal Volunteers Scheme suggested by NALSA, in all the Districts the Para Legal Volunteers are appointed by the District Legal Services Authorities and Taluka Legal Services Committees.

24.13 Source of Finance:

The main source of finance of the Authority is Grants/Subsidies from the Governments.

24.14 Accounts and Audit:

As per Section 18 of the Legal Services Authorities Act, 1987:

(1) The Central Authority, State Authority or the District Authority (hereinafter referred to in this section as 'the Authority'), as the case may be, shall maintain proper accounts and other relevant records and prepare an annual statement of accounts including the income and expenditure account and the balance-sheet in such form and in such manner as may be prescribed by the Central Government in consultation with the Comptroller and Auditor-General of India.

(2) The accounts of the Authorities shall be audited by the Comptroller and Auditor-General of India at such intervals as may be specified by him and any expenditure incurred in connection with such audit shall be payable by the Authority concerned to the Comptroller and Auditor-General of India.

(3) The Comptroller and Auditor-General of India and any other person appointed by him in connection with the auditing of the accounts of an Authority under this

Act shall have the same rights and privileges and authority in connection with such audit as the Comptroller and Auditor-General of India has in connection with the auditing of the Government accounts and, in particular, shall have the right to demand the production of books, accounts, connected vouchers and other documents and papers and to inspect any of the offices of the Authorities under this Act.

(4) The accounts of the Authorities, as certified by the Comptroller and Auditor-General of India or any other person appointed by him in this behalf together with the audit report thereon, shall be forwarded annually by the Authorities to the Central Government or the State Governments as the case may be. 1[(5) The Central Government shall cause the accounts and the audit report received by it under sub-section (4) to be laid, as soon as may be after they are received, before each House of Parliament.

(6) The State Government shall cause the accounts and the audit report received by it under sub-section (4) to be laid, as soon as may be after they are received, before the State Legislature.]

According to Rule 4 of Karnataka State Legal Service Authority Rules, 1996, the Member-Sectary has to maintain true and proper accounts of the State Authority including checking and auditing in respect thereof periodically and has to prepare Annual Income and Expenditure Account and Balance Sheet of the Authority.

24.15 Special Points to be seen:

- (i) Implementation of the various schemes detailed above.
- (ii) Locking up of the funds received for implementation of various schemes including finance commissions allocation.
- (iii) Investment of surplus/blocked fund in Fixed Deposits or otherwise.
- (iv) Procurements and award of works and service as per KTPP Act.
- (v) Target and Achievement of disposal of case especially set by the High Court; consequent financial implications.
- (vi) Questionnaires in Annexure-I.
- (vii) Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.

- (viii) Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- (ix) Compliance Audit checks as detailed in Annexure XXI.
- (x) Audit Points detailed in Para 7.25 of the Chapter VII.

Chapter XXV

Karnataka Urban Water Supply and Drainage Board

25.01 Introduction:

The Karnataka Urban Water Supply and Drainage Board, Bangalore was established by Act No. 25 of 1974 for development and supply of drinking water and for providing drainage facilities in the urban areas of the State except Bangalore City Corporation area. Karnataka Urban Water Supply and Drainage Board is functioning from August 1975.

25.02 Functions:

The Board is to provide financial assistance to Local Authorities by ways of loans and advances for Water Supply and drainage works in urban areas and other works entrusted to the Board from time to time by Government.

The Board is an implementing body for Water Supply and under ground drainage facilities in 213 Urban Local Bodies of the State except Bruhat Bengaluru Mahanagara Palike.

The Board is to provide adequate water supply from assured and safe source of supply and also proper sanitation to all the urban areas.

25.03 Finance:

- I. The GOK vide order No. UDD/07/UWS/2011 Bangalore dtd: 20-7-2011 has revised the funding pattern for water supply and UGD schemes under planned schemes. The funding pattern is as follows:-

25.03.01 Water supply schemes

SI No	Category	Government Grant	Loan from financial institution	ULB Share
1	City Corporation	40	50	10
2	City Municipal Council	60	30	10
3	Town Municipal council	75	20	5
4	Town Panchayath	95	--	5

25.03.02 Under Ground Drainage scheme

SI No	Category	Government Grant in %	Loan from financial institution in %	ULB Share in %
1	City Corporation	50	35	15
2	City Municipal Council	70	20	10
3	Town Municipal council	75	20	5
4	Town Panchayath	95	--	5

25.03.03 MAINTENANCE OF THE WATER SUPPLY SCHEMES:

As per the Government Order the Board is maintaining the following water supply schemes.

1. Upto Consumer Point:

1. Kushalnagar
2. Bethamangala (KGF)
3. Hubli-Dharwad
4. Mandya
5. Ramanagaram
6. Channapatna
7. Belgaum
8. Bijapur

2. Up to Bulk Supply

1. Karwar - Ankola
2. Bellary

As per the G.O.No. UDD 07 UWS 2011 dated 20-7-2011, the Board has to hand over the completed schemes to the concerned Local Bodies, for maintenance. As some of the Local Bodies have not taken-over the schemes, the Board itself is maintaining the following water supply schemes up to Bulk point.

1	Gadag-Betageri	6	Ilkal-Hungund Kustagi
2	Mundargi	7	Hukkeri- Sankeshwar
3	Guledagudda	8	Bidar
4	Hagari Bommanahalli Kottur Kudalgi	9	Ilwala
5	Melukote	10	Shikaripura

25.03.04 Other Schemes:

1 UIDSSMT programme

The Board is executing water supply and Under Ground Drainage schemes under the centrally sponsored UIDSSMT programme.

The new Water Supply schemes & Under Ground Drainage schemes are approved by the Government of India and same is administratively approved by the Government of Karnataka .The Board has to take Action for implementing the schemes.

3. JnNURM programme

The Board has taken up remodelling of existing distribution network, Automation and Integrated Management System of Mysore city under the Jawaharlal Nehru National Urban Renewal Mission centrally sponsored scheme.

4. **Nagara Neeru Bhagya Programme**:- It is proposed to provide 24 X 7 water supply scheme in following 13 district head quarters and 1 town in three phases.

Phase –I	Phase – II	Phase – III
1. Chikkaball apura	6. Chikkamaga luru	12. Devana halli
2. Bagalkote	7. Karwar	13. Raman agar
3. Koppal	8. Mandya	

4. Chamaraja nagar	9. Chitradurga 10. Bijapur	14. Kolar
5. Madikeri	11. Hassan	

25.04 Water & Waste Water Learning Centre, Yelahanka, Bangalore

Karnataka Urban Water Supply & Drainage Board has developed a learning centre at Yelahanka, Bangalore exclusively for Training Engineers and officers and officials working in Water Supply and Sanitation Sector. This learning centre is named as Water and Waste Water Learning Centre.

25.05 Source of Finance:

The Act empowers the Board to generate finances by levying water rates, rentals and other charges. Water rate is the main source of revenue which can be varied from time to time in order to get sufficient revenue. No grant in aid is given to the Board by the State Govt. but the loan are advance by the Govt. for new project approved by the Govt. Board is also empowered to borrow, subject limit prescribed under the Act, amount required for meeting capital expenditure on projects and schemes approved by Government.

25.06 Accounts:

As per Section 40 of the Act, accounts of the Board are maintained in such manner and in such a form as prescribed by Regulation.

25.07 Audit:

According to section 40 of the Act, the accounts of the Board should be audited annually by an auditor appointed by the Govt.

The State Govt. have entrusted the audit to the Comptroller and audit General of India section 19{3) of the CAG's {DPC) ACT, 1971.

25.08 Audit procedure

One of the functions of audit will be check whether the water rate, which is the main source of revenue to the Board, is being recovered as per provisions of the KUWS&DB Act 1973. The Section 31A of the Act empowers the Board to levy and revise the water rate periodically to augment its revenue.

Audit should see whether such revisions are effected periodically to cover the expenditure incurred by the Board. The registers and other records maintained in this connection should be test checked to ensure that the revenue realized is properly accounted for. It should also be seen in audit whether adequate internal audit system exists.

25.09 Finalization of Audit Report:

Certified accounts of the Board along with Audit Reports are required to be placed before the State Legislature in terms of Section 42 of the KUWS&DB Act, 1973 read with section 19A(3) of the CAG's(DPC)ACT 1971. For this purpose, an audit report has to be finalized after the purpose, an audit report has to be finalized after the completion of the Audit of the Accounts of the Board according to the time schedule prescribed. The draft Audit Report should be forwarded to the Comptroller and Auditor General of India and his approval obtained before audit Report is the finalized. The finalized Audit Report sold is forwarded to the State Govt. and the Board along with the certified Accounts.

25.10 Special Points to be seen:

- (i) Whether adequate infrastructure was created and maintained consistent with the plan and to ensure water supply to all the areas coming under the jurisdiction of the Board.
- (ii) Whether a Sewerage Management Plan was formulated to create adequate infrastructure facilities to treat the Sewerage and maintain the facilities effectively.
- (iii) Loss of revenue due to leakage of water in distribution network and unmetered water taps.
- (iv) Adequacy of sewage connection for utilisation of Sewage Treatment Plants (STPs).
- (v) Adherence to the provision of KTPP Act and Rules in the award of works.
- (vi) Deficiency/lapses in preparation of estimates.
- (vii) Ensure that administrative approval of the competent Authority or Government exists for the works before taking up the same for execution. Cases of deviations may be examined.

(viii) Verify whether

(a) The Actual expenditure incurred in the execution of works is within the approved estimate and;

(b) Any excess expenditure, incurred over the Tendered cost, has been reviewed and approved by the Board. Whether any delay in obtaining approval for the revised estimate may also be reviewed.

(ix) Cases of execution of works, involving deviation from the approved estimates, may be reviewed with reference to extra expenditure, incurred by the Board and approvals received for the same in the High Level Committee Meeting of the Board may be reviewed.

(x) Cases of execution of extra items of works over and above the approved estimates, cost incurred thereon, and reasons for such excess may be reviewed by comparison between the Schedule B to the tender document and the approved estimate.

(xi) Cases of the taking up the work and subsequent withdrawal and stoppage of the same by the Board for reasons of slow and unsatisfactory work and the financial impact of the same may be reviewed.

(xii) Compliance of directives/instructions, issued by the Governor of Karnataka and obtaining prior approval of the Governor where ever necessary.

(xiii) Procedures followed in investment of surplus fund.

(xiv) Delay in commencing the programmes/activities resulting in escalation of cost and non-achievement of the objective.

(xv) Adequacy of quality control for the water being supplied and the sewage system.

(xvi) Agreements entered in to with the financial institutions for raising loans/funds raised by the Board and repayment of loans.

(xvii) System and procedure laid down for repayment of loans by the Board.

(xviii) Review of cash book, transfer of funds to district divisions

(xix) Utilisation of additional central assistance for special schemes.

- (xx) Implementation of various schemes.
- (xxi) Takeover of Government loan.
- (xxii) Additional financial burden on the Board due to non-handing over the UGD/water supply networks to the Local Bodies.
- (xxiii) Procedures followed in borrowing money from the Banks on behalf of Local Bodies for construction of UGDs/implementing Water Supply Schemes and subsequent recovery of the same from the Local Bodies.
- (xxiv) Questionnaires in Annexure-I.
- (xxv) Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- (xxvi) Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- (xxvii) Compliance Audit checks as detailed in Annexure XXI.
- (xxviii) Audit Points detailed in Para 7.25 of the Chapter VII.

Chapter XXVI

Karnataka State Human Rights Commission

26.01.01 Introduction:

The Karnataka State Human Rights Commission was constituted under the Central Act (Protection of Human Right Act, 1993) to create awareness regarding human rights and its protection and to help the victims of violation of human rights.

26.01.02 Constitution:

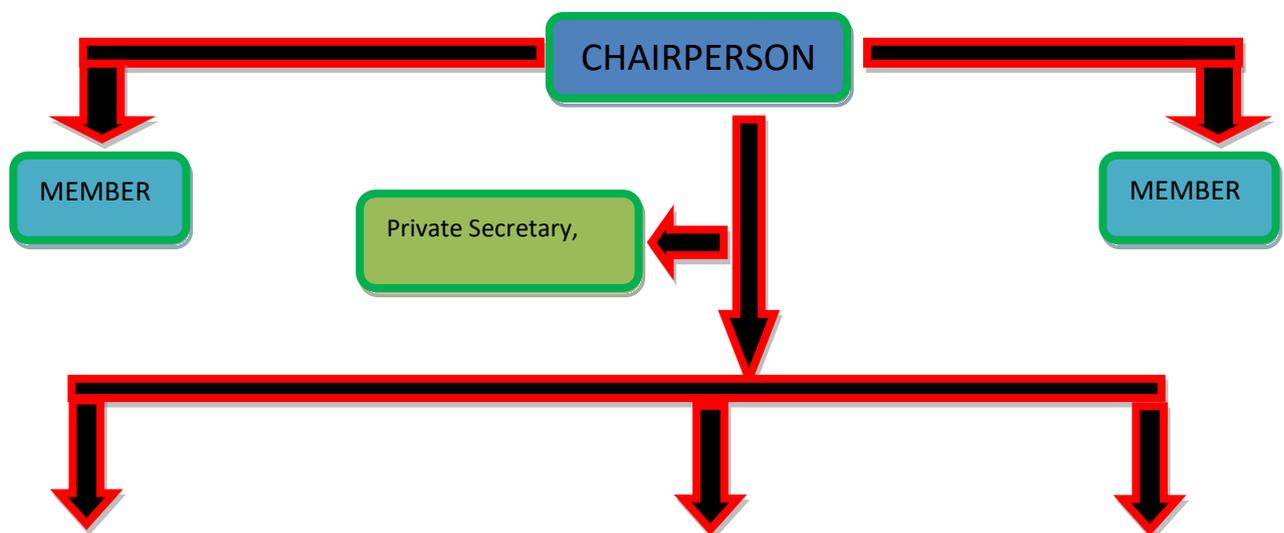
Sec. 21 of the Protection of Human Rights Act, 1993, as amended by the Protection of Human Rights (Amendment) Act, 2006 under Chapter V, lays down that the State Government may constitute a Human Rights Commission which shall consist of –

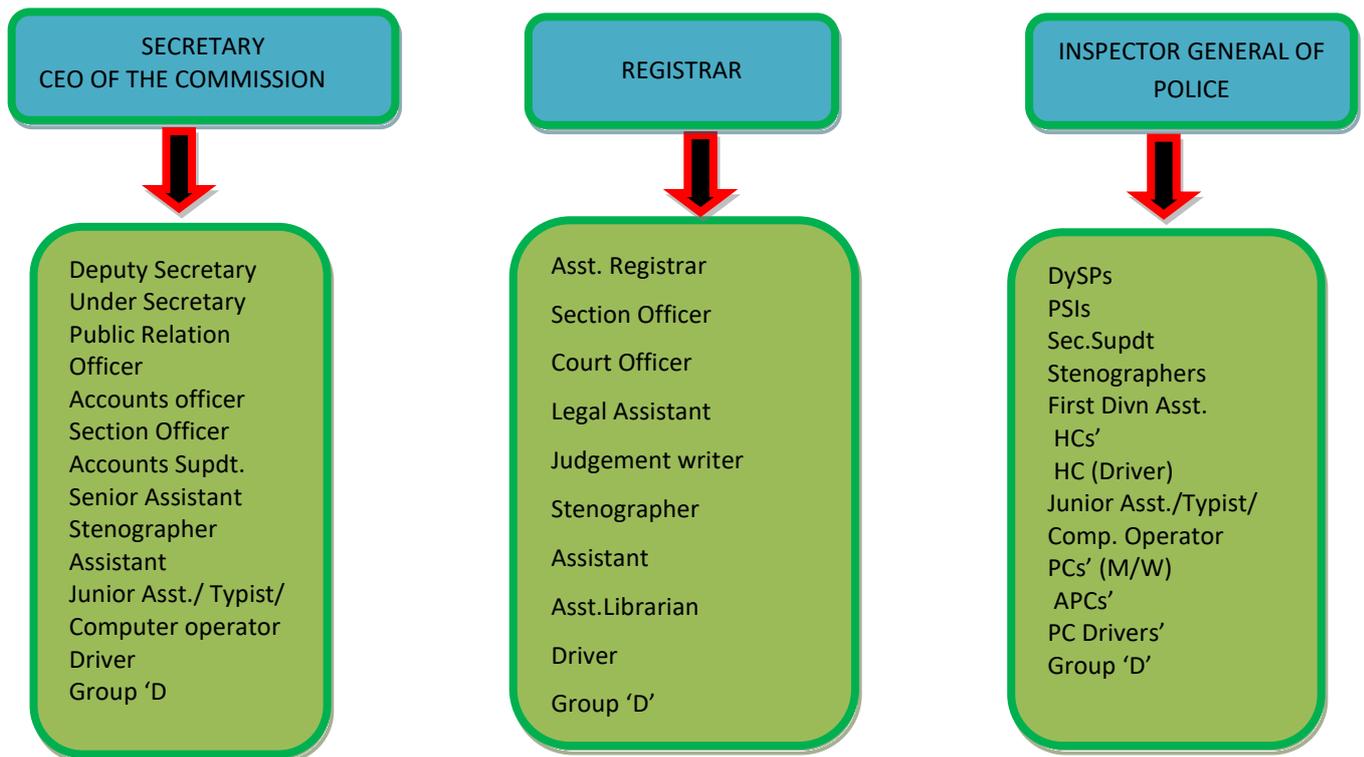
1. A Chairperson who has been a Chief Justice of a High Court
2. One Member who is, or has been, a Judge of a High Court or District Judge in the State with a minimum of seven years experience as District Judge;
3. One Member to be appointed from amongst persons having knowledge of, or practical experience in, matters relating to human rights.

26.02 ORGANIZATION:

The Commission is organized into three wings namely: Administration Wing, Law Wing and Investigation Wing. The Secretary of the Commission is the Chief Executive Officer (CEO) of the Commission. The Investigation wing and the Law wing are functioning under the control of the Inspector General of Police and the Registrar, respectively.

ORGANISATION CHART





26.03 Function:

In order to promote and create awareness about the safeguards available for better protection and help to the victims of violation of Human Rights, the Commission is performing the following functions:

- Take *suo-motu* or on the basis of a petition of a victim or any person on his behalf, cognizance of violation of Human Rights or abetment or negligence thereof by a public servant.
- Conduct an enquiry into the facts of the matter and pass orders in accordance with the legal provisions in such matters.
- Create awareness of these rights among students and teaching staff by conducting workshops/seminars/meetings/training on Human Rights in universities and in other educational institutions.
- Spread literacy about Human Rights among various sections of society through workshops/programmes/conferences and to create awareness among the personnel undergoing training in Governmental organisations, such as Administrative Training Institute, Mysore, Karnataka Police Academy, Mysore, Abdul Nazir Sab State Institute of Rural Development.
- Visit any jail or any other institutions under the control of the State Government, where people are detained or lodged for the purpose of

enquiry/hearing/reformation/protection, in order to study the living conditions of the inmates and make recommendations to the Government.

- Create awareness about human Rights in the society through publications.
- Encourage non-Governmental organizations to promote awareness of safeguards available for protection of Human Rights.

26.04 Finance:

Government is assisting the Commission by providing Grants-in-Aid to meet its expenditure.

26.05 Accounts and Audit:

As per Section 35 of the Protection of Human Right Act, 1993:

(1) The State Commission shall maintain proper accounts and other relevant records and prepare an annual statement of accounts in such form as may be prescribed by the State Government in consultation with the Comptroller and Auditor-General of India.

(2) The accounts of the State Commission shall be audited by the Comptroller and Auditor-General at such intervals as may be specified by him and any expenditure incurred in connection with such audit shall be payable by the State Commission to the Comptroller and Auditor-General.

(3) The Comptroller and Auditor-General or any person appointed by him in connection with the audit of the accounts of the State Commission under this Act shall have the same rights and privileges and the authority in connection with such audit as the Comptroller and Auditor-General generally has in connection with the audit of Government accounts and, in particular, shall have the right to demand the production of books, accounts, connected vouchers and other documents and papers and to inspect any of the offices of the State Commission.

(4) The accounts of the State Commission, as certified by the Comptroller and Auditor-General or any other person appointed by him in this behalf, together with the audit report thereon, shall be forwarded annually to the State Government by the State Commission and the State Government shall cause the audit report to be laid, as soon as may be after it is received, before the State Legislature.

26.06 Special Points to be seen:

- i. Adherence to the provision of KTPP Act and Rules in procurements and in award of works.
- ii. Pending cases and compliance as per Protection of Human Rights Act.
- iii. Review of the expenditure incurred on the exercise of the functions detailed above.
- iv. Questionnaires in Annexure-I.
- v. Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- vi. Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- vii. Compliance Audit checks as detailed in Annexure XXI.
- viii. Audit Points detailed in Para 7.25 of the Chapter VII.

Chapter XXVII

Karnataka Building and Other Construction Workers Welfare Board

27.01 Introduction:

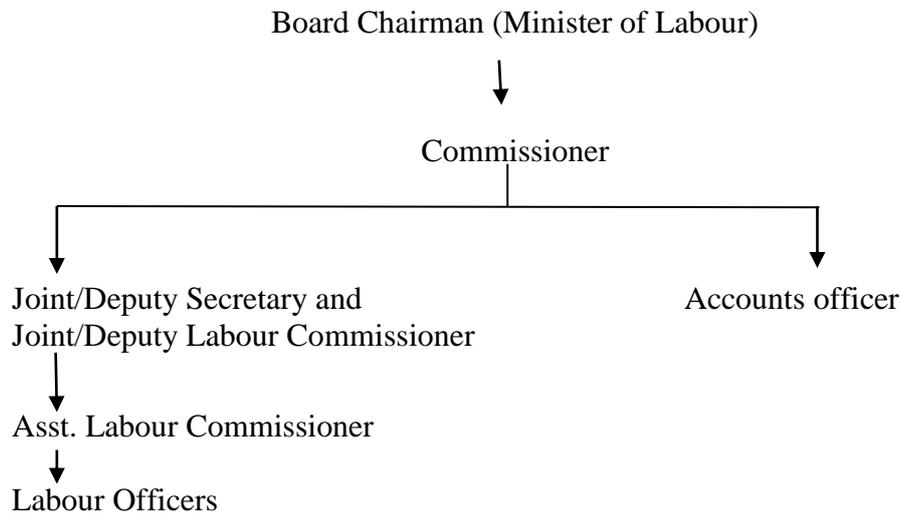
The Building and Other Construction Workers Welfare Cess Act 1996 was introduced by the Government of India to provide for the levy and collection of a Cess on the cost of construction incurred by employers with a view to augmenting the resources of the Building and Other Construction Workers' Welfare Boards constituted under the Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996.

27.02 Functions:

The Government of Karnataka has constituted the Karnataka Building and Other Construction Workers Welfare Board under the Building and Other Construction Workers (Regulation of Employment and Conditions of

Service) Act, 1996 to implement the provisions and the schemes meant for welfare of the building and other constructions 'workers and their families as per the Act.

27.03 Organizational Chart:



27.04 Scheme/Assistance extended by the Board:

- Pension Scheme
- Accident Benefit
- Education Assistance
- Marriage Assistance
- Maternity benefit
- Hospitalization Assistance
- Assistance of Major Ailments
- House Assistance
- Assistance for Instrument Purchase
- Disability Pension
- Assistance to meet the funeral expenses.

27.05 Finance:

Government of Karnataka with a view to enforce the provision of the Building and Other Construction Workers' Welfare Cess Act ,1996 and framed Rules there under collecting Cess at the rate of 1% of the cost of construction incurred by employer and is also applicable to other agencies involving workers as specified in the Act. Levying and Collection of Cess is on the cost of construction in respect of Building and other construction works as defined under Section 2 (d) of the Act.

27.06 Accounts and Audit:

As per Section 27 of the Building and Other Construction Workers' (Regulation and Employment and Conditions of Service) Act, 1996:

(1) The Board shall maintain proper accounts and other relevant records and prepare an annual statement of accounts in such form as may be prescribed in consultation with the Comptroller and Auditor-General of India.

(2) The Comptroller and Auditor-General of India or any other person appointed by him in connection with the auditing of the accounts of the Board under this Act shall have the same rights and privileges and the authority in connection with such audit as the Comptroller and Auditor-General of India has in connection with the auditing of the Government accounts and in particular shall have the right to demand the production of books, accounts, connected vouchers and other documents and papers and to inspect any of the Officer of the Board under this Act.

(3) The accounts of the Board shall be audited by the Comptroller and Auditor-General of India annually and any expenditure incurred in connection with such audit shall be payable by the Board to the Comptroller and Auditor-General of India.

(4) The board shall furnish to the State Government before such date as may be prescribed its audited copy of accounts together with the auditor's report.

(5) The State Government shall cause the annual report and auditor's report to be laid, as soon as may be after they are received, before the State Legislature.

27.07 Special Points to be seen:

- i. Collection of Cess and effective utilisation of the same for implementation of the various schemes meant for welfare of the building and other constructions' workers.
- ii. Irregular refund of cess.
- iii. Loss of fees due to non-registration of Establishments of building and other construction workers as stipulated in KAR Rules.
- iv. Investment of the Surplus fund.
- v. Review of Schemes/Programmes conducted to achieve the objectives of the Board & the expenditure thereon.
- vi. Questionnaires in Annexure-I.
- vii. Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- viii. Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- ix. Compliance Audit check as detailed in Annexure XXI.
- x. Audit Points detailed in Para 7.25 of the Chapter VII.

Audit of Government Company

Chapter –XXVIII

KARNATAKA STATE AGRO CORN PRODUCTS LIMITED

28.01 Introduction

The Karnataka State Agro Corn Products Limited was incorporated on 6th April 1973, as a fully owned subsidiary of Karnataka Agro Industries Corporation Limited (KAIC). It became an independent Government Company from 1988-89. A Maize Milling Plant was set up in December 1975 at Bangalore to convert maize into maize products. Since the maize products could also be used for livestock feed, for better utilisation of the maize plant, the Company set up a Livestock Feed Plant during November 1975 in Bangalore.

The **authorised capital** of the Company is Rs. 400 lakh. The **paid up capital** as on 31st March 2014 is Rs. 273.37 lakh of which Government of Karnataka contributed Rs. 223.37 lakh and KAIC contributed Rs. 50 lakh.

28.02 Objectives:

The main objectives of the Company are:

- (1) To establish and run milling plants for converting agricultural produce into products like soji, maida, grits, flour, germs, bran etc.
- (2) To establish oil extraction plants for extraction of oil from agricultural produce and marketing the same.
- (3) To plant, cultivate, produce and raise or purchase, import, export and sell all agricultural, horticultural and forest produce, oils and products manufactured thereof.
- (4) To establish mills and factories for producing bakery products, animal food products etc., and
- (5) To carry on the business of procuring, marketing and handling agency business of all agricultural products.

The Company's activities are confined mainly to production of Agro feed, maize and weaning food products.

28.03 Organisational set up:

The Management of the Company is vested in the Board of Directors with a minimum of three and maximum of seven Directors. The Government of Karnataka has the powers to appoint or nominate one third of the total strength of Board of Directors who are liable to retire by rotation. The Chief Executive of the Company is the Managing Director.

28.04 Activities

To achieve the declared objectives, the Company set up three units, viz.,

- (1) A new flaking unit (October 1991) with a capacity to produce 2400 tonnes of flakes per annum. The maize products have both industrial and human

consumption and are sold through agents appointed all over the State. The plant was set up in order to give a price support to the farmers and encourage growing of maize on a large scale.

(2) Agro feeds plant at Bangalore for expansion of Installed Capacity (September 1992) from 20400 to 30000 tonnes per annum.

(3) Energy food plants at Mysore, Chitradurga, Belgaum, Raichur and Doddaballapur, a Government project entrusted by the Education Department under the Applied Nutrition Programme of the Government of Karnataka to provide energy food to women and the school going children. Each unit has a manufacturing capacity of 15 tonnes per day.

28.05 Products manufactured:

(1) Maize products:

(a) Soji; (b) Maida; (c) flour; (d) germ; (e) bran; (f) grits; (g) flakes.

(2) Cattle and poultry feeds:

(a) Chick mash; (b) grower mash; (c) layer mash; (d) broiler starter; (e) broiler finisher; (f) breeder grower; (g) breeder's mash; (h) special layer mash; (i) Agro popular milk meal; (j) Agro special milk meal; (k) Agro calf meal; (l) pig feed.

(3) Energy food.

28.06 Specific Regulatory measures applicable

The Industry (Development and Regulation) Act is applicable in regard to the production of maize products besides other Statutory Acts.

28.07 Description of manufacturing process

(a) Maize products

Hybrid is cleaned and the impurities such as bigger than maize, smaller than maize and lighter than maize are separated through a separator. Gravity

separator separates the impurities such as stones, non-ferrous impurities etc., and magnetic separator separates the ferrous impurities.

The cleaned maize is introduced into degerminator in a particular manner so that the germ portion comes out from maize. The mixture of the germ and bran passes through the plan sifter where it is graded and then the product passes through bran separator where the bran is aspirated out and the germ and grits come to the gravity separators where the germ is separated from grits by the gravity separators. The germ goes for packing and the grits are graded further.

The medium and fine grits are subjected to milling operation and they are made to pass through a series of rolls. In the refining process, medium, fine soji, maida and atta are produced. The coarse grits are subjected to further polishing and cooking. Then it is flaked by means of heavy duty flaking rolls, hot air dried and then it goes for packing. The waste material such as maize cobs etc. constituting about 1% is packed and sold to the cattle and poultry feed manufacturers.

(b) Cattle and poultry feeds

Manufacturing of feed is a process of mixing raw materials like maize, groundnut cake, rice polish, de-oiled rice bran, maize products etc., in a definite proportion; materials which are not in powder form are being sent through hammer mill. Vitamins and minerals are added before all the materials are thoroughly mixed to form a homogenous mixture. The product is collected in gunny bags and packed to requirement.

(c) Energy Food

The process is essentially of cleaning, roasting and grinding the various ingredients viz., wheat, bengal gram, dhal, edible groundnut cake, jaggery and mixing all the above ingredients along with vitamins and minerals in fixed proportion.

Wheat is cleaned free of husk, dust and other extraneous matter in a pre-cleaner, consisting of a grader and an aspirator. The material is then mixed with fine sand and fed into an oil-fired roaster through a belt conveyor. After

roasting, the material passes over a sieve and an aspirator to remove sand and dust. Further stones and sand particles are removed by means of a de-stoner. Roasted wheat is ground to a fine power in a hammer mill.

Bengal gram dhal is roasted in an electrically heated roaster for 30 minutes until a characteristic aroma is developed and then cooled in a cooler for about 10 minutes. It is then de-stoned in a de-stoner and then ground to a fine powder in a plate grinder.

Edible groundnut cake is first crushed in a beater to bring the particle size to less than 1 inch. The material is roasted for about 30 minutes in an electrical roaster. The roasted cake is cooled by spreading on trays and ground into fine powder in a plate mill.

Jaggery is broken into small pieces manually and it is mixed with calcium carbonate and a small quantity of wheat flour and further ground in a multi mill. Care is taken to see that jaggery should not stick to the blades in the mill.

Powdered ingredients in the proportions indicated above are mixed with vitamin premix in a paddle mixer for about 10 to 15 minutes. The energy food from the mixer is then filled in polythene pouches and the pouches are sealed using a heat sealer both manually or by automatic filling and sealing devices. The packets are filled in polythene sacks and stored.

28.08 Sources of supply of raw material used

Commercial hybrid maize is the raw material used in the maize milling plant for manufacture of maize products. This material is bought from farmers, co-operative societies and merchants at prevailing market rates after obtaining quotations and evaluation thereof.

The raw material required for manufacturing cattle, poultry feed etc., are bought from various suppliers by floating enquiries and obtaining quotations. The requirements of raw materials for energy food are bought by floating annual tenders.

28.09 Special points to be seen

- (1) The Company fixes the selling prices of maize products and agro feeds based on the estimated cost of production and the selling prices for similar products in the market. In regard to energy food, the State Government has agreed for the selling price to be fixed so as to enable the Company to have a margin of 5 per cent over its cost. It has to be ensured that the selling prices so fixed cover the cost of production.
- (2) The purchases of raw materials are made from traders, co-operative societies and farmers. As per the procedure, the purchase price is arrived at, after taking into consideration the prices prevailing in the open market, regulated markets and prices published in newspapers. It has to be ensured that the purchases are made most economically, consistent with quality, keeping the above purchase procedure in view.
- (3) The Company purchases maize from growers and outside agencies with moisture content. The moisture content is tested in respect of every consignment and the percentage of moisture content would be reported along with the purchase bill. To compensate the shortage in weight due to driages caused by moisture content above a particular level, the Company effects recoveries at 50 paise per percent of moisture over and above 14% from the amount payable to the suppliers. It is to be ensured that the rates fixed for recovery is imposed by the Company.
- (4) On the basis of standards fixed by the Bureau of Indian Standards, the Company has fixed certain norms for the raw material used in the manufacture of animal/poultry feeds in regard to protein, sand and silica, fibre, salt, moisture contents etc. Every consignment of purchase is to be analysed in the laboratory and a report furnished. Payments for each consignment are to be made after effecting proportionate recoveries towards deficiency in the percentage of contents found in each consignment. The purchase bills are to be reviewed to see that reduction in the price payable is effected wherever deficiency is reported.
- (5) The Company has fixed norms for allowing shortages during storage of maize due to driage, infestation and handling at 1% for the grains procured with moisture content, ranging from 10 to 16 per cent. In case of higher percentage, Board's approval has to be obtained. Cases of higher percentages of shortages may be reviewed to ensure that the Company has obtained the approval of the Board of Directors for losses in excess of the limits prescribed.
- (6) The Company sells cattle feed through agents and dealers. The sales agreement entered into with them and also their performance may be reviewed.

- (7) The performance of energy food plants against the projections made may be reviewed.
- (8) Review of the Stock Position of the finished products & raw materials and Comment on Loss of interest on Investment due to excess inventory.
- (9) Questionnaires in Annexure-I.
- (10) Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- (11) Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- (12) Compliance Audit checks as detailed in Annexure XXI.
- (13) Audit Points detailed in Para 7.25 of the Chapter VII.

Chapter XXIX

KARNATAKA STATE AGRICULTURAL PRODUCE PROCESSING AND EXPORT CORPORATION LIMITED

29.01 Introduction

The Company was incorporated in April 1996 (22.04.96) as a wholly owned Government Company. The main objects of the Company are to encourage the promotion, development, processing and export of Agricultural, Horticultural and Floricultural products. As on 31st March 2014 the **authorized capital** was Rs. 500 lakh and **paid up capital** was Rs. 50 lakh.

29.02 Objectives

- (1) To develop and promote the production, processing and export of Agricultural, Horticultural and Floricultural products by enabling modern

technology for increasing the productivity, production, processing and storage of the agricultural commodities.

(2) To create post harvest infrastructure facility for the development and export of Agricultural, Horticultural and Floricultural products.

(3) To encourage private participation in this sector

(4) To establish processing and export growth centre for the processing of these products and supply the agricultural inputs / technology required for the farmer community

(5) To undertake market research about the export quality products and disseminate the information both to the exporters and growers.

(6) To organise exhibitions (including overseas), seminars, growers' and exporters' meet to increase production and improving productivity and quality and to create awareness among the growers (incidental to the main objectives).

29.03 Organisational set-up

Board of Directors consisting of 8 Directors manages the Company.

Managing Director looks after the day to day affairs of the Company.

29.04 Special points to be seen in Audit

- 1) Sales / Export of Grapes.
- 2) Sale of wheat and maize.
- 3) Foreign travel records, sanctions of the Government.
- 4) Export/ import of fruits/vegetables and other commodities.
- 5) Export of Niger seeds.
- 6) Sale of Pomegranates.
- 7) Agreement/arrangements made between the farmers/agents.
- 8) Exporting countries absorption of foreign exchange rate differences.
- 9) Examination of financial assistance received from ASIDE and utilisation thereof.
- 10) Outcome of the pending issue relating to delayed re-export of clove to Singapore.

- 11) Extension of interest free advance to Bijapur Grape Grower's Cooperative Society and recovery thereof.
- 12) Review of Inventory of all the above products and comment on loss of interest on excess inventory.
- 13) Loss of investment due to reduction in value of the Stock on account of reduction in value/quality/shrinkage etc, because of Excess Stocking.
- 14) Questionnaires in Annexure-I.
- 15) Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- 16) Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- 17) Compliance Audit checks as detailed in Annexure XXI.
- 18) Audit Points detailed in Para 7.25 of the Chapter VII.

Chapter XXX

KARNATAKA TOGARI ABHIVRUDHI MANDALI LIMITED

30.01 Introduction

Karnataka Togari Abhivrudhi Mandali Limited was established vide GO No. AHD 399 AMS 99, Bangalore dated 15.3.2002. Its headquarters is located at Gulbarga. The **authorised share capital** of the Corporation is Rs. 500 lakh and the **paid up capital** as on 31.03.2012 is Rs.500 lakh wholly paid by the Government of Karnataka.

30.02 Objectives

- (1) To undertake all promotional Activities relating to Togari.
- (2) To undertake Research and Development on all aspects of Tur cultivation in the State.

- (3) To Act as the agent of the State Government in the exploitation of the full potential of Tur cultivation.
- (4) To promote and develop the processing of Tur with the adoption of the latest technology.
- (5) To identify these advanced technologies both in the production and processing of Togari and make them available to the farmers and the Processing Units.
- (6) To facilitate and coordinate the transfer of high technical services for the above Tur development from the Agricultural Universities, National Institute of Research, the Corporate Sector, International Technology Organisation etc., to the farmers and Processing Units.
- (7) To engage Indian or Foreign Consultants in the task of the above promotional efforts.
- (8) To make arrangements for the supply of essential inputs to the farmers.
- (9) To undertake procurement and marketing operations with the sole objective of ensuring a reasonable price to the farmers. To promote and facilitate the creation of all the infrastructural requirements like Warehouses, Godowns, Transportation Systems etc., and
- (10) To also undertake similar promotional and other Activities in relation to other pulses as may be decided by the State Government from time to time.

30.03 Organisational set up

The general supervision and management of the affairs of the Corporation is vested in a Board of Directors which shall consist of 12 directors and the day to day affairs of the Company are managed by the Managing Director.

30.04 Special points to be seen

- i.** Effective utilisation of funds for the Activities of the Company.
- ii.** Pricing of Tur dal and sales aspect.
- iii.** Consumption of stock including gunny bags.
- iv.** Losses incurred in packing.

- v. Disposal of by-products got during processing of Tur as it may be used as fodders for animals feed.
- vi. Procurement of Advanced Technology for promotion of latest technology in Togari Processing /Production etc.
- vii. Questionnaires in Annexure-I.
- viii. Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- ix. Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- x. Compliance Audit checks as detailed in Annexure XXI.
- xi. Audit Points detailed in Para 7.25 of the Chapter VII.

Chapter XXXI

KARNATAKA COMPOST DEVELOPMENT CORPORATION LIMITED

31.01 Introduction

The Karnataka Compost Development Corporation Limited was incorporated on 26th August 1975 as a subsidiary of Karnataka Agro Industries Corporation Limited. The **authorised capital** of the Company is Rs.250.00 lakh divided into 2.5 lakh-equity shares of Rs. 100 each. The **paid up capital** of the Company as on 31st March 2014 was Rs. 50.00 lakh - KAIC contribution Rs. 26.00 lakh, Bangalore City Corporation Rs. 12 lakh and Karnataka State Co-operative Marketing Federation Rs. 12lakh.

31.02 Objectives

The main object of the Company is to convert urban waste into Agro-Compost (Organic Manure).

31.03 Organisational set up

The Management of the Company is vested in a Board of 8 Directors including Chairman.(2 Directors from KAIC ,2 Directors from Bangalore Mahanagara Palike, one each from Karnataka State Co-operative marketing federation, Directorate of agriculture, Horticulture department and University of agricultural sciences). The Chief Executive of the Company is the Managing Director.

31.04 Activities taken up

An agreement was entered into with Bangalore City Corporation in March 1978 for supply of 200 tonnes of garbage daily at plant site free of cost for conversion of the same into compost manure. Presently the conversion is being carried out with the help of smaller capacity vibrator severs designed and fabricated by the Company which have an output capacity of 45 tonnes per day.

The Corporation has given its consent to Indian Institute of Science (ABETS) to establish 1 MW power generation unit at KCDC premises by using the garbage rejects generated during processing.

31.05 Manufacturing process

The Company adopts aerobic decomposition windrow method. When organic materials are de-composed in the presence of oxygen, the process is called 'Aerobic'. The garbage received is arranged in windrows after segregation of contraries on the concrete platform. A nitrogen fixing inoculants is sprayed on the garbage to speedup decomposition and to reduce the odour. The windrows are turned with the help of auger and front-end loader for proper aeration once in 5 days so that aerobic process continues uninterrupted. Water is sprayed as and when required depending on the moisture content. Composting is complete in 3 to 4 weeks and the degraded compost is fed to the screening plants to produce different grades of organic manure. Organic manure is in two forms:

1. Organic Manure (Pure)

2. Organic Manure (Enriched)

The manure so produced is marketed under the trade names 'BIO AGRO' and 'BIO AGRO RICH'.

31.06 Expansion Programme

Solid Waste Management in the Bangalore Mega City Project is entrusted to the Company by earmarking Rs. 6 crore for revitalizing the existing plant. Starting two more compost plants and a fuel palletising plant with the revitalisation of machines or receipt of funds from Bangalore Metropolitan Region Development Authority (for one project: land has been allotted by BDA at kannahalli near Magadi road a security room and a weighing machine has been, established in the site) there will be increase in the intake capacity of solid wastes and production of organic manure.

31.07 Marketing Network

The Agro Kendras of Karnataka Agro Industries Corporation Limited have been procuring substantial quantity of Compost all over the State. The Company has proposed to increase the sales through the Dealers Network and through Agro Kendras of KAIC in the coming years.

31.08 Special points to be seen

1. Agreement entered into with dealers for sale of compost may be reviewed with special reference to payment of commission, credit period etc.
2. Collection of Transport subsidy/charges by the Company may be verified.
3. Cases of avoidable delay in repayment of loan taken from Bankers may be reviewed.
4. Cases of default in remittance of statutory dues like P.F., ESI, etc., resulting in payment of penal charges may be verified.

5. The Bangalore City Corporation has agreed to supply 200 tonnes of garbage per day to the plant free of cost. Performance aspect on the part of BCC may be reviewed.
6. Fixation of selling price for compost to be verified.
7. Questionnaires in Annexure-I.
8. Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
9. Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
10. Compliance Audit checks as detailed in Annexure XXI.
11. Audit Points detailed in Para 7.25 of the Chapter VII.

Chapter XXXII

KARNATAKA FISHERIES DEVELOPMENT CORPORATION LIMITED

32.01 Introduction

The Karnataka Fisheries Development Corporation Limited, Mangalore was incorporated on 30th October 1970 to develop fishing industry in the State by setting up Ice Plants, Freezing Plants, Cold storages and other Processing Plants to carry out commercial fishing and processing of fish and fish products for sale within the country and for export. In January 1971, the Company took over certain assets such as Freezing Plant, Can frozen storages, Cold storages, Ice plants etc., from State Government at a total value of Rs. 110.40 lakh and the amount was treated as Government contribution towards equity capital.

The Company is running sales units throughout the State for Marketing fish and allied products and is having seven Ice and Cold storages-cum-fishing Plants at Mangalore, Ullal, Kulai, Gangothri, Karwar, Malpe and Bhatkal. The Company is marketing fish catches by lease - science back owners on agency basis since 1982.

The **authorised capital** of the Company is Rs. 2000 lakh made up of 20 lakh equity shares of Rs. 100/-. The **paid-up capital** of the Company as on 31st March 2014 was Rs. 1615.93 lakh wholly contributed by Government of Karnataka.

32.02 Objectives

The main objectives of the Company are:

- (1) To conduct fishing; to manufacture, stock, sell, purchase and use ice for fishing, processing and other purposes.
- (2) To manufacture, purchase, store, distribute, transport, sell, exchange, alter, improve, hire, let on hire and deal in fishing boats.
- (3) To purchase, acquire, take over ice plants, freezing plants, cold storages, boat building yards, workshops, fishing boats, insulated vans, refrigerated vans and other fish transport vehicles and other institutions connected with harvesting processing storage, transport and marketing of fish owned by the State Government.
- (4) Engage in processing of fish and fish products for sale within the country and abroad.

32.03 Organisational set up

The Government shall, from time to time, determine the number of Directors of the Company, which shall not be more than twelve. The Chief Executive of the Company is the Managing Director.

32.04 Activities taken up

The Corporation, in addition to working on commercial lines, aims at development of the fishing industry in general by advancing loans to the fishermen, purchase of fish caught by fishermen at reasonable prices for

processing, provide ice and cold storage facilities at lower rates and marketing the catches of purse-seine boats so that the fishermen get better prices for their catches. The Corporation also provides quality frozen fish to consumers at reasonable prices throughout the year.

32.05 Description of manufacturing process etc.

The Corporation manufactures ice by bringing the temperature of water to '0' degree centigrade. It processes prawns and fishes in 500 gms and 1 Kg blocks in cleaned form and packed in wax cartons and corrugated boxes after freezing to -40 degree centigrade temperature. The frozen fish is stored in cold storage at -18 degree centigrade till its transportation to markets for sale or till shipment. Fish meat, used for cattle, is produced by using mainly cheaper fish that is pre-cooked in steam, screw pressed to remove water and oil, dried in drier, and pulverised. Oil is centrifuged and separated from stick water.

32.06 Description of technical terminology

A glossary of technical terminology used in describing the frozen fish and prawns is given below for guidance.

Round: Natural form

Dressed: Gills and viscera removed beheaded in the case of small fish

Pad: Peeled undeveined prawns

Steaks: Vertically cut chunks of fish. Ready to cook

Pillets: Horizontally cut fish meat chunk free from bone; ready to cook

HL Prawns: Headless tiger/white/brown prawns

PD Prawns: Peeled and deveined prawns

32.07 Special points to be seen

- (1) The Company operates ice-manufacturing plants at different places to produce ice required for preservation of fish, immediately after it is

caught, and also during short haul transportation. The performance of these plants vis-a-vis its installed capacity, quantity produced etc., may be reviewed.

- (2) The Company sells the ice produced by these plants to fishermen, apart from use of certain quantities itself for preservation of fish. It may be seen as to whether the sale is affected at the list and that day to day collections are remitted to the bank promptly and correctly, since these plants are provided with imprest amounts to meet daily expenditure.
- (3) The Company is operating cold storage plants to keep the fish at a temperature sufficiently low so as to prevent fast deterioration. The performance of these plants may be reviewed to see the extent of utilisation. Storage facilities are also allowed to private parties at rates fixed by the Company. Relevant records may be reviewed to ensure that the correct amount is collected and the same is promptly remitted to the bank.
- (4) The Company is providing freezing facilities to private parties and collects from them charges thereon. The correctness of the charges billed in this behalf and also prompt remittance of these charges to the bank may be reviewed.
- (5) The Company obtains raw materials like fish, prawns etc., by purchase in open auctions and also from its own fishing operations. The rates paid for the purchase during auctions vary from auction to auction, depending upon the demand, size and quality of fish. Wide variations if any, in the auction rates may be examined and reasons be analysed.
- (6) The Company sells its products through its own retail centers and also by appointing agents on commission basis. The sales affected through retail outlets, may be reviewed with reference to the targets, if any, fixed for the purpose and those affected by agents, with reference to the minimum guarantee fixed for such sale and other terms and conditions of their appointment.
- (7) The Company is operating a trawler for deep sea fishing operations. The working results of the operation of the trawler may be reviewed

with reference to the expenditure incurred on its operations and the revenue anticipated/realised by sale of fish, prawns etc.

- (8) The Company is having insulated vehicles for transportation of fish. Such vehicles are also let on hire to private parties on payment of hire charges fixed for the purpose. The cost of operation of these vehicles vis-a-vis the revenue assessed for the use of trucks by the Company and the revenue estimated/realised for hiring them for private parties may be reviewed.
- (9) The Company owns mechanised boats to be used for deep-sea fishing. Fishermen Group operates these boats on contract basis, on payment of 35% share of their catches. The expenditure incurred on the operation of these boats and the revenue estimated/earned in terms of such contracts may be reviewed.
- (10) Excess Inventory of fish if any & loss thereon.
- (11) Questionnaires in Annexure-I.
- (12) Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- (13) Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- (14) Compliance Audit checks as detailed in Annexure XXI.
- (15) Audit Points detailed in Para 7.25 of the Chapter VII.

Chapter XXXIII
KARNATAKA SHEEP AND WOOL DEVELOPMENT
CORPORATION LIMITED

33.01 Introduction

Karnataka Sheep and Wool Development Corporation Limited was incorporated on 5th December 2001 by taking over the business carried on by the Government under the name and style of “Karnataka Sheep and Sheep Products Development Board”. The **authorised capital** is Rs. 605 lakh made up of 6.05 lakh equity shares of Rs.100 each. The **paid up share capital** as on 31st March 2013 is Rs. 605 lakh wholly contributed by the Government of Karnataka.

33.02 Objectives

The main objectives of the Company are:

- (1) To promote and develop indigenous and exotic breeds of sheep and goats through selection, up-gradation and cross breeding for increased productivity, scientific breeding, rearing and management of sheep and wool and undertake research & development.
- (2) To provide health coverage to sheep and goats particularly with reference to ecto and endo parasitism and promote fodder production of conventional and non-conventional varieties and pasture development for sheep and goat.
- (3) To undertake compounding and marketing of various categories of feeds of sheep and goats and processing and marketing of hide, wool & other allied by-products and to carry on trading in Sheep or Wool for sale or export for purpose which seem conducive to the attainment of object of the Company.
- (4) To provide training in procuring, processing, weaving and marketing of Woollen & Semi-Woollen goods and to provide technical and consultancy services in the field of sheep and goat development.

33.03 Organisational set up

The affairs of the Company are managed by Board of Directors consisting of 9 Directors who are appointed by the Government of Karnataka. The Chief Executive of the Company is the Managing Director.

33.04 Special points to be seen.

- (1) Expenditure on strengthening of Sheep Breeding Centres.
- (2) Purchase and supply of de-worming drugs.
- (3) Establishment of wool procurement, processing and marketing centres.
- (4) Implementation of training programme - Carpet Weaving and Machine Shearing.
- (5) Funds management specifically with reference to treasury balance since Government extends grants, both capital and revenue.

- (6) High mortality rate of livestock if any, may be reviewed and commented.
- (7) Status of implementation of projects of providing facilities for wool collection and marketing-loss of potential revenue.
- (8) Questionnaires in Annexure-I.
- (9) Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- (10) Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- (11) Compliance Audit checks as detailed in Annexure XXI.
- (12) Audit Points detailed in Para 7.25 of the Chapter VII.

Chapter XXXIV

Dr. Babu Jagjivan Ram Leather Industries Development Corporation Limited

34.01 Introduction

The Dr. Babu Jagjivan Ram Leather Industries Development Corporation Limited (formerly Karnataka Leather Industries Development Corporation Limited) was incorporated on 28th October 1976 under the Companies Act, 1956. The **authorised share capital** of the Company is Rs. 800 lakh divided into 8 lakh equity shares of Rs. 100/- each. The **paid-up capital** as on 31st March 2014 was Rs. 684.67 lakh fully contributed by Government of Karnataka.

34.02 Objectives

The main objectives of the Company are -

- (1) To promote, aid, assist or finance the setting up of new cottage footwear industry, aid, assist, or finance the old or existing cottage footwear units or otherwise to bring about improvements in the working of existing units, including reorganisation, development and improvement of their techniques of production and marketing of footwear products by cottage shoe-makers.
- (2) To buy, sell, manufacture, export or import or otherwise deal in all kinds of footwear machinery, appliances, equipment and raw materials necessary for the manufacture of footwear.
- (3) To manufacture, buy, import, export, sell and generally deal in all kinds of leather and leather goods, boots, shoes and foot wear of all other kinds.
- (4) To take steps to train shoemakers and to educate them in new techniques for manufacture of foot wears.
- (5) Other objectives are:
 - (i) To provide financial technical and marketing assistance to any establishment engaged in the interior decoration work.

- (ii) To buy, sell, manufacture, export, import or otherwise deal with all kinds of furniture.
- (iii) To undertake interior decoration work on turnkey basis at any outside place.
- (iv) To engage hire or appoint designer and draftsmen in designing of Interior Decoration Work.

34.03 Organisational set up

The management of the affairs of the Company is vested in a Board of Directors consisting of 7 Directors. Government is entitled to nominate two or three Directors (but not exceeding one third of the total number of Directors). The Government appoints the Managing Director and he is the Chief Executive of the Company.

The Corporation has 23 retail outlets throughout the State and also one at Kolkata where the products like footwear, leather fancy goods, school-kits etc., are procured from artisans and SSI units and are being displayed. In addition to the above the Company has participated in various Exhibition and Trade fairs and significant sales achieved.

34.04 Products manufactured/Activities taken up

The Company procures and sells a variety of chappals, shoes, vanity bags, kits and a wide range of leather goods.

The Company was formed for the development of the economic conditions of scheduled caste people. The Company is assisted by the Government of India, under Special Component Plant and also by the Government of Karnataka and the Dutch Government, for improving the welfare of scheduled castes. The Company has taken up the following schemes to make better the lives of scheduled caste artisans. The Company is the nodal agency for implementation of various Socio-economic schemes introduced by Government for the benefit of leather and leather based industries as well as artisans in the State.

(a) Vishwa Programme

The training programme which commenced during the year 1991-92 under Vishwa programme was successfully completed by the Company for the continuous employment of rural youth in the leather trade. Under this programme, the Company trained more than 300 persons annually. For close monitoring of Vishwa Activities, the Company opened Vishwa Procurement-cum - Training Centers in each district and named them as District Vishwa Raw-Material-cum-Training Centers (DVRPC) which were supervised by District coordinator.

The Corporation has also taken up popular schemes under special component plan/special central assistance, under which wayside cabins with necessary facilities are being provided to the SC/ST artisans who are working on pavements without any shelter so that they can have their own shops and earn their livelihood. This scheme has helped many leather artisans.

The Corporation has also taken up construction of Living-cum-Worksheds for the benefit of leather artisans in the State under SCP/SCA Scheme and has opened Leather Common Facility Center for leather trade and allied activities. These Centers are expected to provide Infrastructural facilities for the leather artisans who are concentrated in the respective areas under the TRYSEM Scheme.

The Company has so far assisted 198 Small Industries for their leather product requirement which are sold through the retail outlets, at Athani, Ankanahalli, Byalya, Mysore, Hubli and Gadag, where traditional artisans are located. The above centers are being identified as the Procurement Centers from where the handmade footwear items are being procured and for which there is a very high demand in the market.

(b)Wayside cabins for cobblers

The Company has been providing cabins and tool kits in all taluks of the State to those cobblers who carry on their professions on the roadside without any shelter. The cost of the cabin (Charmakara Kuterera) and the tool kit is

provided by the Company as subsidy and the remaining portion as loan under the differential interest rate scheme by the scheduled banks.

(c) Training and study tour

Artisans are being deputed regularly to the Central Footwear Training Center, Chennai for undergoing advanced course as well as operator's course. They are being paid stipend by the Company in addition to what they get in the institute. Short-term training programmes are organised in association with Small Industries Service Institute, Bangalore and Hubli. Training course in the manufacture of utility articles is also arranged at Ramdurga, Athani and Kamatgi. Further, the Company is also conducting study tour to Chennai, Agra, Kanpur, Calcutta etc., to visit important leather processing and manufacturing units there.

(d) Raw material assistance

With a view to helping footwear artisans in procurement of leather and other raw materials at reasonable price to carry on their profession, the Company has set up raw material depots at various places in the State at comparatively reasonable rates.

(e) Marketing assistance

Under the Marketing Assistance Scheme, a limited number (150) of small-scale industries, have been registered with the Company for supply of various kinds of leather goods to the Company.

(f) Training cum Production Centre

The Company has set up training cum production Center at Bangalore where, various types of chappals/shoes, required for Government departments and factories and also for retail sales in the emporia are being manufactured.

With the assistance of the Norwegian Government, two training Centers have been started exclusively for women, to benefit destitute, widows and other deprived classes of female community. The Company has proposals to converge these centers into regular production centers, thereby assuring the Company of a regular supply of quality goods. On similar lines, the

Company proposes to set up training cum production Center at Hubli, independently without any foreign assistance, for the welfare of scheduled castes.

A Design and Development Cell has been organised to provide the latest designs of fast moving items in footwear and leather goods. The cell also trains the artisans in the fashions in vogue in the leather trade.

(g) Information Centre

Though the Information Center located at the head office of the Company in Bangalore, the Company makes available to the entrepreneurs and other manufacturers of leather, abundant information about leather industry. Through this Center, the Company interacts with the industry, thereby getting adequate feedback on the requirement of the industry in general and of the artisans in particular.

(h) Infrastructure facilities

With the assistance of the Dutch Government under a special scheme, lands have been acquired by the Company in various parts of the State for construction of house cum work sheds and common facility Centre, so as to provide a greater sense of security to the artisans. To encourage and modernise tanning activities, the Company has proposed to start tanning complexes at places where there is concentration of tanning activities so as to enable the tanners to carry out their tanning operations like soaking lime, salting etc. The Company has also proposals to set up effluent treatment plant at each of these tanning complexes.

(i) Establishment of carcass collection processing centers

The Company has proposed to set up Carcass Collection and Processing Centers at Mysore, Hubli and around Bangalore, for processing of carcasses of fallen animals. These Centers, apart from undertaking flaying, would also utilise the by-products of the carcasses, like bone meal, tallow, glue etc., to the maximum extent, thereby making it a very viable scheme. The flaying at the Center would cover a radius of about 25 KMs and the Company would arrange to transport fallen and dead animals on a timely basis.

The Company also proposes to introduce a compulsory system of registering death of animals in each designated areas, to keep track of the fallen animals so that the rate of recovery of hides and skins is monitored effectively. To build up a strong information base on death of animals, the Company is arranging cash incentives for informants so that the entire scheme of carcass collection and processing centers is effectively and successfully carried out.

(j) Raw hides and skins collection centres

The Company also proposes to set up raw hides and skins collection centers, at places close to the concentration of flaying activity so that raw hides and skins recovered are stored with the help of basic preservative facilities. The collection of raw hides and skins through this arrangement would ensure a reasonable margin to the flayers and the tanners in and around the centers are also assured of regular supply of hides and skins at very reasonable prices. This scheme envisages control by the Company over the market price of hides and skins so as to provide a direct market link between the primary producer and the tanner and the entire exercise through the set up of these vital centers would help in containing the exploitation of tanners and flayers at the hands of commission agents.

(k) Setting up of Institute of Leather Technology

As there is dearth of technical manpower in leather technology in the State, the Company has decided to set up an Institute of Leather Technology in Karnataka so as to provide the necessary academic culture, thereby helping to build up a technical cadre within the State, without having to resort and rely on outside talent. The Government also has agreed for the proposal.

34.05 Regulatory measures applicable to production/distribution

To ensure that the goods produced in the households of artisans around the procurement centers meet the required standards, strict quality control is being enforced at each of the procurement Center. The complaints of customers, if any, on the quality of goods supplied, are attended to at the Company's Training cum Production Center, Bangalore.

To enable the low-income leather workers and other small entrepreneurs to obtain raw materials of a high quality at a substantially lower price, the Company supplies sole and upper leather, rubber sheets, adhesives and other accessories to the artisans at a very reasonable price without any element of profit. Only handling charges to an extent of 4% is being added to the cost of raw materials supplied to the artisans and no other overheads are passed on to the beneficiaries.

The Company sells its products through its own retail outlets in the form of showrooms set up exclusively for sale of its genuine leather products and also through exhibition cum sales all over the country. For fixing up the procurement price, the Company gives due consideration to the input factors leading to the production of goods and the price paid by the Company for procuring the goods, ensures a reasonable return for the manufacturer, allowing for his own labour cost and a margin of profit. These goods are in turn sold through the Company's emporia at a rate worked out on the basis of the cost plus and marked up percentage towards profit element.

34.06 Export of goods

The Company is a permanent member of the Leather Export Promotion Council and the Trade Development Authority through whom efforts are being made to sponsor the products of the Company in the export market.

34.07 Description of raw materials used, sources of supply of raw materials, treatment of waste etc.

The production Centre at Bangalore manufactures footwear and various types of chappals required for Government departments and factories and also for retail sales in the emporia. The raw materials used are finished leather, dhor leather, B.T. sole, rubber sheets, colour cuttings and hardware items. The raw materials required are mainly purchased from tanners, by following the usual purchase procedure.

During the process of tanning the raw leather, waste in the form of chemicals, acid, water etc., is discharged and the same is passed on to the fields nearby the factory site. To avoid the hazards caused by the effluents to the local

residents, the Company has proposed to construct an effluent treatment plant at K.G.Halli and also at its other tanning complexes, where the effluents collected from all the tanneries, situated in and around the plant would be processed.

34.08 Special points to be seen

- (1) The Company hires buildings for running its sales emporia/raw material depot, at various places in the State. Soon after occupation of the building, the Company undertakes the interior decoration work of the said unit, by awarding the work to some contractor on tender basis. Cases of any inordinate delay in opening of sales emporia/raw material depot and avoidable payment of rent, if any, consequent on the delay.
- (2) The Company purchases wayside cabins from various sources. Files relating to the same and ensure that there is no avoidable extra expenditure incurred.
- (3) Work orders placed by the Company towards interior decoration works of emporia and ensure that the Company gets the most competitive offer in this regard.
- (4) Performances of Company's retail show rooms/emporias/raw material depots and also the Company's participation in exhibition cum sales all over India may be reviewed.
- (5) Ensure that the collection of sales proceeds of emporias/raw material depots is accounted properly and there is no short remittance/defalcation of money in this regard.
- (6) The Company participates in various Trade fairs and Exhibitions. The sales performance of the Exhibition stalls may be reviewed.
- (7) Consignment sales may be reviewed in detail.
- (8) The Company allows rebate on Sales during festival periods and during exhibitions. Government of Karnataka is reimbursing this rebate by way of rebate grants on sale of leather products on yearly basis. Prompt claim and receipt of rebate by the Company.
- (9) Delay in Recovery of Instalments in respect of occupant of House-cum-Work Sheds may be verified.

- (10) Excess and shortages of Inventory at different Emporium of the Company.
- (11) Action taken to dispose non-moving and damaged goods.
- (12) Schemes implemented under Vishwa Programme.
- (13) Cases of delay in preferring Insurance claim from Insurance Company in respect of damaged goods due to fire and theft.
- (14) Agreement entered into with Private/Parties in respect of Interior Decoration Work undertaken by the Company.
- (15) The Company had acquired 8.39 acres of land at K.G. Halli to house the Institute of Leather Technology. Latest position in this regard may be reviewed.
- (16) Questionnaires in Annexure-I.
- (17) Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- (18) Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- (19) Compliance Audit checks as detailed in Annexure XXI.
- (20) Audit Points detailed in Para 7.25 of the Chapter VII.

Chapter XXXV

**KARNATAKA RURAL INFRASTRUCTURE DEVELOPMENT
CORPORATION LIMITED.**

35.01 Introduction

The Karnataka Rural Infrastructure Development Corporation Limited (formerly Karnataka Land Army Corporation Limited) was incorporated on 8th August 1974 as a wholly owned Government Company to manage the rural development works etc., which were previously being undertaken /executed by the Land Army Directorate, a department of the State Government. The Company executes on agency basis, the various approved works of several Government departments with its own resources. The **authorised capital** of the Company is Rs.1500 lakh. The **paid up capital** as on 31st March 2014 was Rs.1225 lakh, wholly subscribed by the State Government.

35.02 Objectives

The objectives of the Company are to undertake and carry out all types of rural development works either entrusted to it by the State Government, Government departments and other agencies or on its own and to provide assistance, advice and services thereof, including capital resources and technical, managerial and other facilities.

Its main role is

- (1) to provide employment to unemployed and under employed in the rural area.
- (2) to undertake rural development works by direct employment of manpower, thereby eliminating the middleman, i.e., contractor, to avoid exploitation of the rural poor and the Government and to make the benefits reach them directly.
- (3) to train rural youth in various technical trades and administration so that self-earning capacity is created with self-employment potential, thereby improving rural economy.

In the above process, the Corporation builds infrastructure which is vital for future development projects related to integrated area development, water resources development, storage, farm development, dairy and fisheries

development, soil conservation, minor irrigation, rural communication, bridges, buildings like schools, hospitals and living accommodation.

35.03 Organisational set up

The management of the Company is vested in a Board of Directors. The number of Directors shall be determined by the Governor and it shall not be more than twelve. The Governor shall have the power to appoint all or a majority of the Directors. The Chief Executive of the Company is the Managing Director.

The Activities of the Company are carried on by the Headquarters Office at Bangalore and 10 Project Divisions/Offices situated outside Bangalore.

35.04 Glossary of technical terminology used

- 1) KLAC : Karnataka Land Army Corporation Limited
- 2) HQ : Headquarters
- 3) TFC : Task Force Commander
- 4) SR : Schedule of Rates
- 5) JWB : Job Work Bill
- 6) BR : Bills Received
- 7) RAB : Running Account Bill
- 8) NMR : Nominal Muster Roll
- 9) MB : Measurement Book
- 10) GRN : Goods Received Note
- 11) MRN : Material Requisition Note
- 12) TPM A/c : Tools, Plant & Machinery account
- 13) MAS A/c : Material at site Account
- 14) POL : Petrol, Oil and Lubricants

15) RR : Repairs and Renewals

35.05 Special books, documents etc., to be referred to

- (1) Manual of Standing Orders prepared by the Company
- (2) Monthly Progress Reports of Project/Division Offices

Government of Karnataka in their order No .PWD 76 IFY 79 dated 17.9.1980 had specified that the Company should adopt the accounting procedure prescribed for the public works department.

35.06 System for budgetary control, financial accounting etc.

The budgetary control system is based on the instructions, issued by the Bureau of Public Enterprises, Government of Karnataka. Financial accounting is done as per PWD system. The progress of works undertaken by the Company is watched by the Rural Development and Panchayath Raj Department (which is the Administrative Department of this Company) through the Monthly progress reports, submitted to Government by the Company. The progress reports of works are also reviewed by the Board of Directors periodically.

35.07 Special points to be seen

- (1) Ensure that administrative approval of the competent Authority or Government exists for the works before taking up the same for execution. Cases of deviations may be examined.
- (2) Facilities, created by the Company to execute works annually, may be reviewed with the orders actually executed.
- (3) Action taken by the Company, in formulating a plan of work, realisation thereof for the fully built-in facilities may also be reviewed.
- (4) Verify whether (1) the actual expenditure incurred in the execution of works is within the approved estimate and; (2) any excess expenditure,

incurred over and above the estimate, has been recovered/ realised. Any delay in obtaining approval for the revised estimate may also be reviewed.

- (5) Cases of execution of works, involving deviation from the approved estimates, may be reviewed with reference to any extra expenditure, incurred by the Company and disallowed by the State Government for want of approval. Action taken to recover/ realise the amounts may also be seen.
- (6) Cases of execution of extra items of works over and above the approved estimates, cost incurred thereon, and recovery/ realisation of the cost from the State Government may be reviewed.
- (7) Cases of execution of works, for which expenditure incurred has not been reimbursed by the State Government and action taken thereon by the Company to get the claims settled may be reviewed.
- (8) Cases of the Company taking up the work and subsequent withdrawal and stoppage of the same by the State Government for reasons of slow and unsatisfactory work and the financial impact of the same may be reviewed.
- (9) The labour engaged for execution of works will generally be casual labourers who are paid on daily wage basis, at the rates determined by the Company or as per the schedule of rates applicable to the area, as approved by the Public Works Department of the State Government. The engagement of labour and payment of wages to labourers at the appropriate rates may be reviewed.
- (10) The requirement of items of stores like cement, steel, wood, pipes etc., are estimated by the Company, based on the programme of work and funds are released for their procurement. The estimates and release of funds thereon may be reviewed to see that stores, in excess of actual requirements, are not procured.

- (11) The profit, taken on incomplete works, may be examined to see that it has been worked out on a most conservative basis, after making full allowance for contingencies.
- (12) Compliance of directives/instructions, issued by the Governor of Karnataka and obtaining prior approval of the Governor where ever necessary.
- (13) Management of Surplus fund.
- (14) Abandoned works due to litigation, shortage fund etc. To be reviewed and commented.
- (15) Delay in completion of works and the consequent escalation in cost to the Company.
- (16) Questionnaires in Annexure-I.
- (17) Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- (18) Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- (19) Compliance Audit checks as detailed in Annexure XXI.
- (20) Audit Points detailed in Para 7.25 of the Chapter VII.

Chapter XXXVI
KARNATAKA STATE POLICE HOUSING CORPORATION
LIMITED

36.01 Introduction

Karnataka State Police Housing Corporation Limited was incorporated on 17th June 1985 with the object of undertaking construction of all police buildings, both residential and non-residential buildings for the welfare of policemen. The **authorised capital** of the Company is Rs 1000 lakh. The Company is a fully owned State Government Company as the entire **paid up capital** of Rs.12 lakh is held by the Government of Karnataka (as on 31st March 2014).

36.02 Objectives

The main objectives of the Company are:

- (1) To undertake construction of buildings for housing the employees of the Government of Karnataka in Police, Prisons, Home Guards and Fire Force Departments,
- (2) To undertake construction of buildings for the offices of the Department of Police, Prisons, Home Guards such as the administrative offices, police stations, jails, fire stations, training institutions, District Scientific Laboratories, forensic science laboratories, dormitories,
- (3) To construct schools, hospitals, health centers, shops, clubs, auditoria, maternity homes, kalyana mantaps, that will be built out of the Police Benevolent Fund and also to undertake construction of any type of building entrusted to it by the Government from time to time.

36.03 Organisational set up

A Board of Directors with a minimum of two and a maximum of twelve Directors manages the affairs of the Company. The Government of Karnataka shall be entitled to appoint all the Directors or remove all of them subject to the rights of the financial institutions. The Chief Executive of the Company is the Managing Director.

36.04 Activities of the Company

The Company is working as a 'no profit no loss' organisation, being a service enterprise. The entire revenue expenditure on construction Activities is debited to the capital cost of the buildings constructed. The Company builds

residential houses for the police and other personnel of the related departments of the State Government and other buildings and hands them over to the Police and other related Departments for maintenance. The Company completes the civil portion of the buildings, internal electrifications, water supply, sanitary arrangements and also obtains power connection from KPTCL. The Company invites tenders for the works from civil contractors and engineers, holds negotiations with the contractors who quote the rates on the basis of percentage above schedule of Rates for the year, and obtains the approval of the Board of Directors for the lowest rate and awards the works to the particular contractor.

36.05 Budgetary control

Report is submitted by the Managing Director to the Board of Directors frequently detailing the progress achieved in the construction and handing over the quarters to the Government and other matters relating to the finances of the Company.

36.06 Special Records

Public Works Departmental Accounts code and manual, Muster Rolls, Measurement Books, Log Books and Monthly Progress Reports.

36.07 Special points to be seen

- (1) The work order files for the individual works of construction of buildings may be reviewed in detail regarding tenders called for, estimates prepared, quotations received, and tabulations of the same, comparison of the final rates offered, negotiations conducted and final award of the works.
- (2) Payment of running and final bills may be checked with reference to the Schedule of Rates for the year/Schedule B of the Contract Agreement, completion reports and amounts with held for payment and reasons there for.
- (3) Maintenance of measurement Books for each work undertaken and the recordings therein may be checked.
- (4) The action taken by the Company to plan the actual requirement of funds for construction of buildings and to raise the loans from the financial and

housing institutions may be reviewed with regard to the quantum of loan raised and to verify whether the loans were need based.

- (5) Action taken by the Company to hand over the completed buildings soon after completion may be reviewed with reference to the idle investment of the funds of the Company and eventual loss of interest.
- (6) Investment of the excess funds of the Company in the commercial and nationalized banks may be reviewed with reference to the need to invest and justification for the investment.
- (7) Issue of steel and other materials to the contractors for works awarded and adjustment/recovery of the same in the bills of the contractors may be reviewed.
- (8) The Contractors Ledgers may be reviewed in detail to verify the progress of works achieved and issue of steel and other materials in respect of each work and to each contractor.
- (9) Cases of revision of rates in respect of the works awarded to the Contractors and the reasons for the same may be reviewed.
- (10) Cases of terminating the work before completion either by the Company or by the contractor and awarding the same work to another contractor may be reviewed with reference to the reasons for the same and penalty levied on the former contractor as per the terms of the contract.
- (11) Physical verification reports of the materials, excess and shortages statements may be reviewed with reference to the final orders passed thereon by the Management.
- (12) Purchase contracts for the purchase of materials and components for the construction purposes may be reviewed with reference to the terms and conditions, tenders floated, offers received, decision to place the orders, delivery schedule, execution of the contracts placed, price escalation allowed, if any.
- (13) Cases of stoppage of construction of buildings due to want of materials and financial implications due to the same may be reviewed.
- (14) Issue to, return from the works of consumption and allocation of major materials to difference works may be reviewed.
- (15) Terms and conditions of term loans repayment of the instalments and interest due and payment of penal interest, if any, may be reviewed.
- (16) Payment of power bills and penal charges on the same may be reviewed with reference to the power tariff.

- (20) Orders/guidelines/directions issued by the State Government and other statutory bodies may be reviewed for their implementation.
- (21) Court cases involving the Company and the contractors and other parties may be reviewed with reference to the decrees passed and execution of the same.
- (22) Cases of misappropriation of cash, stock materials, defalcation and theft of materials may be reviewed.
- (23) Investment of Surplus Fund, if any. The investments made by the Company may be reviewed to see as to how far there is judicious investment of surplus funds.
- (24) Questionnaires in Annexure-I.
- (25) Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- (26) Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- (27) Compliance Audit checks as detailed in Annexure XXI.
- (28) Audit Points detailed in Para 7.25 of the Chapter VII.

CHAPTER XXXVII

RAJIV GANDHI RURAL HOUSING CORPORATION LIMITED, BANGALORE

37.01 Introduction

Rajiv Gandhi Rural Housing Corporation Limited Bangalore was established by the Government of Karnataka to cater to the housing needs of economically and socially weaker sections of the society as a special vehicle. The Company was registered in April 2000. The **authorised capital** of the Company was Rs. 1000 lakh and **paid up capital** as on 31st March 2014 was Rs.300 lakh held by the State Government.

37.02 Organizational set up

The management of the Company is vested with the Board of Directors containing 9 Directors, The Managing Director looks after the day to day affairs of the Company, assisted by GM (Technical), GM (Projects), GM (Finance) and Company Secretary.

37.03 Objectives

The Company's main objectives are;

- 1) Provide affordable housing for economically weaker section (EWS) and special occupancy groups (SOG'S) throughout the State.
- 2) Partnership with NGO's and Panchayath.
- 3) Provide choice to people in housing design, material and technologies through self-help.
- 4) Promote cost-effective building technologies in rural areas through strengthening of Nirmithi Kendras.
- 5) Promote sustainable housing program through encouraging beneficiaries to save for housing and repay housing loans.
- 6) Raise resources and ensure re-circulation of funds.

37.04 Activities

To implement housing program through self-help for economically and socially weaker sections, such as Rural and Urban Ashraya Housing Schemes, Rural and Urban Ashraya Sites Schemes, Ambedkar Housing Scheme, Neralina Bhagya, Housing for Special occupational groups, ensuring smooth flow of funds

- Organizing manufacture / Bulk procurement of cost-effective building materials.
- Recovery of loan from beneficiaries through a beneficiary-friendly system.

37.05 New Initiatives

Effective monitoring systems and procedures such as photo-evidence of construction, document standardization, field visits, feedback based on progress reports, workshops for field officers towards implementation of schemes

37.06 Special points to be seen

- i.* Selection procedure of the beneficiaries.
- ii.* Allotment of funds to the district offices and utilisation of funds including funds lying in fixed deposits and unspent balances including the position of implementation of various programmes.
- iii.* Target and Achievements of the projects and programme made including the carryover of programmes of earlier year/ backlog under various schemes.
- iv.* Rules and regulations guide lines and other circulars issued by the Government from time to time, regarding implementation of the schemes and projects.
- v.* Mobilisation of funds by means of borrowings from various financial institutions including HUDCO/grant from Government and their effective utilisation

- vi.* Agreements entered in to with the financial institutions for raising loans/funds raised by the corporation and repayment of loans.
- vii.* System and procedure laid down for repayment of loans by the beneficiaries.
- viii.* Action taken to recover the loan in case of defaulters.
- ix.* Review of cash book, transfer of funds to district officers and return of unutilised funds to Corporate Office.
- x.* Resetting of higher interest on loans advanced and lower interest on borrowed loans by means of proper review.
- xi.* Utilisation of additional central assistance for special schemes.
- xii.* Implementation of various schemes.
- xiii.* Takeover of Government loan.
- xiv.* Creation of infrastructure facilities including development of composite materials.
- xv.* Details of amounts transferred out of old schemes by the districts and utilisation thereof.
- xvi.* Status of receivables from the Government of Karnataka towards repayment of principal and interest, establishment expenses etc., steps taken to recover the dues and adjusting of advances from various agencies.
- xvii.* Investment of Surplus Funds. The investments made by the Company may be reviewed to see as to how far there is judicious investment of surplus funds.
- xviii.* Questionnaires in Annexure-I.
- xix.* Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- xx.* Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- xxi.* Compliance Audit checks as detailed in Annexure XXI.

xxii. Audit Points detailed in Para 7.25 of the Chapter VII.

Chapter XXXVIII

Dr. B.R.AMBEDKAR DEVELOPMENT CORPORATION CLIMITED

38.01 Introduction

The main Activity of the Company consists of identifying the economically and socially poorer members belonging to Scheduled Castes and Scheduled Tribes community in the State to uplift them by providing financial assistance out of the funds made available by the Government of India and State Government in collaboration with Banks and other financial institutions under various schemes formulated for the purpose of improving their economic and social status. While the subsidy component is an outright grant to the beneficiaries, the loan component is recoverable with nominal interest of 4 to 6% per annum.

The **authorised capital** of the Company is Rs.20000 lakh. The **paid up capital** of the Company as on 31st March 2014 was Rs. 19938.99 lakh.

38.02 Objectives:

The main objectives of the Company are -

- (1) To organise and develop small scale and medium scale industries and also village and cottage industries such as bamboo, rattan, reed, leather works, fibre and clay.
- (2) To purchase and lend on hire purchase basis, vehicles such as auto rickshaws, motor cars, lorries and trucks, machineries such as sewing machines, printing press, lathes, precision instruments etc.
- (3) To advance loans to such members of scheduled castes and scheduled tribes who wish start the profession of Doctor, Engineer, Lawyer etc.
- (4) To organise and develop intensive agricultural operations in the lands belonging to scheduled castes and scheduled tribes and to advance money to them for purchase of land for agricultural Activities.
- (5) To promote any scheme of business, manufactures etc., conducive to the economic and social uplift of the members of scheduled castes and scheduled tribes.

38.03 Organisational set up

The management of the Company is vested in a Board of Directors, consisting of not more than nine Directors. The Directors are appointed by the Governor. The Managing Director is the Chief Executive of the Company and he is also appointed by the Governor.

38.04 Activities taken up

The Company has sanctioned loans to SC/ST people for various productive purposes like dairy farming, sheep rearing, bullocks and carts, grocery shops, cycle shops, leather works etc. The Company has also sanctioned 25% margin money loans to various SC/ST drivers for purchase of new auto rickshaws (by obtaining 75% loans from banks). In order to secure 100% loans from the Primary Land Development Banks, the farmers have to deposit 5% towards Additional Share Capital and the Company sanctions 5% Additional Share Capital to ST/SC people so as to enable them to take cent percent loans from the Primary Land Development Banks. Besides the Company has also formulated various programmes for helping about one lakh SC/ST people, which are under implementation. Various schemes operated by the Company are listed below:

- (1) Land Purchase Scheme
- (2) Gangakalyana Scheme
- (3) Self-Employment Programme
- (4) Industry, Service and Business Programme
- (5) NSCFDC, NSKFDC and NSTFDC loan
- (6) Safai Karmacharis Programme
- (7) Devadasi Rehabilitation Programme.

38.05 Special points to be seen

- (1) The Company has prepared rules, prescribing the terms and conditions governing the grant of loans. The compliance of these rules by the Company may be reviewed.

- (2) The Company advances margin money of 25% of the loans in cases where the applications are approved by the Company and the balance 75% of the loan is paid by the banks to the entrepreneurs. It may be ensured that margin money is paid only in cases where the Company has approved the application.
- (3) The loans granted by the Company are subject to personal surety from the loanee, surety bond and hypothecation of assets created out of the loan, in favour of the Company. The compliance in this regard by the Company may be reviewed.
- (4) The banks, sanctioning 75% of loan to eligible SC/ST members, also issues 25% margin money to these SC/ST Members after obtaining Company's release orders for the same and debit the said amount to the Company's account. Ensure that banks do not make in this regard double debits or debit the Company's account without receipt of release order by the Company.
- (5) The banks recover both the loan (75%) and margin money (25%) crediting the latter to the account of the Company. It may be ensured whether the loans repaid by the loanee to the bank, have been credited promptly and correctly by the banks to the Company's account.
- (6) In cases of default in repayment of loans, the Company shall have the right to foreclose the loan and recover the entire amount with interest accrued thereon. Cases of default, if any, may be reviewed.
- (7) The action taken by the Company to get the machinery and other tangible assets (created by the loanees out of the loans granted by the Company) properly insured by the loanees against fire, damage and other risks may be reviewed.
- (8) It may be ensured that the required details are entered in loan ledgers maintained by the Company (for purpose of watching repayment of loans sanctioned to entrepreneurs through banks) and that

instalments due, interest due and penal interest, if any, are recovered in time.

- (9) Compliance in obtaining approval of the Government in respect of cases enumerated in the Articles of Association of the Company may be reviewed.
- (10) In view of lending operations compliance to guidelines issued by RBI for NBFCs.
- (11) Repayment of loan and interest thereon to NSCFDC, NSKFDC.
- (12) Poor recovery of loans from beneficiaries by the Corporation may be reviewed and commented.
- (13) Investment of Surplus Funds. The investments made by the Company may be reviewed to see as to how far there is judicious investment of surplus funds.
- (14) Selection procedure of the beneficiaries.
- (15) Questionnaires in Annexure-I.
- (16) Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- (17) Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- (18) Compliance Audit checks as detailed in Annexure XXI.
- (19) Audit Points detailed in Para 7.25 of the Chapter VII.

Chapter XXXIX

KARNATAKA MINORITIES DEVELOPEMENT CORPORATION LIMITED

39.01 Introduction

The Karnataka Minorities Development Corporation Limited was incorporated on 7th February 1986 after bifurcation of the then existing Karnataka Backward Classes and Minorities Development Corporation Limited to assist the religious minorities in the State viz., Muslims, Christians, Jains, Buddhists, Sikhs, Parsis and Anglo Indians by providing financial assistance to earn their livelihood to improve their economic condition and standard of living.

The **Authorised capital** of the Company is Rs. 15000 lakh made up of 150 lakhs equity shares of Rs. 100/- each. **Paid-up capital** of the Company as on 31st March 2013 was Rs. 9978.45 lakh fully contributed by Government of Karnataka excluding share application money of Rs. 5120.50 lakh.

39.02 Objectives

The main objectives of the Company are to assist the Minorities:

- (1) To establish and develop village and cottage industries, small and medium scale industries.
- (2) To purchase and lease on hire basis or purchasing vehicles such as Auto-Rickshaw, Motor Cars, Lorries, Trucks etc., and Machineries such as Sewing Machines, Printing Press, Lathes, Precision Instruments etc.
- (3) To advance loans to start the profession of Doctors, Engineers, Lawyers, Architects, and Chartered Accountants etc
- (5) To lend money to run provision stores.
- (6) To promote any scheme of business, manufacture etc., conducive to the economic and social upliftment.
- (7) To Act as guarantor for or to lend seed/margin money required for obtaining advances and loans that may be made by other financial or developmental or Industrial Institutions or Government.

In order to achieve the above objects, the Company has formulated several schemes, both planned and non-planned brought out by the Government with the involvement of Banks, KSFC and NMDFC.

39.03 Major Schemes Implemented

- (1) Swavalambana Margin Money Scheme
- (2) Composite Loan Scheme
- (3) Vocational Training Programme.

The National Minorities Development Finance and Development Corporation sanctions to State channalising agencies nominated by State Government Margin Money loans. As per the terms and conditions of loans sanctioned by NMFDC, the Company advances loans to Minority entrepreneurs to undertake the above activities through bank loan and Margin Money loan of the Company at nominal interest of 4.5 per cent per annum.

39.04 Organisational setup

The affairs of the Company are vested in a Board of Directors. The number of Directors in the Company is seven. The Chief Executive of the Company is the Managing Director.

39.05 Special points to be seen

- (1) The Company has prepared rules prescribing the terms and conditions, governing the grant of loans which have been approved by the State Government in June 1978. The compliance of these rules by the Company may be reviewed.
- (2) The Company advances margin money of 20% of the loans in cases where the applications are approved by the Company and the balance 80% of the loan is paid by the banks to the entrepreneurs. It may be ensured that margin money is paid only in cases where the Company has approved the application.
- (3) The loans granted by the Company are subject to personal surety from the loanee, surety bond and hypothecation of assets created out of the loan,

in favour of the Company. The compliance in this regard by the Company may be reviewed.

- (4) The banks recovers both the loan (80%) and margin money (20%) crediting the latter to the account of the Company. It may be ensured whether the loans repaid by the loanees to the bank, have been credited promptly and correctly by the bank to the Company's account.
- (5) In cases of default in repayment of loans, the Company shall have the right to fore-close the loan and recover the entire amount with interest accrued thereon. Cases of default may be reviewed.
- (6) The Action taken by the Company to get the machinery and other tangible assets (created by the loanees out of the loans granted by the Company) properly insured by the loanees against fire, damage and other risks may be reviewed.
- (7) It may be ensured that the required particulars are entered in detail in the loan ledgers maintained by the Company (for purpose of watching repayment of loans sanctioned to entrepreneurs through banks) and that instalments due, interest due and penal interest, if any, are recovered in time.
- (8) The Company invests its funds mainly in savings bank deposits and to some extent in fixed deposits of nationalised banks. The investments made by the Company in this regard may be reviewed to see as to how far there is judicious investment of surplus funds.
- (9) The District Officer maintains a loan ledger to watch timely recoveries of loans. A monthly progress report, on the utilisation of funds for which loans were sanctioned and recoveries of the loan amounts, has to be sent by the District Office to the Company. The District Committees are also required to review the monthly demand, collection and balance Statements with a view to taking prompt and suitable Action for recoveries. Compliance with these requirements by the Company may be reviewed.

As per the agreement entered into with NMDFC, the Company is availing Margin Money assistance for implementing various schemes. Cases of non-utilisation of Margin Money may be reviewed.

- (10.) Cases of in-ordinate delay in recovery of loan amount in respect of all schemes from beneficiaries and consequential payment of penal interest by the Company to NMDFC may be verified.
- (11.) The Company has purchased computers with a view to computerise the accounts. Utilisation aspect may be reviewed.
- (12.) Reimbursement of Tuition fee payable to District Officer towards Motor Driving Training Scheme may be reviewed with reference to guidelines fixed.
- (13.) Selection procedure of the beneficiaries.
- (14.) Questionnaires in Annexure-I.
- (15.) Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- (16.) Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- (17.) Compliance Audit checks as detailed in Annexure XXI.
- (18.) Audit Points detailed in Para 7.25 of the Chapter VII.

The points brought out in the Auditors Report based on the accounts audit including the Supplementary Report under Section 143(6) of the Companies Act, 2013 is also to be examined.

In view of lending operations compliance to guidelines issued by RBI for NBFCs, may be reviewed.

Chapter XL

D. DEVARAJ URS BACKWARD CLASSES DEVELOPMENT CORPORATION LIMITED

40.01 Introduction

D. Devaraj Urs Backward Classes Development Corporation Limited (formerly Karnataka Backward Classes Development Corporation Limited) was incorporated under the Companies Act 1956 in October 1977 with the main object of assisting the Backward Classes in the State who are economically poor. The Company was authorised to assist only those Minorities who belong to the backward class.

The **authorised capital** of the Company as on 31st March 2014 is Rs. 20000 lakh made up of 2,00,00,000 equity shares of Rs. 100/- each. The **paid up capital** of the Company as on 31st March 2014 was Rs. 18671.41 lakh wholly contributed by Government of Karnataka.

40.02 Objectives

The main objective of the Company is to assist financially the members belonging to backward classes and minority communities, to establish and develop village and cottage industries and also small scale and medium scale industries, to purchase and lease on hire basis or assist in purchasing vehicles, to advance money to construct or purchase houses or house sites, to construct or acquire house for sale or lease, to set up provision shops for consumable articles etc., or to lend money to acquire or own such shops etc., and to advance loans to start the profession of Doctors, Engineers, Lawyers, Architects, Chartered Accountants etc.

40.03 Activities

The National Backward Classes Finance and Development Corporation (NBCFDC) sanctions to channalising Agencies nominated by State Governments Margin Money loans. As per the terms and conditions of loans sanctioned by NBCFDC, the Company advances loans to backward class entrepreneurs to undertake economic self reliance schemes through bank loan and margin money loan of the Company at nominal rate of 4.5% per annum

interest. The main trades promoted are self driven auto rickshaws, cycle shops, provision stores, petty shops, readymade garments' shop, photo studio, sheep/ cattle/ buffalo rearing on need basis commensurate with the capacity of entrepreneurs. The Company provides -

- (1) Training to backward class rural artisans in their trades through District Industries Centers in the State for a period of not more than 6 months;
- (2) Supply of improved tool kits to the backward class rural artisans like barbers, dhobis, carpenters, potters, blacksmiths etc.
- (3) Provide electricity to rural artisans' houses and
- (4) Provides training to the Backward Class unemployed youths in motor driving through private motor driving schools in the State.

The activities of the Company are carried on through District Committees formed in each district under the Deputy Commissioners. The loans are sanctioned by the District Committee after receipt of recommendations (after scrutiny of project report and its viability) from banks on the applications, submitted by the persons belonging to backward classes and minorities.

The various schemes operated by the Company are

- (1) Gem Cutting and polishing scheme
- (2) Land purchase cum Borewell scheme
- (3) Fruits and Vegetable shops
- (4) Hair Cutting Saloons
- (5) Chaitanya Margin Money Scheme:
 - (a) Self Employment Scheme (Motor Driving)
 - (b) Foremanship Training
 - (c) Skill Development Programme).

40.04 Organisational set up

The affairs of the Company are vested in a Board of Directors. The number of Directors in the Company is six. The Chief Executive of the Company is the Managing Director.

40.05 Accounting Records

In addition to the normal accounting records the Company also maintains the following books/documents:

- (1) Loan ledgers and loan accounts..
- (2) Loan rules approved by the Government.
- (3) Documents, relating to loan cover
- (4) Monthly progress reports of the District Committees.
- (5) Demand collection and balance Statements.

40.06 Special points to be seen

- (1) The Company has prepared rules prescribing the terms and conditions, governing the grant of loans which have been approved by the State Government in June 1978. The compliance of these rules by the Company may be reviewed.
- (2) The Company advances margin money of 20% of the loans in cases where the applications are approved by the Company and the balance 80% of the loan is paid by the banks to the entrepreneurs. It may be ensured that margin money is paid only in cases where the Company has approved the application.
- (3) The loans granted by the Company are subject to personal surety from the loanee, surety bond and hypothecation of assets created out of the loan, in favour of the Company. The compliance in this regard by the Company may be reviewed.
- (4) The banks recovers both the loan (80%) and margin money (20%) crediting the latter to the account of the Company. It may be ensured whether the loans repaid by the loanees to the bank, have been credited promptly and correctly by the bank to the Company's account.

- (5) In cases of default in repayment of loans, the Company shall have the right to fore-close the loan and recover the entire amount with interest accrued thereon. Cases of default may be reviewed.
- (6) The action taken by the Company to get the machinery and other tangible assets (created by the loanees out of the loans granted by the Company) properly insured by the loanees against fire, damage and other risks may be reviewed.
- (7) It may be ensured that the required particulars are entered in detail in the loan ledgers maintained by the Company (for purpose of watching repayment of loans sanctioned to entrepreneurs through banks) and that instalments due, interest due and penal interest, if any, are recovered in time.
- (8) The Company invests its funds mainly in savings bank deposits and to some extent in fixed deposits of nationalised banks. The investments made by the Company in this regard may be reviewed to see as to how far there is judicious investment of surplus funds.
- (9) The District Officer maintains a loan ledger to watch timely recoveries of loans. A monthly progress report, on the utilisation of funds for which loans were sanctioned and recoveries of the loan amounts, has to be sent by the District Office to the Company. The District Committees are also required to review the monthly demand, collection and balance statements with a view to taking prompt and suitable action for recoveries. Compliance with these requirements by the Company may be reviewed.
- (10) The records relating to loans granted to free bonded labourers and physically handicapped persons, may be reviewed.
- (11) With a view to providing full employment opportunities in rural and urban areas, the State Government contemplated that Company and the District Committees give priority to the formulation of training programmes with cent per cent subsidy from the Government. The scheme, if implemented, may be reviewed.
- (12) Compliance in obtaining approval of the Government in respect of cases enumerated in Article 18 of the Articles of Association may be reviewed.

- (13) As per the terms and conditions of loan sanctioned by NBCFDC, the time limit allowed to channelising agencies for disbursement of loans to ultimate beneficiary is 2 months in case of term loans. The undisbursed amount shall carry enhanced normal bank interest of 18 per cent per annum as against the normal interest as per sanction. If loan is not sanctioned to the beneficiaries within the stipulated time of two months interest is charged for the period for which it is not disbursed after expiry of the stipulated time. All such cases may be reviewed.
- (14) The position relating to beneficiaries who have become defaulters without repaying even a single instalment of loan for more than 3 years is to be examined along with action taken for recovery.
- (15) NBCFDC sanctions margin money loan to State channalising agencies at one per cent interest per annum and term loan at 4.5% per annum. The Company has not been utilising full amount sanctioned by NBCFDC for various reasons which affects the achievement of objective of the Company. Reasons for short drawal of financial assistance from NBCFDC may be analysed.
- (16) Due to poor recovery of loans from beneficiaries the Company has delayed repayment of loan to NBCFDC resulting in payment of compound interest on overdue amounts to NBCFDC (Principal and interest). Action taken by the Company in speeding up of recovery so as to repay the loan amount to NBCFDC in time and avoid payment of penal interest may be reviewed.
- (17) Effective implementation of various schemes by the Company may be reviewed.
- (18) As per the terms and conditions governing the sanction of loan, the representative of the Company shall have account for verification of assets created and the records maintained by the beneficiaries. Due to lacuna in the system, the Company has so far not exercised this right till date. All such cases may be reviewed.
- (19) There are cases of inordinate delay in refund of undisbursed margin money to the Company by the banks. All such cases may be reviewed.

- (20) In view of lending operations compliance to guidelines issued by RBI for NBFCs.
- (21) Selection procedure of the beneficiaries.
- (22) Questionnaires in Annexure-I.
- (23) Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- (24) Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- (25) Compliance Audit checks as detailed in Annexure XXI.
- (26) Audit Points detailed in Para 7.25 of the Chapter VII.

Chapter XLI

KARNATAKA STATE WOMEN'S DEVELOPMENT CORPORATION LIMITED

41.01 Introduction

Karnataka State Women's Development Corporation Limited was incorporated in September 1987 with a view to implement the income generating schemes for women. The registration of the Company under Section 25 of the Companies Act 1956 is in process. The **authorised capital** is Rs. 1500 lakh made up of 1500000 shares of Rs. 100 each. The **paid up share capital** as on 31st March 2014 was Rs. 1356.39 lakh.

41.02 Objectives

The main objectives of the Company are:

- (1) To promote schemes for sustained income generating activities among women's group with priority to single and household women and those belonging to weaker sections under Rural Development Projects.
- (2) To identify women entrepreneurs individuals, co-operatives, associations etc.
- (3) Preparation of viable projects, and providing technical consultancy services.
- (4) Facilitating the availability of credit through banks and other financial institutions through the scheme of margin money assistance.

41.03 Organisational set up

The affairs of the Company are managed by the Board of Directors with a minimum of five and maximum of twelve Directors. Two Directors are appointed by the Central Government and the rest of the Directors are appointed by the State Government. The conduct and management of the business of the Company subject to the supervision of the Board of Directors rests with the Managing Director.

41.04 Activities undertaken

State Government Schemes

1. Devadasi Rehabilitation Programme – For the rehabilitation of Devadasis in the districts of Bijapur, Bagalkot and Belgaum.
2. State Resource Centre – The Government provides funds for establishment of Women Self-Employment Counselling Centre and also gives wide publicity to the scheme.
3. Women Training Programme – Training to women who are from weaker sections along with providing awareness about the income-generating Activities.
4. Udyogini – Women entrepreneurs are provided loans through banks and other financial institutions and subsidy is released from the Corporation.
5. Marketing Assistance Scheme – Exhibitions are organised for women entrepreneurs who are involved in the income-generating Activities.
6. Special Component Plan – Enabling women belonging to scheduled castes for improving their entrepreneurial skills in various Activities.
7. Nagara Stree Shakthi Scheme – Implemented in all the Towns and Cities for the poor, needy and physically handicapped who are already engaged/ interested in small business activities.

Central Government Schemes

1. Swawlamban (NORAD) - Training and production/ Income generating programme.
2. STEP (Support for Training and Employment Programme) – Women in traditional sectors like agriculture; dairy, fisheries etc. are assisted.
3. Swashakti (Rural Women Development & Empowerment Programme)

41.05 Special points to be seen

- (1) The actual achievements of the schemes implemented by the Company may be reviewed against the targets set by it and the reasons for the shortfall, if any, may be analysed.
- (2) The actual coverage of physical targets in terms of beneficiaries of the various schemes may be analysed.
- (3) Utilisation of funds and grants released by the Governments for the earmarked schemes and observance of the terms and conditions specified by the release of orders may be reviewed with reference to using of the funds in other areas.
- (4) The performance of the project offices opened in the districts of the State for the implementation of the Devadasi Rehabilitation Project and the training programmes launched and the number of women benefited may be reviewed.
- (5) The monitoring done by the Head Office in respect of the work of the project offices in the form of periodical inspections to check the correctness of the returns submitted and prepared, steps taken to release further funds with proper justification for the same may be reviewed in detail.
- (6) Cases of blocking of funds in the project offices without proper utilisation for the schemes meant for and released by the Head Office and loss of interest may be verified.
- (7) Implementation of schemes under Devadasi Rehabilitation Project in collaboration with other Government Companies may be reviewed with reference to the aims and achievements, drawbacks and reasons for the same.
- (8) Setting up infrastructure in the form of providing looms, accessories and other supporting services, construction of living-cum-workshed for the trainees at the work spot may be reviewed with reference to the non achievement of targets due to non provision of these required items.

- (9) The fulfilment of the terms and conditions by the collaborators in implementing the training programmes and other activities specified by the Company and release of funds for the same may be reviewed.
- (10) The expenditure statements submitted by the collaborator Companies for the funds released to them and action taken for the return of the unspent funds by them to the Company may be verified.
- (11) The construction of living-cum-worksheds, award of contracts for the same, completion of the same within the time prescribed, cost overruns, if any, may be reviewed.
- (12) Implementation of the schemes through the Zilla Parishads of the districts with the help of the Director, Women and Child Development department of the State Government may be reviewed.
- (13) The award of the schemes by the Company to the service organisations, release of loans to them with reference to the total cost of the schemes, repayment of the loans with interest, if levied, payment of cash grant to these voluntary organisations, fulfilment of the objectives by the organisations, provision of plant and machinery for the implementation of the schemes and the percentage of success achieved may be reviewed in detail.
- (14) New schemes undertaken by the Company with the approval of the Government/ Company and implementation of the scheme with results achieved may be reviewed.
- (15) The sale of the products manufactured/made by the trainees and amount received and accounted as revenue may be reviewed.
- (16) Individual cases of sundry debtors may be reviewed with reference to action taken for recovery and age of the debts.
- (17) Reports of verification of items of stores and other components may be reviewed.

- (18) Cases of suspension, departmental enquiry conducted and final orders thereon in respect of the officials/officers of the Company may be reviewed.
- (19) Power bills may be checked with reference to the power tariff, penalty demanded and paid and reasons therefore.
- (20) Implementation of the orders/guidelines and directions issued by the State Government and other statutory bodies may be reviewed.
- (21) In view of lending operations, compliance to guidelines issued by RBI for NBFCs.
- (22) Recovery of loans from beneficiaries given by the Corporation may be reviewed and commented.
- (23) Investment of Surplus Fund.
- (24) Selection procedure of the beneficiaries.
- (25) Questionnaires in Annexure-I.
- (26) Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- (27) Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- (28) Compliance Audit checks as detailed in Annexure XXI.
- (29) Audit Points detailed in Para 7.25 of the Chapter VII.

Chapter XLII
KARNATAKA URBAN INFRASTRUCTURE DEVELOPMENT AND
FINANCE CORPORATION LIMITED

42.01 Introduction

Karnataka Urban Infrastructure Development and Finance Corporation Limited was formed on 3rd November 1993 the **authorised capital** of the Company as on 31.3.2014 is Rs.1000 lakh and **paid up capital** was. **Rs. 806.49 lakh.**

42.02 Objectives

- 1) Project formulation and appraisal of urban infrastructure development projects.
- 2) Providing financial and technical assistance to municipal development agencies.
- 3) Mobilization of funds from Government of India, Government of Karnataka, international financial institutions and disbursement for approved projects of local bodies.
- 4) Projects monitoring and implementation.
- 5) Capacity building / training to enable efficient implementation of urban development projects and re-payment of loan.

42.03 Organisational set-up

The management of the Company is vested with Board of Directors consisting of 7 members. Managing Director is the Chief executive of the Company who looks after the day to day affairs of the Company.

42.04 Activities

The Company procures loans from Government of India, Government of Karnataka and other financial institutions like World Bank, Asian development Bank (ADB), for promoting urban infrastructure e.g. UGD and water supply works. The Company is a nodal agency for Karnataka infrastructural development projects.

42.05 Special points to be seen

- (1) Ensure that administrative approval of the competent Authority or Government exists for the works before taking up the same for execution. Cases of deviations may be examined.
- (2) Verify whether
 - (i) The Actual expenditure incurred in the execution of works is within the approved estimate and;
 - (ii) Any excess expenditure, incurred over the Tendered cost, has been reviewed and approved by the Board. Whether any delay in obtaining approval for the revised estimate may also be reviewed.
- (3) Cases of execution of works, involving deviation from the approved estimates, may be reviewed with reference to extra expenditure, incurred by the Company and approvals received for the same in the High Level Committee Meeting of the Board may be reviewed.
- (4) Cases of execution of extra items of works over and above the approved estimates, cost incurred thereon, and reasons for such excess may be reviewed by comparison between the Schedule B to the tender document and the approved estimate.
- (5) Cases of the Company taking up the work and subsequent withdrawal and stoppage of the same by the Company for reasons of slow and unsatisfactory work and the financial impact of the same may be reviewed.
- (6) Compliance of directives/instructions, issued by the Governor of Karnataka and obtaining prior approval of the Governor where ever necessary.
- (7) Following files are to be seen:
 - (i) High Level Committee Proceedings and Board Meetings Proceedings.
 - (ii) Tender files under various projects.
 - (iii) Mega city project files including effective utilisation of funds.
 - (iv) Consultant files.

- (v) Rent files.
- (vi) Cashbook and connected documents.
- (vii) Investment files.
- (viii) Security files.
- (ix) Land acquisition files.
- (x) Community development scheme files.
- (xi) Various systems/schemes in operation such as solid waste management, Computerisation in City Corporations including proposed new projects
- (xii) Creation of revolving funds and its utilisation i.e., plough back of the money.
- (xiii) Investment of funds (long term and short term) in Fixed Deposits.
- (xiv) Extension of advances for various schemes and adjustment thereon.
- (xv) Payment to consultants.
- (xvi) Questionnaires in Annexure-I.
- (xvii) Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- (xviii) Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- (xix) Compliance Audit checks as detailed in Annexure XXI.
- (xx) Audit Points detailed in Para 7.25 of the Chapter VII.

KARNATAKA VOCATIONAL TRAINING AND SKILL DEVELOPMENT CORPORATION LIMITED

43.01 Introduction

The Karnataka Vocational Training and Skill Development Corporation Limited was incorporated under Companies Act, 1956 on 12th September, 2008 as a special purpose vehicle to implement the recommendations of the Skill commission and State Government in achieving the objectives of the skill development policy. The main aim is to empower individuals through improved skills & knowledge, which enable them to secure a bright future. It also addresses the skill gaps in industries & service sectors by providing them with trained youth. The **authorised share capital** of the Company is Rs. 500 lakh divided into 5 lakh equity shares of Rs. 100 each. The **paid-up capital** of the Company as on 31st March 2013 is Rs. 1.00 lakh fully held by Government of Karnataka.

43.02 Objectives

1. To design, develop, conduct, impart, deliver and implement various skill development, skill up-gradation and training programmes, employment generating programmes, human resource development programmes based on emerging trends in all disciplines of every description and other such programmes as entrusted by the Government, Public Sector Enterprises, Corporations, Bodies corporate, Local bodies, Associations or societies and also to assist, implement and strengthen State Council for Vocational Training Activities, implement Modular Employable Skills (MES), short term training programmes as per Director General of Employment & Training (DGE&T) norms and others in Industrial Training Centers.
2. To plan, establish, maintain, manage, assist, coordinate knowledge centers, institutions, coaching solution providers, to establish and maintain protector of emigration office in the Karnataka State and other places for clearance of emigration.
3. To act as Human Resource consultants, placement services and to give advice or to engage in dissemination of information in all aspects of business organization, skill development, training and

information technology, advise upon the means and methods for extending and developing systems or processes, rendering professional services in placement services, business process outsourcing, domain technology consulting, global placement services, finding, searching and placing the talented persons at all client locations in India and abroad.

4. To design, plan, organize, conduct, impart short term training courses for candidates seeking overseas employment and for others in domestic market and impart distance education training programmes in selected trades, disciplines, computer education, training, skill development or up gradation and to impart training in developing and usage of computer software and to undertake studies, programmes and projects in skill development and human resource development and to conduct short term programmes on skill development and training programmes for Government Employees, construction workers and other employees of any organizations.

43.03 Organisational set up

The Management of the Company is vested with a Board of Directors consisting of Ten (10) Directors, including the Chairman and the Managing Director (MD).

43.04 Activities

The Company is engaged in establishing Helpline, organising Skill N Job Fairs, Skill training programmes under Modular Employable Scheme (MES) in convergence with other departments and technical institutes, establishing HRD centres in Employment exchanges, taking up studies in Skill Mapping among other Activities. The main source of funds for Company is the grants from the Government of Karnataka. The Company also earning interest out of the unutilized grants kept as deposits with the banks. Some of the major schemes implemented by the Company are as follows:

a) Helpline

Help Line is established at KVTSDC which helps the youth to register with all the relevant particulars. The data available are shared with employers and other agency for the purpose of training and employment.

b) Skill and Job Fairs

The Company is regularly organising skill and job fair in larger skill at State level and mini fairs at district level for providing job opportunity, through creating common platform for employers and job seekers. Registration, assessment, training and placement of applicants are undertaken at these fairs.

c) Establishing HRD Centers in Employment exchanges:

A program of establishing HRD centers in each Employment Exchange is developed to provide all the necessary solutions in matching the skill, demand and supply forces in each district on a regular ongoing basis. With the assistance of a private partner Viz., Team Lease a cell is created to register, assess, counsel, train, place the un-employed against proper jobs. Three centers at Mangalore, Gulbarga & Bijapur are taken up on experimental basis.

d) Training Under Modular Employable Scheme (MES)

Training in various short-term courses under MES has been taken up by the Company Both the Directorate of Employment & Training & KVTSDC have taken Active measures to spread the benefits of the scheme. This program is also used in bringing social and regional equality through various training programs.

43.05 Special Points to be seen

- a. The Company is receiving grants from Government for carrying out various skill development programmes. Proper utilization of the funds as per the guidelines may be reviewed.
- b. The training and workshop expenses incurred by the Company at various district may be reviewed.
- c. The Company is investing unutilised grants received from GOK in fixed deposits with various Banks. The investment policy of the Company, if any, in this regard may be reviewed.

- d. The performance of various job fairs organized by the Company at various district may be reviewed.
- e. The control mechanism for accounting of bills of contractors and service providers, outstanding balance of service providers and control mechanism for exercising controls over training imparted by the training partners may be reviewed.
- f. Long term pending loans and Advances granted for the purpose of Job fairs, and the process of obtaining confirmation, may be reviewed.
- g. Questionnaires in Annexure-I.
- h. Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- i. Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- j. Compliance Audit Checks as detailed in Annexure XXI.
- k. Audit Points detailed in Para 7.25 of the Chapter VII.

Chapter XLIV

KARNATAKA THANDA DEVELOPMENT CORPORATION LIMITED.

44.01 Introduction

The Karnataka Thanda Development Corporation Limited (Originally Karnataka Thanda Development Banjara Corporation Limited) was incorporated on 23rd February, 2009 for the economic development of Banjara community in Karnataka. The Company is basically focusing on creating necessary infrastructure facilities like road, drinking water, sanitation, street lights, etc in all thandas (smaller than revenue villages) settled in nearby villages, hillocks, remote area of Karnataka etc. The **authorised share capital** of the Company is Rs. 500 lakh divided into 50 lakh equity shares of Rs.10 each. The **paid-up capital** of the Company as on 31st March 2014 is Rs. 1.00 lakh which is fully held by Government of Karnataka.

44.02 Objectives

1. To create physical, socio-economic, cultural, moral, educational and healthcare related infrastructure for the overall development of Thandas and to provide basic civic amenities like drinking water, electricity, street lightning, sanitation, solid waste disposal sites to thandas in general & newly converted revenue thanda's in particular.
2. To provide necessary infrastructure for providing quality education to the thanda habitants by establishing mobile schools, part-time hostels and residential schools on the line of model Morarji Desai/ Navodaya/Kittur Rani Chennamma/Ekalavya/Ashrama Shalas (from 1st to 10^{std.}) and mobile school.
3. To create such economic infrastructure that provides an opportunity for the thanda habitants to engage in self-employment and group employment/ income generation activities and to undertake training programmes for acquiring new skills and upgrading/ enhancing and developing the skills in various fields,
4. To facilitate in providing legal title to agriculture land of Banjara farmers who are cultivating for the livelihood since long time in forest land/ Government land/gomal land.
5. To renew, promote & strengthen the social institutions (mutts) existed over ages in Thandas for administering their value system, social affairs in order to create proper awareness and to enhance the morals

of the people living in thanda and to protect the Banjara dialect and to promote and develop the script of Banjara's language.

44.03 Organisational Set up

This Company is under the administrative control of Social Welfare department of Government of Karnataka. The Company is having seven Directors, including the Chairman and the Managing Director (MD).

44.04 Activities

The Corporation gets support from the Government in the form of grants to create physical, socio-economic, cultural, moral, educational and healthcare related infrastructure for the overall developments of Thanda habitants which are disbursed under various categories like providing infrastructural facilities in Banjaras Thandas & construction of several Community Bhavans or Banjara Bhavans through implementing agencies.

The main programs of the Company are as follows –

a. Infrastructure Facilities

To create basic infrastructure facilities like supply of drinking water, sanitation, street lights, cements roads etc, the Government is releasing funds to the Thandas for the said facilities. These programmes are under implementation in various thandas and for these appraisals, the committee is headed by District Commissioners of the respective districts.

b. Construction of Banjara Bhavans

Under this scheme, it is proposed to construct Banjara Bhavans in each district and State capital. The objectives to construct Banjara Bhavans is to accommodate for their social Activities like Cultural Activities, community programmes etc so that they can assemble and exchange their social & religious beliefs. These projects are under construction in various districts. One project at the State level banjara bhavan is under progress in Bangalore. (At Vasanthanagar, Bangalore).

c. Construction of Sevalal Samudaya Bhavans

On the line of the above, Banjara Bhavans, it is also proposed to construct Sevalal Samudaya Bhavans in thanda level and taluk level. The objective of these samudaya bhavan is also to facilitate them to have social Activities, cultural programmes, etc.

The above said programmes are meant for Group benefits and not for individual beneficiaries.

44.05 Special Points to been seen

- 1) The Company is receiving grants from Government for development of Thandas. The receipt of grants and its Proper utilization as per the guidelines may be reviewed.
- 2) The progress of various infrastructural projects in respect of advance provided to various talukas in different district may be reviewed.
- 3) Whether proper procedures has been followed in awarding the contracts, provisions of KTTTP Act, 1999 has been followed may be reviewed.
- 4) The internal control mechanism adopted by the Company with respect to cash, bank balance and other assets may be reviewed.
- 5) Whether the Company is regular in accounting of bills of contractors, statutory deduction and their remittances with the concerned authorities may be reviewed.
- 6) Whether there has been any instances of violation of financial power delegated may be reviewed.
- 7) Investment of Surplus Funds. The investments made by the Company may be reviewed to see as to how far there is judicious investment of surplus funds.
- 8) Questionnaires in Annexure-I.
- 9) Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- 10) Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- 11) Compliance Audit checks as detailed in Annexure XXI.
- 12) Audit Points detailed in Para 7.25 of the Chapter VII.

Chapter XLV

KARNATAKA STATE MANGO DEVELOPMENT & MARKETING CORPORATION LIMITED

45.01 Introduction

The Karnataka State Mango Developing & Marketing Corporation Limited was incorporated under Companies Act, 1956 on 19th January, 2011 with the

objective of promotion of mango cultivation on scientific basis in order to enhance production and productivity and to give impetus to post harvest management practices, processing, value addition, domestic marketing and exports of mangoes. The **authorised share capital** of the Company is Rs. 500 lakh divided into 50 lakh equity shares of Rs. 10 each. The **paid-up capital** of the Company as on 31st March, 2013 is Rs. 1 lakh.

45.02 Objectives

1. To promote mango cultivation on scientific basis in order to enhance production, productivity and quality, to give impetus to post harvest management practices, processing, value addition, domestic marketing and export trades of mangoes.
2. To help to organise supply of inputs, transfer of technology, training, market and trade information to the producers, marketers and exporters.
3. To help to formulate and implement various schemes and programmes for meeting the requirement of the farmers, market functionaries, processors etc.
4. To organise trade promotional measures for popularization of mango and mango products both within and outside the country
5. To establish effective liaison among various organizations for the furtherance for the overall and integrated development of mango sector in the State.

45.03 Organisational set up

The Management of the Company is vested with a Board of Directors consisting of Two (2) Directors.

45.04 Activities

Mango is a major fruit crop of the State of Karnataka and is grown in an area of almost 1.40 lakh hectares and the annual production is around 6-8 lakh tones during on-years and 2-3 lakh tones during off-years. It occupies about 45 percent of the total area under fruits in the State. Most of the fruits is

consumed fresh and 20 percent are processed in to various products. So The Company was formed for promotion of mango cultivation in the State.

45.05 Special Points to been seen

1. Various programmes formulated by the Company for the promotion of mango cultivation, and their implementation may be reviewed.
2. Technological and Financial assistance, if any provided to the mango cultivators may be reviewed.
3. The various schemes for promotion of sales, marketing and exports of mangoes may be reviewed.
4. The performance of various fairs for the promotion of trade of mangoes may be reviewed.
5. Measures taken by the Company for promotion of manufacturing of mango products may be reviewed.
6. Investment of Surplus Funds. The investments made by the Company may be reviewed to see as to how far there is judicious investment of surplus funds.
7. Recovery of loan.
8. Questionnaires in Annexure-I.
9. Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
10. Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
11. Compliance Audit checks as detailed in Annexure XXI.
12. Audit Points detailed in Para 7.25 of the Chapter VII.

Chapter XLVI

KARNATAKA MAHARSI VALMIKI SCHEDULED TRIBES DEVELOPMENT CORPORATION LIMITED

46.01 Introduction

The Karnataka Maharsi Valmiki Scheduled Tribes Development Corporation Limited was formed (July 2006) by bifurcating Dr. B.R Ambedkar Development Corporation Limited to effectively extend the benefits of the

welfare schemes to the scheduled tribe community in the State. The Company was incorporated on 26th July, 2006.

The **authorised share capital** of the Company is Rs. 2000 lakh divided into 20 lakh equity shares of Rs. 100 each. The **paid-up capital** of the Company as on 31st March 2014 is Rs. 2000 lakh.

46.02 Objectives

1. To carry on the business of extending financial and Technical assistance to Scheduled Tribe communities in Karnataka for their economic development and to promote avenues for their economic development.
2. To assist the unemployed entrepreneurs belonging to scheduled Tribes in Karnataka to start their own business or vocation or industry under self-employment programme and also to impart industrial and technical training and assistance to them for setting up their business profession.
3. To extend support to the agricultural labourers belonging to Scheduled Tribes for acquiring dry/wet land to take up agriculture and also to take up improvements of such lands for improving their living conditions.
4. By extending micro credit facilities to promote Self Help Groups at nominal rate of interest, provide margin or seed capital and subsidy under various schemes with the support of the share capital funded by Government of India and Government of Karnataka.
5. To implement the schemes and programmes for rehabilitation of devadasis in Karnataka in general and those belonging to Scheduled Tribes in particular.

46.03 Organisational set up

The Management of the Company is vested with a Board of Directors consisting of 7 Directors, including the Chairman and the Managing Director (MD).

46.04 Activities

The Company gets financial assistance in the form of grants from Government of Karnataka, Government of India and Local bodies. The grants received by the Corporation are being utilized for rendering financial assistance and other services to the beneficiaries belonging to the Scheduled Tribes under various schemes and programmes. Some of the major schemes implemented by the Company are as follows :

a. Self Employment Scheme

This scheme is implemented for extending financial assistance to the unemployed ST youth facilitating them to take up gainful business Activities and become self reliant. This is a bank linked scheme under which unit cost is limited to Rs. 50,000/- of which 50 percent subject to a maximum of Rs. 10000/- will be the subsidy and the remaining portion will be the loan released by the bank.

b. Industries and Service Business Scheme (ISB)

The unit cost of this scheme ranges from Rs. 50,000/- to Rs. 1,00,0000/- . Under this scheme, margin money loan will be released by the Company in addition to subsidy.

The subsidy and margin money for the unit having project cost upto Rs. 1.00 lakh is Rs. 10,000 and 20 percent of the project cost respectively. For the units having project cost more than Rs. 1.00 lakh, the margin money is at 20 percent of the project cost, subject to maximum of Rs. 1.00 lakh. The margin money carries interest at 4 percent per annum.

c. Direct Loan Scheme

Under this scheme, the beneficiaries are availing term loan assistance from NSTFDC and utilising grants and share capital money released by the State Government. The subsidy of Rs. 10,000 and margin money of 20 percent of the project cost are released as assistance and the remaining portion will be treated as term loan. The margin money carries interest at 4 percent per annum and term loan at 6 percent per annum.

d. Land Purchase Scheme

Under this scheme, agricultural land (2 acres of dry or 1 acre of wet/garden land) to the female landless agricultural labourers is provided by purchasing lands from land owners not belonging to either SC/ST. The unit cost is 50 percent subsidy and 50 percent term loan carrying interest at 6 percent per annum.

e. Ganga Kalyana Scheme

i) **Individual irrigation Borewell** : Under this scheme, irrigation facilities is provided to the lands of small and marginal farmers belonging to Scheduled Tribes. The unit cost is fixed at Rs.1.00 lakh, out of which Rs. 86,000/- will be subsidy and the remaining will be term loan carrying interest at 6 percent per annum.

ii) **Lift irrigation Scheme** : Under this scheme, lift irrigation facilities is provided to agricultural lands held by small and marginal farmers belonging to Scheduled Tribes utilizing the perennial water source available on the banks of the river and back water of the dam by laying water pump lines, installing pumps and motor and energising the same.

f. Special Development Programme

Under this programme drilling of bore well is carried out for the development of taluks identified, in Dr. D.M Nanjundappa Report, as most backward, more backward and backward

g. Micro Finance Scheme (State)

Under this scheme, financial assistance is provided to Self Help Groups (SHG) comprising of 10 to 20 members of ST community. Every eligible member of the SHG shall be eligible to a maximum financial assistance of Rs. 5000/- out of which Rs. 2500/- will be subsidy and the remaining Rs. 2500/- will be margin money loan carrying interest of 4 percent per annum.

46.05 Special Points to be seen

- i. The Company is receiving grants from Government of India, Government of Karnataka and local bodies. The receipt of grants and its utilization may be reviewed.

- ii. Loans are received from NSTFDC for disbursement among ST beneficiaries. Receipt of loans and its Proper disbursement to the beneficiaries as per the guidelines may be reviewed.
- iii. Measures taken by the Company in identification of suitable beneficiaries under various schemes may be reviewed. Any instance of loan/grants made to improper person/groups may be enquired.
- iv. The Company is investing unutilised funds in fixed deposit with various Banks, which may be reviewed with the Governments guidelines for investments of surplus funds.
- v. Proper maintenance of loan ledgers of the beneficiaries at the district office may be reviewed and reconciliation of the loan balances with the head office books.
- vi. The demand, collection and balance of loan disbursed under various schemes in all the districts may be reviewed.
- vii. Reasons for delay in energisation of borewells by ESCOM's drilled under Ganga Kalyana Scheme may be analyzed.
- viii. Whether the Company is obtaining sufficient security from the loanee against the loan granted may be ensured.
- ix. Whether the Company is making prompt payment of its dues (principal and interest) towards loan obtained from NSTFDC and penal interest (If any) may be reviewed.
- x. Cases of in-ordinate delay in recovery of loan amount in respect of all Schemes from beneficiaries may be verified.
- xi. Investment of Surplus Funds. The investments made by the Company may be reviewed to see as to how far there is judicious investment of surplus funds.
- xii. Questionnaires in Annexure-I.
- xiii. Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- xiv. Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- xv. Compliance Audit checks as detailed in Annexure XXI.
- xvi. Audit Points detailed in Para 7.25 of the Chapter VII.

Chapter- XLVII

KARNATAKA STATE SEEDS CORPORATION LIMITED

47.01 Introduction

The Karnataka State Agro Seeds Corporation Limited was incorporated in August 1973 as a subsidiary of the Karnataka Agro Industries Corporation Limited, Bangalore. With effect from August 1978, the Company became a separate Government Company and the name was changed to Karnataka State Seeds Corporation Limited. The **authorised capital** of the Company is Rs.

500 lakh consisting of 3.75 lakh equity shares of Rs. 100/- each and 1.25 lakh (11%) cumulative preference shares of Rs. 100/- each. The **paid-up capital** as on 31st March 2014 was Rs. 360.85 lakh

47.02 Objectives contributed by the State Government, National Seeds Corporation Limited and seed growers.

The main objects of the Company are -

- 1) To carry on production, process and drying, storing, distribution and transportation of all agricultural seeds, including forest, vegetable and horticultural seeds.
- (2) To buy and sell, grow, prepare for market, import, export and deal in seeds of all kinds.
- (3) To purchase, own acquire and deal in all kinds of machinery and equipment, used in seed processing, storage and to acquire lands and buildings required for purposes of seed products.
- (4) To carry on business of procuring, marketing and handling agency for all agricultural products and in particular, seeds of all kinds and also handling agency business as manufacturers' representatives, selling agents, distributors, stockists, business agents etc.
- (5) To become producers of seeds of all kinds and classes for the National Seeds Corporation Limited and also for any other Corporation or Company or Government agency or University etc.

47.03 Organisational set up

The management of the Company is vested in Board of Directors, consisting of not more than eleven Directors. The Chief Executive of the Company is the Managing Director who is appointed by the State Government.

47.04 Products traded/activities taken up

The Company is engaged in production, procurement, processing and sale of seeds and also in trading pesticides, chemicals etc. The Company has production/processing/marketing centers throughout the State. The Company

deals in certified seeds of Paddy, Maize, Jowar, Bajra, Ragi, Pulses, Oil seeds, Wheat and Hybrid Cotton.

47.05 List of special Act, rules applicable and special records

- (1) Cotton Seed Act
- (2) Cotton Control Act
- (3) The Seed Rules 1968
- (4) The Minimum Seed Certificate Standards

The following registers/documents may also be referred to in Audit:

- (1) Dealers register
- (2) Dealers commission register
- (3) Seed Production and Inspection register
- (4) Agreements with dealers/customers
- (5) Sub-committee proceedings

47.06 Special points to be seen (General points given in Annexure I)

- (1) The production performance of the Company may be reviewed with reference to areas of production of seeds programmed, areas actually organised, excess/shortfall in procurement etc., and the financial impact thereof.
- (2) As part of the contract seed programme, the National Seeds Corporation Limited, (NSC) places indents on the Company for supply of certified seeds. For this purpose, the Company organises areas for procurement of seeds. The arrangement existing in this regard with the NSC, action taken by the Company to organise and procure the seeds and its supply to NSC may be examined and the profit/loss in the transaction may be analysed.
- (3) The Company procures seeds from other sources also for distribution against orders. These transactions may be reviewed with reference to the terms and conditions thereof to ensure that the Company has not sustained any loss in those transactions.
- (4) The correctness of the rates paid to farmers/others for procurement of seeds may be checked with the rate schedule fixed by the Company.

- (5) Review the marketing performance of the Company through its own sales outlets and also through private dealers and compare the sales with procurement. The agreements/arrangements with the dealers may be examined. Ensure that the commission paid to dealers is in accordance with the rates agreed thereto.
- (6) Examine the basis for fixation of selling rates and link them with the cost data.
- (7) Review cases of disposal of seeds for non-seeds purposes and examine whether such sale has resulted in any loss.
- (8) The Company is entitled to get subsidy under Central/State sponsored schemes for procurement and distribution of pulses and oil seeds. Review the correctness of subsidy claim in this regard.
- (9) Review the transactions undertaken by the Company on behalf of the Government and see that the Company claims reimbursement of losses, if any, from Government promptly.
- (10) The Company is also processing/getting processed seeds procured for certification through the agency of the State Government. Relevant records may be reviewed with reference to the quantity processed charges incurred and its inclusion in the selling rate.
- (11) Review the seed shortages statement and action taken thereon.
- (12) Review the credit notes issued by the Company towards rejections, if any, on the supply of seeds by the NSC/Parties.
- (13) Review the projects, vis-a-vis establishment of seed processing units, construction of AC seed storages with DC-flumidiation works etc., undertaken by the Company.
- (14) Loss on account of delay in disposal of seeds may be reviewed.
- (15) Review of payment of incentives to grower shareholders.
- (16) Cases of payment of compensation to the growers not containing the prescribed field standards may be reviewed.
- (17) Payment of subsidy to growers seed village scheme under National Pulses Development Project and Oil Seed Production Programme may be reviewed.
- (18) Cases of write off of dues due to non-realisation of dues from National Seed Corporation and others may be reviewed.
- (19) Purchase of gunny bags.

- (20) Cases of delay in raising of invoices.
- (21) Loss due to excess inventory of stocks of seeds etc. if any, may be reviewed
- (22) Questionnaires in Annexure-I.
- (23) Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- (24) Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- (25) Compliance Audit checks as detailed in Annexure XXI.
- (26) Audit Points detailed in Para 7.25 of the Chapter VII.

CHAPTER-XLVIII
FOOD KARNATAKA LIMITED

48.01 Introduction

The Company was incorporated on 29.4.2003 as a Joint Venture Company to implement Agro Food Technology Parks and initiate other measures to promote Agro Food Processing Industry. **The authorized share capital** is Rs. 25 lakh and the **paid up capital** was Rs.10 lakh as on 31.3.2014.

48.02 Objectives

- (1) To position Karnataka as the ideal location for investors in India's food industry
- (2) To provide world class infrastructure for Karnataka agribusiness
- (3) To build "Grown and Processed in Karnataka" as an internationally recognized symbol

48.03 Organizational set up

The general supervision and management of the affairs of the Corporation is vested in a Board of Directors which shall consist of 12 directors and the day to day affairs of the Company are managed by the Special Officer.

48.04 Activities of the Company

The Government of Karnataka has vested the Company with the responsibility of facilitating and developing six Agro Food Parks in Malur, Bagalkot, Jewargi, Hiriyur, Maddur and Belgaum in Joint Venture concept through Public-Private partnership. The Government of India has approved the promotion and development of three Agro Food Parks in Malur, Bagalkot and Jewargi and for the remaining three parks approval of the Government is under process.

48.05 Special points to be seen

1. Effective utilization of funds in attaining the objective:
 - i. Whether the Central Subsidy for the food parks was effectively utilised in the formation of the food parks.

- ii. Whether the State subsidy given to the developers through the FKL was released as per guidelines.
 - iii. Whether the developers have allotted developed plots in the food parks to the entrepreneurs to establish food processing units as required under the GoI norms.
 - iv. Whether the funds/grants released by the State Government under SCP/TSP plans to the FKL was released to the beneficiaries as required under the govt. order.
 - v. Whether the funds/grants released by the State Government to FKL for the Micro, Small and Medium Entrepreneurs was effectively utilised after obtaining approval for the guidelines under the scheme from the State Government.
 - vi. Whether the land acquisition process for the formation of food parks was timely done and the developers to develop the food parks was identified and works are under progress as per schedule.
2. Review of the performance of the Company.
 3. Investment of Surplus Funds. The investments made by the Company may be reviewed to see as to how far there is judicious investment of surplus funds.
 4. Questionnaires in Annexure-I.
 5. Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
 6. Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
 7. Compliance Audit checks as detailed in Annexure XXI.
 8. Audit Points detailed in Para 7.25 of the Chapter VII.

Chapter- XLIX

Karnataka Agro Industries Corporation Limited

49.01 Introduction:

Karnataka Agro Industries Corporation Limited is a Public Company incorporated on 01 September 1967. It is classified as State Government Company.

49.02 Functions:

The business Activities of the Corporation are spread all over the State with its District Offices located at district headquarters and Agro Kendras at Taluk / Hoblie level. Its business activities include supply of fertilizer and plant protection chemicals through their outlets (Agro Kendra) etc.

49.03 Status of Company:

The Government of Karnataka ordered closure of the Company with immediate effect vide Order No. DDPER/55/ARU/2003, dated- 03/09/2003. In 246th meeting of the Board of Directors held on 05/-1/2004, it was decided to dispose of the assets of the Company.

49.04 Special Points to be seen:

1. Heavy booking of expenditures due to delay in winding up the Company.
2. Due procedures being followed for disposal of the assets and deterioration in the value of the assets of the Company owing to delay.
3. Recovery of due amounts from employees being relieved owing to closure.
4. Discharge of liabilities of the Company.

Chapter L

The Mysore Tobacco Limited

50.01 Introduction:

The Mysore Tobacco Company Limited is a Public Company incorporated on 19 April 1937. It is classified as State Government Company and is registered at Registrar of Companies, Bangalore. The status of Company in the records of Registrar is Active which means that it is actively doing all its filing with the Registrar. The **authorised share capital** of the Company is Rs. 100 lakh divided into 10 lakh equity shares of Rs. 10 each. The **paid-up capital** of the Company as on 31st March, 2014 is Rs. 77.38 lakh.

50.02 Objectives:

To undertake cultivation, curing and grading of tobacco for sale in foreign and inland markets

50.03 Status of Company:

The Government of Karnataka in view of Company's poor performance and continued loss ordered the Company vide Order No. AAH 331 AMS 184 dated 29th November 1985 to take action for liquidation. The liquidation process is still in progress.

50.04 Special Points to be seen:

1. Inordinate delay in liquidating the Company.
2. Due procedures being followed for disposal/transfer of the assets.
3. Recovery of due amounts.
4. Discharge of liabilities of the Company.
5. Avoidable expenditure/loss in running the Company and deterioration in the value of the assets of the Company owing to delay.

Chapter LI

Karnataka Vishwakarma Communities Development Corporation Limited

51.01 Introduction:

Karnataka Vishwakarma Communities Development Corporation Limited is newly established Company incorporated on 28 February 2014.. Its authorized share capital is Rs. 50,000,000 and its paid up capital is Rs. 100,000 as on 31st March 2014. Government of Karnataka holds 100 % of the share capital.

51.02 Objectives:

- To extend financial and technical assistance to any viable project under Business, Service, Transport, Industries, Agriculture and allied activities to Vishwakarma Communities in Karnataka for their economic development and to promote avenue for self employment
- To extend Loan/subsidy to the students belonging to the Communities.
- To extend assistance to the artisans and handicraft person to secure traditional art & craft and to provide training to upgrade their existing skills.
- To extend irrigation facility to the lands owned by small and marginal farmers among the communities.
- To assist the unemployed entrepreneurs belonging to the Communities in Karnataka to start their own business or vocation or industry under self-employment programme and also to impart industrial and technical training.

51.03 Finance:

The Government will extend loan/subsidy facility to the beneficiaries of the Communities through the Company.

51.04 Special Points to be seen:

- (i) Being a new Company, the adequacy of system and mechanism existed for achieving the objective set needs to be reviewed.
- (ii) Existing Internal Control Mechanism should be reviewed to ensure adequate check and balances in the functioning of the Company.
- (iii) All the parameters needed to be adhered to are followed in the performance of the Company.
 - a. Whether Physical and Financial Target fixed by the Government while releasing the Grant was achieved and the prescribed returns were sent to the Government periodically.
 - b. Whether the procedures prescribed for the identification of the beneficiaries was adequate and was properly followed.
 - c. Whether Grants released by the Government is kept idle due to non-identification of beneficiaries in contravention of the G.O.
- (iv) Selection procedure of the beneficiaries.
- (v) Investment of un-utilised Government funds.
- (vi) Purchase procedures being followed as per KTPP Act.
- (vii) Investment of Surplus Funds. The investments made by the Company may be reviewed to see as to how far there is judicious investment of surplus funds.
- (viii) Questionnaires in Annexure-I.
- (ix) Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- (x) Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- (xi) Compliance Audit checks as detailed in Annexure XXI.
- (xii) Audit Points detailed in Para 7.25 of the Chapter VII.

Chapter-LII

Bangalore Sub-urban Rail Company Limited

52.01 INTRODUCTION:

52.01.01 Bangalore Suburban Rail Company Limited is a new Government Company incorporated on 12 March 2014. It is classified as State Government Company within the meaning of Section 617 of the Companies Act 2013. Its authorized share capital is Rs. 500,000 and its paid up capital is Rs. 500,000. It is involved in Transport via railways and includes passenger and freight transport by inter-urban railways. It also covers related activities such as shunting and switching.

52.01.02 In November 2011, RITES conducted a feasibility study for a suburban rail service in Bangalore and submitted the report to the Directorate of Urban Land Transport (DULT) in June 2012. The final report was submitted in November 2012. The 179-page report proposed 3 long routes and 4 short distance routes making up a total rail network of 440.8 km. The 3 long routes were Bangalore-Mandya (92.88 km), Bangalore-Bangarpet (70.21 km), and Bangalore-Tumkur (64 km). The 4 short distance routes were Yeshwantpur- Yelahanka (12.45 km), Yelahanka-Baiyappanahalli (19.23 km), Yeshwantpur-Baiyappanahalli (16.12 km) and Yelahanka-Doddaballapur (20.72 km).

52.02 Objectives:

- To carry on the business in the field of planning, designing, development, construction, maintenance, operation and financing of suburban Rail Link Network from Bangalore City to other cities in the hinterland of Bangalore.
- To carry on the business relating to construction, maintenance and operation of suburban or other rail system.
- To design, establish, provide, maintain and perform engineering, technical and consultancy services for development of suburban or other rail systems.

- To carry on the business of providing engineering, technical and management services desirable by or beneficial to the interest of the Company.
- To carry on, subject to such approvals as may be required, the business of railway transport.

52.03 Finance:

The State Government approved the suburban rail system on 5 July 2013. The 2013-14 budget proposed the setting up of the Bangalore Suburban Rail Corporation Limited, a special purpose vehicle to implement the project.

52.04 Special Points to be seen:

- i. Delay in preparation, submission and approval of Detailed Project Report & the consequent cost overrun.
- ii. Delay in obtaining approval from the Central Government for the Project & the consequent cost overrun.
- iii. Delay in implementation of project leading to escalation of Project Cost.
- iv. Delay in allocation of funds and the consequent escalation in the project cost.
- v. Existing Quality Control Mechanism for the Project.
- vi. Investment of Surplus Funds. The investments made by the Company may be reviewed to see as to how far there is judicious investment of surplus funds.
- vii. Questionnaires in Annexure-I.
- viii. Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- ix. Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- x. Compliance Audit checks as detailed in Annexure XXI.
- xi. Audit Points detailed in Para 7.25 of the Chapter VII.

Chapter- XLIII

HUBLI -DHARWAD BRTS COMPANY LIMITED.

53.01 Introduction:

Hubli-Dharwad BRTS Company Limited was incorporated in the year 2012. The principal, existing share holders of the Company are Government of Karnataka through Directorate of Urban land Transport (DULT), Hubli-Dharwad Municipal Corporation (HDMC) and Hubli-Dharwad Urban Development Authority.

53.02 Objective:

It is a special purpose Company formed to undertake, develop, construct and operate Bus Rapid Transit System between Hubli and Dharwad.

53.03 Introduction of Project:

53.03.01 Project Location:

The project is located between Hubli- Dharwad twin cities, which are separated by 22 km. with Single municipal area of about 202 Sq.km. having population of about 0.94 Million (as per 2011 census) with a density of 4678 persons per sq.km.

53.03.02 Project Features:

The corridor length is 22.25 km. Existing ridership is about 1.76 lakhs, passengers per day. It is a dedicated BRT lanes with 33 Bus stations, 3 Depots, 1 Workshop, 2 Terminals, ITS, NMT infrastructure. The estimated Project cost is Rs 692.00 Crores.

53.03.03 Progress of Land Acquisition and Implementation of Resettlement Action Plan (RAP):

Land Acquisition is under progress.

53.03.04 The status of project:

The Project is at development stage and implementation of project has been commenced from September 2013.

53.04 Finance:

The project is funded by Karnataka State Government & Other Urban Local Bodies to the extent of Rs. 442.00 crore (63.87 %) and World Bank Assistance to the extent of Rs. 250 crore (36.13 %).

53.05 Special Points to be seen:

- i. Delay in land acquisition.
- ii. Delay in implementation of project under all the packages leading to escalation of Project Cost.
- iii. Existing Quality Control Mechanism for the Project.
- iv. Investment of un-utilised funds.
- v. Review of implementation of all packages under the project.
- vi. Review of Status of the Consultancy Services.
- vii. Review of Status of procurement of Goods for the project.
- viii. Investment of Surplus Funds. The investments made by the Company may be reviewed to see as to how far there is judicious investment of surplus funds.
- ix. Questionnaires in Annexure-I.
- x. Instructions for the procedures relating to audit of specified records and transaction as to expenditure and receipt as detailed in Annexure X.
- xi. Audit of Annual Accounts of Autonomous Bodies/Companies as detailed in Annexure XI.
- xii. Compliance Audit checks as detailed in Annexure XXI.
- xiii. Audit Points detailed in Para 7.25 of the Chapter VII.

**Questionnaire for Systematic and efficient Audit of Institutions under
Section 14**

I. Organizational set-up

1. Is there a clear Statement in writing regarding the goals of the organization and what its immediate objectives are?
2. Are administrative actions and utilization of resources in keeping with the organizational goals and objectives?
3. Has the organization adopted suitable methods to realize its objectives?
4. Do the organization's financial Statements provide adequate information to the management and administration and are they readily understandable?
5. Is the required financial information made available to the Committee experts, etc. who need it in fulfilling their obligations?
6. Are the decisions on various matters taken at appropriate levels?
7. Are systems and procedures generally documented at appropriate levels?
8. If so, are the documents of systems and procedures available in the hands of the users?
9. Are the documents of systems and procedures brought out in a handy manual?
10. Are there controls to keep the documents and manuals current?
11. Are the powers of the various levels, financial, technical, procedural etc. well defined?
12. If so, are they duly observed?
13. Does the organization measure and rate the performance of its various wings and take adequate action in fields which need special attention?
If so, please check:
 - i) Result over a period of time vis-à-vis budget
 - ii) Production where applicable, over a period of time with reference to budget
 - iii) Use of resources
 - iv) Quality and utility of the results.

14. Are the budget, both financial and performance, developed by those responsible to meet them?
15. Are the budgets subjected to adequate scrutiny?
16. Were the goals set in the budget capable of being obtained with due regard to manpower, finance and other resources available to the management?
17. Is the budgets framed from planned estimates rather than guesses solely on the basis of prior performance?
18. Is the organization aware of the return that it gets out of the funds made available and does it evaluate? If not, can one be attempted?
19. Does the organization prepare any annual report? If so, does it present objectively the activities of the organization, problems etc. and does it bring out all salient points?

II. Management Process:

1. Have responsibilities for the planning function been assigned and have time and facilities for planning been set aside? Is planning done on a scheduled basis?
2. Does it appear that adequate avenues exist for accomplishing the targets fixed in the plan?
3. Does the organization seek active participation of all levels of management in formulating its plans?
4. After the plans are framed, are they reviewed by an independent authority (eg. Government) before the programme is cleared for implementation?
5. Are the plans and programme reviewed during implementation by means of periodical reports?
6. If there are indications that the plans are either not working, are they modified or formally terminated at as early a time as possible to avoid further outflow of funds in the plan?
7. Have priorities been attached to all approved plans?
8. Are the plans laid only after adequate search and evaluation of the main problems have been made?
9. Has it been examined whether the cost of development compare favourably with budget on the one hand and with plan on the other?

10. Does the budget reflect the objectives of the plan and is it used to translate the plan into action?
11. Does any revision in budget materially affect the goal as provided in the plans and if so, is it duly taken note of at appropriate level before revision is agreed to?
12. Do cash flow projections provide proper guides to action in handling capital structure and liquid resources?
13. Does revision of budget indicate defective planning or any coverage of failure to attain the planned goals due to other reasons?
14. Are explanations of budget variations with actual examined; are they genuine as opposed to ineffective implementation?
15. Are the budgets prepared well in time and approved in time?
16. Is an analysis of budgets over a period of years conducted to see that it tries to translate into action goals of plans and objectives of the organization?
17. Are there fields of activities wherein budgeting has been consistently defective in as much as actual were always considerably less or considerably more than the budget? If so, were they taken note of by the management and remedies sought? How far have such variations upset achievements of planned progress?
18. Is responsibility for executing plans assigned?
19. Is performance measured against plan?
20. Do the plans deal with matters necessitating change in organization and if so, are they taken note and suitable action taken?

III. Research and Development

1. 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?
2. Are concerned experts in the line consulted before a subject is chosen?
3. Is there any assessment of utility of the research and possibility of profitable utilization?
4. Is the financial ability of the project assessed?
5. Does the organization possess manpower and other resources to undertake the research? If not, has adequate planning been done to

acquire the manpower and resources before the project are undertaken?

6. Are adequate funds allocated from year to year for accepted research projects and do the funds so allocated compare are not adequate, what is the rationale of such allocation?
7. Is staggering of accepted research projects resorted to for want of manpower, finance or other resources?
8. Is each research project time bound? Examine whether extensions were applied for and given where projects could not be completed in time?
9. 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?
10. Is the implementation of any research project dependent on continued availability of certain personnel and services for pre-determined period and if so, are their availability ensured before the research is undertaken?
11. In cases where extension is given for completion of research, are the grounds of extension genuine, unavoidable, etc.?
12. Is there any research project which is continued without any noticeable progress resulting in continued deployment of certain personnel, equipment etc., and consequent waste?
13. Has the organization executed specific agreements on its right over the results of research for marketing, publications, utilization etc.? If not, has the organization suffered in any case?
14. Does any system exist for evaluation of results of research and proper utilization? If so, are these attended to within reasonable period after reports are furnished by those in charge of the research?
15. Does any arrangement exist for propagation of results of research to ensure their profitable utilization?
16. Is the organization in the know of action taken on results of successful research projects?

17. Are there cases of overlapping research projects within the organization and outside and if so, how far is such a situation resolved to the best of interest of the organization.
18. Are the results of research based on adequate data as prescribed when the research was authorized to be undertaken or are they based on comparatively inadequate data? If so, what are the consequences?
19. Have the research projects been evaluated by the organization to see whether time, money and energy were well spent on them?

IV. Personnel Policies and Management

1. Is the manpower requirement planned for justifiable reasons, sufficiently in advance?
2. Is any assessment of existing manpower done to ensure that it is profitably distributed?
3. Is the manpower equipped to carry out the duties assigned to it?
4. Are steps taken to divert idle manpower to profitable side well in time?
5. Are there instances of frequent changes, resignations etc. affecting the quality of output of any activity?
6. Are there cases of idle manpower due to non-availability of equipment, material etc.?
7. Is any standard of output prescribed and output compared to the standard?
8. Is any training programme necessary for development of personnel employed and if so, has it been implemented?

V. Materials Management

1. Has the organization any construction, manufacture, purchase, sales etc. activities? (if so, this section is applicable)
2. Is any standard of production prescribed?
3. Is there any record relating to life, capacity etc. of various plants, machines? If so, how does production compare with capacity and what are reasons for shortfall?
4. How long has any plant or machinery outlived its life or underlived and are there justifiable reasons?

5. Is the production capacity of various interlinked plants and machinery comparable? If not, how far have the variations affected the cost?
6. Is the cost of running of the plants and machinery reasonable?
7. How often do the plants and machineries fall sick and what are the causes? Are they analysed and remedies sought?
8. What are the various components that made up cost of production? Are they correctly assessed and to the actual compare favourably?
9. Is any production target prescribed and are there means to achieve it? Is the target fixed realistic with due regard to demand, supply etc.?
10. How far does actual production compare with estimates? How far does variation affect cost of production?
11. Does the cost of production compare favourably with cost of production by others in similar lines? If there are wide variations, have they been analysed by the management?
12. Is there any overstocking of finished goods and if so, is it taken note of during further production?
13. How is disposal price determined? How does it compare with cost, market condition, etc.?
14. Is any subsidy by Government involved in pushing up sales? Has the subsidy has any real effect in pushing up sales?
15. Could the subsidy by Government to push up sales be avoided by economical expenditure in specified lines?
16. Has any product manufactured become outdated and if so, were timely steps taken to check further production?
17. What is the procedure adopted to procure raw materials? Are they procured during proper seasons and stocked in adequate quantities or are purchase resorted to as and when needed? Are they made at economical rates consistent with quality?
18. What is the prescribed procedure for marketing? Is it considered adequate and is it reviewed from time to time with due regard to stock, demand etc.?
19. Are any ceilings prescribed for storage at various centres and how far are they realistic?
20. Is there accumulation of stock at one place and shortage in another?

21. Is the stock of all materials (Both raw and finished) subjected to periodical review and physical check? Are the shortage subjected to analysis?
22. Are the storage facilities adequate?
23. Is there an internal system of checks over production, storage, disposal etc., and is it adequate?

VI. Finance, Accounts and Internal Audit

1. In respect of receipts, is the system of collection, accounting and remittance to bank foolproof? If not, has it resulted in any pilferage, losses, etc.?
2. Are surplus funds profitably utilized or are they lying in current account without earning any revenue? Analyse investments to see whether loans/grants given for achieving declared objectives through productive activity are transferred to fixed deposits, etc., indicating lack of organizational activity?
3. What is the procedure adopted for payment of claims? Does the system reveal any inherent defects?
4. Are the cash needs assessed from time to time?
5. Where borrowings are resorted to, are borrowings justified and terms normal? Are the borrowings utilized for the objective for which they were resorted to?
6. Is there an effective system of accounting? Do the heads of accounts operated reveal the activities of the organization in adequate detail? In particular, is allocation between capital and revenue properly done?
7. Do the forms of accounts need any major modification to enable a proper presentation of the affairs?
8. Is the objective of Government assistance in the form of loan and grant achieved by utilizing the funds for the specified purpose? How far are conditions of assistance fulfilled? Were the preliminaries necessary for utilizing Government grants/loan duly complied with before assistance was obtained?
9. Was Government assistance necessary, excessive, inadequate, too early or too late?

10. What are the prospects of repayment of commitments to Government and others? Are the terms of various financial agreements duly honoured?
11. Are there heavy outstanding from outside parties? Have adequate steps been taken to realize them?
12. Are there legal disputes affecting adversely the financial results of the organization? Have they been taken note in estimating the financial position?
13. Is there a proper system of maintenance of accounts records, compilation of and finalization of accounts? Have accounts of each year been duly finalized and approved?
14. What is the role of Internal Audit in proper maintenance of accounts?
15. Have approved accounts been audited and certified by any agency? Analyse the accounts of the period under review to ascertain the State of compilation, finalization and certification of account.

VII. Works

1. Is there an operative division with qualified hands or is the existing arrangement to hire outsiders on contract considered adequate?
2. Are the works undertaken after proper estimation of need and cost of construction?
3. Does the plan reveal the requirement adequately keeping in view the important factor of economy?
4. Critically examine the procedure for giving out contract with reference to its accuracy, adequacy, economy etc.
5. Are the terms of contract well defined and items of work clearly specified to avoid ambiguity?
6. Is the contract time bound and is the time capable of being observed?
7. Are there conditions for supply of any material by the organization and if so, are they procured up to optimum needs in time and supplied in time?
8. Is there adequate supervision over the work of construction and is any periodical report presented to management?
9. Are materials under control produced at controlled price?

10. How does progressive cost compare with actual? Are there heavy excesses under some items and savings under other items? Were they qualified? Were the items saved got done through other source and if so, at what cost? How far have such variations affected the cost of the construction?
11. Are there changes in design and specifications during execution and if so, are they essential at all? How far have the changes affected the time schedule and cost?
12. Are there extra items for justifiable reason and can these be derived from accepted items? Is the analysis of rate for extra items in order?
13. Has the construction involved procurement of certain goods/land and machinery and if so, how were they procured and later disposed off?
14. How does final cost compare with estimates and are the variations duly analysed?
15. Is any material consumption account prepared and how does consumption compare with supply, estimation etc.? Is excess supply taken back & appropriate cost recovered?
16. Is the work certified as complete by qualified personnel and deficiencies, if any, set right?
17. What is the extent of expenditure on maintenance, special repairs, additions and alterations? Do these reveal any inherent defect in original planning and /or execution?

Broad outline of usual objections in the audit of various institutions under section 14:

I. Educational Institution like Colleges

- i) Excess sanction of maintenance grant due to
 - (a) Taking into account All India Council of Technical Education (AICTE) scales of pay to the tutorial staff for purposes of grant.
 - (b) Unutilized portion of the grant sanctioned for the previous years not being taken into account.
- ii) Grant amount sanctioned not utilized fully.
- iii) Grant amount sanctioned for a specific purpose utilized for other purpose like pay and allowances of the staff etc., without the knowledge of the sanctioning authorities.
- iv) Excess payment of grant due to incorrect computation of margin of surplus.
- v) Surplus fee income not being deposited in the Bank as required in the Grant-in-aid code.
- vi) Capitation fee collected in respect of the management quota of 20% of the total intake to the extent it is not utilized for the developmental activities of the institution taken into account for the purpose of regulating the maintenance grant.
- vii) The scholarship amount relating to previous year remaining undisbursed in the subsequent year not being surrendered to the District Social Welfare Officer/Government.
- viii) Unclaimed caution money deposit/tuition fee relating to old periods not being treated as miscellaneous revenue of the institution.
- ix) In respect of staff working in the institution on foreign services/terms leave salary paid not promptly got reimbursed from their parent department though leave salary contribution was paid.

II. District Rural Development Societies (DRDS)

- i) Utilization certificates/audited statement of accounts are due from a number of agencies.
- ii) The amounts that were stated as utilized by the Agencies included advances made to them, which were far in excess of the actual requirement of the credit institutions who neither rendered accounts not refunded the utilized amounts within the prescribed time limit.
- iii) If some unutilized amounts were refunded after a long time without interest.
- iv) Subsidy has been distributed to participants though they did not avail of the loan.
- v) In respect of a number of agencies, the administration expenditure exceeded the prescribed limit of 7.5% (5% upto August 1975) of the total project expenditure.
- vi) As a result of overestimating their requirements, funds are released far in excess of the actual expenditure.
- vii) Identification of the beneficiaries like small and marginal farmers is often incorrect because of misrepresentation of facts by splitting their holdings and wrong identification of farmers leading to excess payment of subsidy.
- viii) Information regarding recovery of subsidy paid was not available with the agencies.
- ix) The agency had no information regarding the number of wells actually constructed repaired, number of pump sets installed the extent of additional irrigation facilities provided and whether the funds were utilized for the intended purpose.
- x) Tractors and other equipment procured at 50% (subsidized) rate did not serve the needs of the participants adequately though they are to be hired at concessional rate of 50% of normal market rates.
- xi) The work of identification of participants had not been taken up by the agencies as a first task before taking up programme for execution.
- xii) There was a wide gap between targets and achievements in several agencies.

Annexure – III (Ref: Para 3.16.15)

**ARRANGEMENTS FOR AUDIT UNDER SECTION 14(1), 14(2), 15(1),
15(2) AND 20(2) OF THE CAG'S(DPC) ACT 1971**

1. A reference is invited to headquarters circular letter No.305 TAI (RGL)/79-77 dated 18-3-1981 (Circular No.9 TAI/1981) and No.1387-TAI(RGL)/79-77 dated 12-11-1981 (Circular No. 47-TAI/1981) vide which a format for submission of the return in respect of audits undertaken under section 14 of the CAG's (DPC) Act,1971 by 31st October each year was prescribed.
2. Consequent on the amendments made in section14 of the CAG's Act 1971 the applicability of section 14(1) and 14(2) of the Act ibid were to be examined separately in each case with effect from 1983-84 accounts. Prior to amendments of section14 of the CAG's Act 1971 we were conducting audit of Institutions coming under this section once in 3 to 4 years. But according to instructions contained in Para 1.7 of our DO letter No.649-Audit II/143-85 dated 29-4-1985 read with section 14(3) of the Amended CAG's(DPCs) Act 1984 the audit of the Institutions are to be conducted on Annual **basis. In the circumstances, the formats of Annual Return of Section 14, audit required suitable revisions. A revised format of 'Returns' for section 14(1) and 14(2) audits is at Annexure-A. In future the return may be furnished in the revised format so as to reach headquarters by 20th April each year position of audits conducted during the preceding financial year.**
3. At present to 'Return' in respect of audits done under section 15(1) and 15(2) of the CAG's Act, 1971 is required to be furnished to headquarters. So far we have not taken up any audit under section 20(2) of the Act ibid. But according to para 1.5 of our D.O dated 29.4.1985, there need be no hesitation, subject to specific and general approval, of the Headquarters Office, in suggesting the taking up of audit under section 14(2) or section 20(2) or in asking for the right of access of the books of the recipient body under section 15(2) of CAG's Act, 1971 subject to conditions laid down therein. So separate sets of formats of Returns for audits under section 15(1) and Section 20(2) of the CAG's Act 1971 are also prescribed (Annexure B&C)

4. Keeping in view the above it is requested that the 'Returns' for audits under Section 14(2), 15(1) and 15(2) may be sent in the revised formats so as to reach the head-quarters office by 20th April each year.
5. Since audit under section 20(2) is subject to entrustment of audit by Governor/President/Administrator of the U.T having a legislative Assembly like entrustment of audit Section 20(1) of the CAG's Act 1971 the 'Return' for audits under section 20(2) for the period ending 31st December may be sent by 20th January each year along with information to be furnished for Section 19(2), 19(3) and 20(1) of the CAG's Act, 1971 as per instructions contained in headquarters circular letter No. 1075-Audit II/18-TAI (RGL)/1985 dated 22-7-1985.
6. (Authority-circular No.39 – Audit II/1985, letter NO. 1748-Audit II/18-85 dated 21-11-1985).

ANNEXURE 'A'

ANNUAL RETURN ON COMPLETION OF AUDIT OF BODIES/AUTHORITIES UNDER SECTION 14(1), 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.

SL. No.	1	2	3	4
	Name of the Institution	Period of accounts to be audited	Periods of accounts and audited during the year	Arrears of audit, if any
	5	6	7	
	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).

Sl. No	Name of the Institution	Authority for taking up audit		Period of accounts to be audited	Period of Account Audited during the year
		Reference of this Office	Reference from Govt.		
	1	2		3	4
	Arrears of any	Reasons for arrears		Action taken to clear arrears	Remarks
	5	6		7	8

ANNEXURE IV (Ref: 4.11.11A/19.07 a)

ANNEXURE 'B'

C. AUDITS UNDER SECTION 15(1)

(a) Stage-I (Scrutiny of records of sanctioning authorities)

Sl. No.	1	2	3	4
	Name of the Sanctioning Authority	Period of Accounts for which scrutiny is to be done	Periods of A/cs for which scrutiny has been done during the year	Arrears of audit if any
	5	6	7	8
	Arrears of audit if any	Reasons for arrears	Action taken to clear the arrears	Remarks

(b) Stage II (Scrutiny of accounts of Grantee Institutions)

Sl. No.	1	2	3	4
	Name of the Grantee Institutions for security of accounts	Periods of accounts for which scrutiny is to be done during the year	Periods of A/cs. for which scrutiny has been done during the year	Arrears of audit if any
	5	6	7	
	Reasons for arrears	Action taken to clear the arrears	Remarks	

D. AUDITS UNDER SECTION 15(2)

Sl. No.	1	2		3	4
	Name of Corporation	Authorities for undertaking such scrutiny		Period of Accounts for which authorization made	Period of Accounts for which audit done
		Reference of this office made	Reference from Government done		
	5	6	7	8	
	Arrears of audit, if any	Reason for arrears	Action taken to clear arrears	Remarks	

ANNEXURE V (Ref: 4.09.13)

Common types of irregularities Noticed in Audit under section 15

- I. Deputy Directors of Public Instruction
- i) All secondary schools started after 1-4-1962 were to deposit on a recognized Bank or treasury a sum of Rs.5,000(Rs.50,000 from 1977-78) as stability fund in the joint name of the Director of Public Instruction and the Chairman of the Managing Committee of the Institution running the school. Some schools had not deposited the required amount.
 - ii) The amount of fees collected from students and remitted into treasury as shown in the challans attached to monthly pay bills drawn towards advance salary grant had not been verified with the treasury accounts.
 - iii) Register of grants had not been maintained. In cases where maintained, the register was not in the prescribed form and did not contain full particulars.
 - iv) Register of permanent and semi-permanent assets received wholly or mainly from Government grants is not maintained by the grant sanctioning authorities as required in the financial code.
 - v) Grants towards rent of school buildings are payable on a graded scale, where the buildings are owned by the management running the school, grants are payable as a percentage of the capital cost of the building (3 percent from 1967-68 to 1970-71 and 5 percent from 1971-72) subject to 75 percent of that admissible on the graded scale from 1971-72(50 percent prior to 1971-72). The limits laid down in the grant-in code were not followed in certain cases.
 - vi) Staff employed in excess of approved strength prior to 1-6-68 are eligible for payment of grant, subject to the condition that the excess staff strength should be adjusted against vacancies arising due to resignations, retirements, etc., staff appointed after 1-6-1968 in excess of the scale prescribed in Appendix IV of the grant-in-aid-code are not eligible for grant.
 - vii) Advance salary grants remaining unadjusted due to non-receipt of audited statement of accounts and proposal for maintenance grants.
 - viii) Excess payment awaiting adjustment, where final grants assessed for a year are less than the advance grants already paid such excess

payments were not recovered/adjusted from the grants payable for subsequent periods.

- ix) Where the managing bodies of schools own a site, they produce a no encumbrance certificate along with the approved plans and estimates for obtaining building loans.

Teachers Training Institutions:

- i) The grant-in-aid code does not provide for payment of salary grants in respect of staff working in hostels attached to the institutions. Salary grants, were however, paid in respect of such staff in some institutions.
- ii) A minimum strength of 40 and average daily attendance of 35 pupils per section is required for purposes of payments of grants. Institutions with less than 40 pupils were allowed grants.
- iii) Advance grants paid remaining unadjusted due to non-receipt of proposal for maintenance grants from the institutions.

Junior Colleges:

- i) Register of grants-in-aid not maintained
- ii) Colleges with an average daily attendance of less than 80 pupils are not entitled to receive maintenance grant. This provision can however, be relaxed under specific orders of Government. Institutions with average attendance of less than 80 pupils were paid grants without obtaining specific orders of Government.
- iii) The direct receipts on accounts of fees are to be computed at the standard rates for the actual number of students on the rolls. But, in certain cases, the direct receipts were computed with reference to actual collections made. The collections did not include fees due in respect of students getting fee concessions and students who were in arrears with their fees.
- iv) In respect of colleges charging fees at rates higher than the standard rates, the margin of surplus determined as per note below Rule 16(b)
- v) of the grant-in-aid code was not reckoned as receipt for purposes of grant for the next year.
- vi) Laboratory fee is one of the items of direct receipts and expenditure on consumable articles an admissible item of expenditure. Non-

accountal of receipts and expenditure resulted in excess payment of grants.

- vii) The limits laid down in the grant-in-aid code for grant towards contingent expenditure were exceeded in certain cases.
- viii) Applications for grant in Form C.G.C.I should be made on or before 1st August of the following year duly supported by the audited financial statement of accounts. The claim for maintenance grant received after the said date shall be subject to penalty by way of reduction of grant by two percent for each month of default or part thereof commencing from August of every year. Non-levy of penalty resulted in excess payment of grants.

Colleges

Equipments were purchased by the grantee institutions without calling for quotations and without obtaining prior approval of the grant sanctioning authority as contemplated in the rules.

Technical Education

Omission to exhibit donations and capitation fees as income of the institutions (The receipts were accounted in the management's accounts)

Social welfare Department

- (a) Grants are payable to private hostels recognized by the Director of Social Welfare and the management should be a registered body.

Hostels not recognized by him and not run by registered bodies were paid grant-in-aid.

- (b) Bording charges for 10 months in a year at the prescribed rates, limited to actual charges incurred are payable. In certain cases, the payment was not limited to actual charges resulting in excess payment.

- (c) Boarding charges were paid at the higher rate of Rs.50 (1-11-1974) instead of at Rs.40(1-12-1975) from December 1975 to March 1976. The payment at higher rate resulted in excess payment of grant.
- (d) The grant towards boarding charges at the specified rates has to be calculated with reference to the average attendance of the boarders by adopting the following formula.

$$\frac{\text{Total number of attendance of the boarder}}{300} \times \text{Rate of boarding charges per boarder for month}$$

Instead of regulating the grants as per the above formula grants were paid at the full rate resulting in excess payment of grant.

- (e) No grant is admissible for the period during which the hostel remains closed. Grants were allowed in respect of holidays when the hostels were closed.
- (f) Only such of the other backward class students whose parents income did not exceed Rs..... were to be admitted to hostel, students who did not produce the income certificates, whose parental income exceeded Rs..... were admitted to hostels and grants allowed to Hostels.
- (g) Claim for grant for any year has to be supported by utilization certificates in respect of grants received during previous year and the certified statement of accounts for that year. Grants were released to hostels which did not comply with his requirement.
- (h) Payment of grant is subject to regular attendance of the boarders in the school. The managements of hostels are required from the head of the education institution duly certifying that the boarders were actually studying in the schools and that they were in regular attendances. Grants were, however, paid in cases where the claims were not so supported by certificates from the heads of educational institutions.
- (i) Hostels are required to be inspected by the departmental staff annually with a view to ensuring that the grantee institutions abide by the terms and conditions of grant and the students for whom grants are paid are actually on the rolls of the hostels. Such inspections were not done.

Standard Terms and Conditions for the acceptance of audit under section 19(3) of C.A.G's (DPC) Act, 1971

1. The Comptroller and Auditor General of India may suggest the appointment of a primary auditor to conduct 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. Where such an auditor, is not appointed, expenditure incurred by the Comptroller and Auditor General of India in connection with the audit will be payable to him by the institution.
2. In addition to the 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 then to comment on and supplement the report of the primary auditor.
3. The Comptroller and Auditor General 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 Government 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 observations to the Government. The C & AG will also forward a copy of the report direct to the Government.
5. The scope, extent and manner of conducting audit shall be as decided by the C & AG.
6. The C & AG will have the right to report to parliament/State legislature, the results of audit at his discretion.
7. The audit entrusted to the C & AG in public interest will be for a period of 5 years accounts from the year..... to..... in the first instance, subject to review of the arrangement after that period.

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 Government 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 Government. The C & AG will also forward a copy of the report direct to Government.
- 5) The audit entrusted to the C & AG in public interest will be for a period of 5 years 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.

Format adopted by Government of India for Communication of entrustment of Audit under Section 20

No.

GOVERNMENT OF INDIA

Ministry of Finance

Department of Economic Affairs

New Delhi, the.....

To

The Comptroller and Auditor General of India

New Delhi.

Subject: Entrustment of audit of accounts to the Comptroller and Auditor General of India under section 20 of the C & AG's (DPC of service) 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 of the C&AG's (Duties, Powers and Conditions of Service) Act, 1971.

1. As required under the said section, the office of the Comptroller and Auditor General of India has been consulted vide their U.O. No....
2. Provisions of sub-section (3) of section 20 of the said Act are satisfied in this case.
3. The terms and conditions for conducting the audit of the accounts of the said Institution/body/Authority shall be as indicated in the annexure hereto.

Yours Faithfully

Copy to:

ANNEXURE IX (Ref: Para 6.21.01/19.07 b)

ANNUAL RETURN ON AUDIT OF BODIES AND AUTHORITIES
COMING UNDER SECTION 20(2) OF THE CAG'S (DPC) ACT, 1971
FOR THE PERIOD ENDING 31.12.....

Name and address of the institution to be audited u/s 20(2) during the year	Authority to take up audit u/s 20(2) Ref of HQtrs/Ref. of Govt giving approval/entrusting audit.	Period of entrustment of audit by Govt. u/s 20(2)	Year up to which A/cs have so far been audited and certified and reports sent to Govt. organisation	Letter No & date with which reports issued
1	2	3	4	5
In the case of delay in certifying the accounts issue of SAR indicate the date receipt of accounts and date of completion of audit.	Period of Accounts for which certification of accounts and issue of SAR's are in arrears	Reasons for arrears and action taken to clear the same.	Extent to which normal expenditure audit is in arrears and action taken to clear the arrears.	Remarks if any,
6	7	8	9	10

ANNEXURE X (Ref: Para 7.04)

Instructions for the procedure relating to Audit of specified records and transactions as to expenditure and receipts.

General principles

For audit of expenditure, the instructions contained in the Manual are supplementary to the general instructions contained in section IV of the Comptroller and Auditor General's Manual of standing orders (Technical) Volume I (restructured in MSO (Audit) and chapters 1,2,3,9 and 16 specially Paras II-16 and II-17 of the Manual of the Outside Audit Department of the Accountant General, Karnataka.

In conducting the audit of expenditure, it should be ensured that the rules, regulations and procedures are adequate and the orders relating to maintenance of accounts and records, and system of internal checks prescribed are duly observed.

I. Procedure for auditing cash transaction:

(i) Receipts:

The chief aim while conducting the audit of receipts should be to ascertain that an adequate procedure has been prescribed and regulation have been formed to secure an effective check on the cost of services and allocation of revenue. The procedure and check imposed to guard against the commission of irregularities at various stages of collection and accounting should also be ascertained.

The following points should be seen in audit.

- (a) Verify the receipts for cash sales with cash sales book and the duplicate cash memos.
- (b) Verify the receipts on account of credit sales with the counterfoil of the receipt. See that all receipt books issued are accounted for and the printed number on the counterfoil in the used book runs consecutively.
- (c) Test check the posting of the receipts on account of credit sales to the credit of the individual debtors accounts in the sales ledger and the total in the general ledger, if total accounts are maintained.

- (d) Vouch income from investments with counterfoils of dividend warrants and or bank advices.
- (e) Vouch refund of TA advance with TA Bills
- (f) Vouch the receipts for rents with the counterfoils of the receipts issued or with the certified statements from the Estate Officer.
- (g) See whether interest on loans has been received when due and also interest on bank deposits vouch the bank interest received with the bank pass book and verify the correctness of the amounts.
- (h) Vouch sale of investments with stock brokers' advice.
- (i) The analysis of the miscellaneous receipts should be seen.
- (j) Examine the evidence in support of such receipts.
- (k) Examine the terms of discounts allowed to Customers.

(2) Payments: The objects of audit of expenditure are to ensure:

- I. That the claims are made in accordance with the rules.
- II. That all the prescribed preliminaries to the incurring of expenditure are observed such as proper estimates being framed and the expenditure being approved by the competent Authority.
- III. That the expenditure is in accordance with the sanction properly accorded and is incurred by the officer, competent to incur it.
- IV. That the payment has been made to the proper person and that has been so acknowledged.
- V. That the charges are correctly classified and posted to the proper heads of account, and
- VI. That the payments have been correctly brought to the account in the books of original entry.

Note:-Arrangement for safety of cash:

It should be seen:-

- ◆ That the Company's money as a rule is kept in strong chests embedded in walls of the office building and is secured by two locks of different patterns.
- ◆ That the keys of one lock are kept apart from the keys of the other lock and in the custody of different persons when practicable and that the chests are never opened without both custodians being present, and that the dafedar remains always present when a treasure chest is opened and until it is again locked. Whenever a cashier is attached to an office, the keys of one of the locks of the chest are to remain in his possession.
- ◆ That the cashiers, accountants and other subordinates entrusted with the custody of cash have furnished security in cash and/or executed fidelity bond as per scale decided from time to time.
- ◆ That the amount of cash or valuables left either in cash chest or in transit have never exceeded the amount of security/surety/insurance sum.
- ◆ That the security deposits by the employees is retained for a period of six months after the officer has vacated his office in respect of which he has furnished security. The security bond is, however, required to be retained for a period of ten years.
- ◆ That the orders for safe carriage of its money involved in encashment of cheques/bills and remittance/transfer of money and for maintenance of a register in this regard has been strictly observed.
- ◆ That every drawing and disbursing officer has to get insured the cash in transit, cash in chest etc. as per instructions, that the premiums on such insurance policies have been timely and regularly paid and the cash in transit or in chest has generally not exceeded the limit of amount insured.

(3) The following points should be seen in audit:

- (a) Vouch each payment with the receipt given therefore and in the case of payments which are posted to an impersonal account, examine the invoice, Statement of account, other independent documents which furnish evidence that the payment is a proper case and duly chargeable to the account to which it is debitale. In the case of the audit of Government Commercial and Quasi Commercial Departments compare the office copies of the vouchers with the paid vouchers from the Accountant General's Office.
- (b) For wages paid, examine the wages sheet together with the acquittance of the workers.
- (c) For salaries inspect the salaries book and vouch this with the receipts given by the employees, endorsed cheques etc.
- (d) Vouch payments on account of petty cash with the petty cash book and examine the vouchers for the disbursements shown in the book. Similar procedure may be adopted for imprest account also.
- (e) Vouch bank charges, interest etc., with the pass book. Similar check may be made in the passbook of customs authorities and port trust for the charges debited in the cash book.
- (f) Vouch the bills payable with the returned/matured bills.
- (g) Vouch the purchase of investment with the broker's or bankers' advice.

4. General-It should be seen that:

- (i) The system of receipt and payment of cash, cheques and bills, banking and custody of cash, verification of cash balances and recording of cash transactions is adequate and satisfactory whether there is any waste, nugatory expenditure or loss of cash due to inadequate safeguards.
- (ii) All the receipts and payments are posted to the proper accounts in the ledger. The receipts and payments affecting the sales are brought out

in ledgers, when total accounts are maintained, are posted in totals in the General ledger.

- (iii) The total and carry forward balances are correct.
- (iv) The balance of the bank accounts is periodically reconciled with the balances shown in pass books.
- (iv) The details of the various subsidiary books are periodically reconciled with the total balances in the General ledger.
- (v) The general rules of recording the transaction in the chronological order, daily balancing and periodical verification of the cash balances and certificate of verification are strictly followed.
- (vi) The cashier does not handle the accounts book other than the cash book.
- (vii) The custody and issue of receipt books, cheques books etc. should also be generally examined.

(5) Audit of Trading and profit and loss Accounts items:

No hard and fast rule regarding audit procedure can be laid down as the work to be performed largely depends on the circumstances of each individual case. However, some of the important points for the audit of various items are given below:

A. Purchase:

- (a) Examine the bought Day book/purchase Journal with the invoice, examining the date of each invoice. See that it is made out in the name of the Company or Corporation, that it is approved as correct and see whether the kind of goods bought are such as you would expect to find in the particular business. See that if purchase of different kinds are kept separate, such item is entered into its proper analyse column.
- (b) Check the totals and cross totals of the bought day book.
- (c) Check the postings of the bought day book/purchase journal into a bought ledger and the total to the debit of various purchase accounts.

- (d) Check rest of postings in the bought ledger from the books such as the cash book, purchase return books.
- (e) Check the totals and balances of detailed records kept, the quantities of stock coming in and stock passing out, ascertain what steps are taken to reconcile the goods purchased as shown by the bought day book with the goods received as shown by the stock records.
- (f) Check the purchase procedure starting from the preparation of stores indent to the passing of the bills for payment.
- (g) Check the inspection with reference to the remarks of the Inspection Authority; follow up of objections, recovery of amounts and action against unreliable suppliers.
- (h) Check the routine for disposal of used and damaged stocks.
- (i) Check the routine for ensuring that the stocks are not issued in excess of the standards/estimates and that the total value of the stores consumed is in costs.
- (j) Ensure that when stores are purchased from contractors, the system of open competitive tender is adopted and the purchase is made from the lowest tender unless there are recorded reasons to the contrary.
- (k) Check that the rates paid agree with those shown in the contract or agreement made for the supply.
- (l) Ensure that ordering quantities in use represent the economic quantity for purchase.
- (m) See that certificates of quality and quantity are furnished by the passing and receiving authorities before payment is made.
- (n) Stores in many cases represent a locking up of capital which is not justifiable unless essential. In order to effect economy in this direction it should be seen that the balance in hand does not exceed the maximum limit prescribed and is not in excess of requirement for a reasonable periods.
- (o) Examine the system of physical verification of the stores on hand and the accounting adjustments of the excesses and shortages.
- (p) Examine the system of locating, accounting and disposal & unserviceable slow moving redundant and obsolete stores.

- (q) Compare the balances in the bought ledger at the end of the financial year with the creditors statements in order to see whether any mistakes have been committed while posting from the bought day book and whether any wrong credits and debits have been posted.
- (r) An independent check as to whether any large purchases have been left out of the books altogether is to compare the percentages of gross profit to sales with that of former years and if such rate of gross profit varies to any great extent enquire the reason for it.
- (s) Examine whether the Company is taking advantage of the period of credit allowed in very case.

- **Karnataka Transparency in Public Procurement Act – 2000**

The Government of Karnataka promulgated the Karnataka Transparency in Public Procurement Act 2000 (KTPP), in order to ensure transparency in procurement of goods and services by streamlining the procedure in inviting, processing and acceptance of tender by procurement entities. The Corporation has implemented KTPP Act in all its purchases from April 2001. Initially, the purchase of goods and services upto Rs. 5 Lakhs were exempted from the applicability of the Act. However, it was later amended and the exemption limit has been reduced to Rs. 1 lakh in case of procurement of goods or services other than construction works.

Procurement of goods and services from DGS & D rate contract sources and SPD rate contract sources and other Government sources as specified in the Act are exempted.

- **Salient features of the KTPP Act are:**

Publicity

Wide publicity is to be given by publishing the tenders in State Tender Bulletin/District Tender Bulletin and leading newspapers with nationwide circulation.

Tender System

The tenders are invited under two cover system i.e. Pre-qualification bid and commercial bid separately.

- **Committees formulated under KTPP Act**

In line with the provision of the Act the Contract Management Group has to be constituted and various authorities i.e. Tender Inviting Authority, Tender Scrutiny Committee, Tender Accepting Authority etc.

Central Purchases:

All the purchases above Rs. 1 lakh come under the purview of the Karnataka Transparency in Public Procurement Act..

Purchase Activities:

The following are the list of Activities involved in the purchase function :

1. Inviting tenders
2. Receipt and opening of tenders
3. Scrutiny of Pre-qualification offers
4. Preparation of comparative chart and audit
5. Evaluation of Commercial offers
6. Purchase proposals
7. Placement of orders
8. Supply monitoring/evaluation of supply performance
9. Other related Activities

B. Sales:

(a) **As regards cash** sales, the system under which goods are sold and the cash received and banked should be seen. Check the additions in the cash sales books and test entries therein with the duplicate of cash sales slips in the salesman's book. The daily total of the cash book (sales) into the general cash book should be checked and seen that the money was promptly deposited into the Bank. As regards cash sales the methods in force concerning the ordering and dispatch of goods should be examined. The additions of the sales day book and the periodical journal entries for recording the total should be checked.

(b) The correctness of the entries in the sales day book can be test checked by a reference to the order book and the goods, outwards book and also by a comparison with the duplicate or copies of the invoices dispatched.

(6) The following points should also be reviewed at every audit:

- (i) Service Rules and delegation of financial powers to the various levels of management
- (ii) System of accounts and internal charges
- (iii) Duties and functions of internal audit department
- (iv) Rules regarding the allocation of expenditure between capital and revenue.
- (v) Control over acquisition, utilization and stocking of stores, spares etc.
- (vi) Review of the growth of the administrative expenditure in relation to the volume of business transacted.
- (vii) Review of the utilisation of Men and machines. Idle time and surplus capacity should be carefully examined.
- (viii) **Review of the accounting procedure and State of accounts.**
- (ix) Review of the system of budgeting and implementation of budgetary control.
- (x) Examination and interpretation of the cost and statistical data.

(7) In the case of manufacturing concerns or units it should be ascertained.

- (a) Whether primary records provide correct booking of the prime cost.
- (b) Whether adequate costing system and costing staff exist for working out the unit cost of the product.
- (c) Whether administrative, selling, distribution cost, are booked properly.
- (d) Whether there is adequate control over idle time of labour and machinery.
- (e) Whether the parts replaced are properly accounted for until they are disposed of, and
- (f) Whether there is proper reconciliation between cost and financial accounts.

(C) Vouchers:

Vouchers are paid bills. The audit of vouchers from the point of view of propriety should receive special attention. It should be seen that:-

- (i) All the vouchers are signed and filled up in Ink or typewritten.
- (ii) The amount of each voucher has been written in words as well as in figures.
- (iii) The vouchers have been prepared in prescribed form if there is one and bear the evidence of due scrutiny of the claim and pay order by the head of office concerned.
- (iv) The full details of each item of expenditure indicating the work done/supplies made/services rendered along with their quantum and rate (as given in the order/contract etc.) have been recorded fully and correctly on the voucher.
- (v) Vouchers, sub-vouchers and muster rolls have been duly cancelled or defaced after payment in such a way that they cannot be used again to prefer a second claim.
- (vi) All corrections and alterations affecting the amount of the bill either in words or in figures have been attested by disbursing officer and also by the payee in case of his receipt. There should not be erasures in the voucher.
- (vii) Vouchers contain proper signature of payees.
- (viii) The acknowledgement of amount received has been recorded in words as well as in figures.
- (ix) Every voucher bears the dated initials of Accounts Officer in token of their checking.
- (x) Charges paid to suppliers/contractors on account of railway freight, excise duties etc are supported by proof of actual expenditure. The applicable rates of taxes and duties should be kept in view.

- (xi) Vouchers contain reference to number and page of measurement book/store account/log book of vehicle/equipment along with date of measurement and certificates of their actual accountal in stores/oil and lubricants in stores accounts/log books. Such measurements are also to be checked according to the prescribed quantum.

NOTE: For verification of electricity bills, the meter readings, instead of being entered in the measurement book are to be transcribed on a Register from meter card regularly after receipt of periodical bills. The register should be checked in audit to ensure that no double payment has been made for the same period.

- (xii) Receipts for sums above Rs. 500 have been stamped unless they are exempt from stamp duty.

The net amount (and not gross amount) involved after making deductions etc. should be taken into consideration in determining whether a receipt should be stamped or not.

- (xiii) Vouchers contain number and date of order contract/sanction under which the transaction has been done and also the no. & date of cheque through which the payment has been made. If any charges require special sanction, it should be seen that such sanction exists.

- (xiv) Thumb impression has been attested and name of payee noted against thumb impression by the disbursing officer.

- (xv) In case of vouchers of refund of sums previously received, the amount refunded to the payee has been linked with the original receipt and is correct.

- (xvi) In running bills of contractors, the number and month of the previous bill has been noted and the figures relating to the previous bills have been correctly brought forward in the present running bill.

- (xvii) When a voucher exhibits any expenditure from which revenue may prima facie be expected to accrue (e.g. dismantling of building, cleaning of jungles, cutting of trees etc), the manner in which old dismantled materials

or trees cut etc. have been disposed of and sold has been recorded in the voucher. It should be seen that due sale-proceeds on this account have been credited to Company's account.

NOTE : 1. When it is not possible to support a payment by a voucher or by payees receipt, a certificate of payment indicating the full particular of claims is required to be prepared and signed by the disbursing officer and countersigned by his superior officer. A memorandum explaining the circumstances in which vouchers could not be prepared should be placed on record and produced to audit. Audit has to take special care to verify the genuineness of such claims from the available particulars and to satisfy that the circumstances leading to non-preparation of vouchers were beyond the control of the authorities..

(xviii) The quantities of rates shown in previous running bill of contractors should not be normally reduced in a subsequent or final bill. If it was done, undue financial aid extended by making payment for quantities/amount higher than due should be examined.

- **Permanent Imprest:**

Imprest which is commonly known as permanent Imprest and is purported to meet day to day expenditure of petty and miscellaneous nature on un-passed vouchers is generally sanctioned by the Executive Engineer to responsible subordinate officer. In examining the imprest account it should be seen:-

- (a) That the amount of an imprest has been kept as low as possible and in no case has exceeded rupees one thousand without special sanction. The amount may not exceed monthly requirement so that the actual expenditure incurred is accounted for at least monthly in accounts.
- (b) That the account of imprest cash has been kept in duplicate in the imprest cash account and the original copy supported by requisite

vouchers is submitted to the officer from whom the imprest is held for recoupment / adjustment.

- (c) That the account has been rendered in time and the expenditure incurred has been incorporated in the account for each month.
- (d) That imprest account contains no payments which are required to be made through cheque.
- (e) That private money has not been mixed up by the imprest holder with the imprest cash.
- (f) That payments made for imprest not forming part of cash balance are noted/debited in the prescribed registers/account and adjustment/recoupment is correctly recorded against the original entries.
- (g) That if the payments made against the un-passed vouchers have subsequently been disallowed by the drawing officer, the amounts of such vouchers have been debited to the personal account of the imprest holder and recovered from him promptly.
- (h) That the imprest account has been closed at the end of the financial year and cash balances if any, has been returned to the drawing officer and in case of failure of submission of the account or short/non-return of cash balance, the amount has been debited to the personal account of the imprest holder, and recovered promptly from him.

***NOTE:** The imprest holder is responsible for the safe custody of imprest money, and he must at all times be ready to produce the total amount of the imprest in voucher or in cash.*

- **Temporary Advance (Imprest):**

Unlike permanent imprest, temporary advance (imprest) is given to the responsible officers and subordinates for making disbursement against passed

vouchers only and that it is not subject to maximum limit of rupees one thousand. In examining the temporary imprest account, it should be seen:-

- ◆ That the guidelines for examining the permanent imprest account including maintenance of accounts as mentioned above have been observed “mutatis, mutandis”.
- ◆ That no temporary advance has been given to any officer/official unless the previous temporary advances, if any, has been cleared.
- ◆ That the persons taking the temporary advance against passed vouchers have invariably furnished the account within a week of the date of incurring the expenditure/opening the imprest.
- ◆ That in case, the temporary advance has been given on any other grounds than the passed vouchers, it has been indicated in the sanction itself that the advance account is to be closed within a month and that this has been scrupulously followed. If the temporary advance has not been closed within a month the divisional accountant should report such cases to the Chief Accounts Officer.

- **CHEQUE BOOKS:**

Cheque books required by the drawing officers are obtained by them from the bank concerned. In this connection it should be seen:-

- ◆ That the cheque books on receipt are carefully examined by the drawing officer who has counted the number of cheques contained in each book and recorded a certificate of count on the flyleaf.
- ◆ That the cheque books are kept under lock and key in the personal custody of the drawing officer.
- ◆ That due notice is given to the bank of the cheque book brought into use by a drawing officer before issuing a cheque from that cheque book.
- ◆ That petty sum under rupees ten have not normally been paid by cheque.

- ◆ That the drawing officer has drawn cheques for the minimum of cash actually required to meet current disbursements only and that contra entry for cheques drawn in favour of self has been accounted immediately on the receipt side of the cash book.
- ◆ That a register of cheque books has been maintained and that the dates of issues of the first and the last cheques of each book have been noted therein, and that entries against each book are signed by the Divisional Accountant/Divisional Officer in token of their checking.
- ◆ That in case of expiry of currency of a cheque due to non presentation within three months from the date of issue, it has been received back & destroyed and a fresh cheque in lieu thereof issued and the fact of destruction and number and date of new cheque on the counterfoil of the old cheque, and number and date of old cheque on the counterfoil of the new cheque have been recorded in the cash book. If for any reasons, fresh cheque has not been issued simultaneously, write back entry has been passed in the cash book and other connected accounts on destruction of the old cheque, and full entry on issue of fresh cheque subsequently has been recorded in the books of accounts.
- ◆ That on receipt of a report of loss of a cheque, the drawing officer has obtained a certificate from the bank that the cheque has not been paid and will not be paid in future, if presented, and only on receipt of such a certificate the original cheque has been cancelled and a fresh cheque has been issued in lieu thereof with entries in the books of account as above.
- ◆ That if a cheque has been cancelled, the fact of cancellation is recorded on the counterfoil, and the cheque if in the possession of the drawer has been destroyed. If the cheque is not in the possession of drawer, a prompt request has been made to the bank to stop payment of the cheque and on receipt of a confirmation from the bank write back entry has been made in the cash book and other connected records.

- ◆ That the details recorded in the counterfoil of cheque books agree with the entries made in the cash book.
- ◆ That the endorsement on the paid cheques agrees with the acquittance on the voucher.
- ◆ That the monetary limits fixed from time to time for signing of cheques have been duly observed, and initials of the concerned officer/officers have been recorded on the counterfoil also.
- **BANK RECONCILIATION STATEMENT:**

A bank reconciliation Statement is required to be prepared monthly in the prescribed form in order to reconcile the differences between closing balances appearing in the books of the Company and in bank's record. The factors responsible for normal differences between the two balances should be kept in view. It should, however, further be seen:-

- ◆ That the balance appearing in the bank column of the cash book is reconciled with the balance reported by the bank in its pass book/bank scroll and details of difference are recorded and furnished for early settlement.
- ◆ That the cheques/charges debited by the bank were really chargeable to be ensured. The cheques debited but not issued by the drawing officer should receive special attention in audit.
- ◆ That the cheques not presented to the bank for payment within 6 months from the date of issue have been cancelled after obtaining non payment certificate from bank.
- ◆ That the credit balances in different bank accounts in the field have been transferred to the account of the Chief Accounts Officer at the headquarters or any other account in accordance with the terms of

agreement executed by the bank and at such intervals as specified therein.

- ◆ That there is no delay on the part of the bank to credit the fund received from the Chief Accounts Officer or other receipts deposited in the bank and that no unauthorised charges/cheques are debited to be ensured. Their impact on the avoidable amount of interest payable for overdrafts if any, or loss of interest on credit balances should be examined.
- ◆ That the interest/bank charges debited by the bank have been computed correctly, If it was wholly or in part, recoverable from Company's employees or contractors etc., its proper accountal should be seen.
- ◆ That very old items remaining un-reconciled have been brought to the notice of higher authorities for investigation. Such items should be examined in audit.
- ◆ That the closing balance at the end of the financial year as incorporated in the annual accounts is fully reconciled with the balances reported by the bank.

(D) Stores Management

Receipt of Materials in units of a Corporation:

The unit store is having a separate receipt section functioning independently under a Store Keeper / Asst. Store Keeper / Stores Officer who will report to the stores superintendent/Asst. Stores Officer / Stores Officer as the case may be. He shall be responsible for all the transaction of the receipt section. The receipt section plays a pivotal role in the unit stores.

The prime duties of the receipt cell are as follows:

- A. Receipt of materials
- B. Arranging inspection
- C. Preparation of documentation
- D. Transfer of items to respective stores sections

Documentation at Receipt Section

- i) Receipt Control Register:-** A register is maintained to control all the Receipts. This register is having three parts. The first part gives the details of receipts. The second part shows the details of Materials accepted and the third part points out the discrepancies if any.
- ii) Inspection Report:** - On receipt of the materials and after receipt controlling, the details are entered in the form called Inspection Report for arranging inspection of the materials and obtaining the signature of the inspecting official.
- iii) Receipt Voucher:** - A voucher, is prepared for taking the materials on charge which are actually accepted after inspection.
- iv) Receipt Voucher Register:** - A register is maintained to control the receipt vouchers.
- v) PME Receipt Voucher Register:** - A register maintained to control the Receipt vouchers of Capital items.
- vi) Discrepancy Report Register:** - A register is maintained to control the discrepancies and settlement of discrepancies.
- vii) Discrepancy Report:** - A report is prepared with the details of discrepancy noticed during receipt and inspection of materials to inform the supplier.
- viii) Advance and LR Register:** - A register is maintained to control the advances drawn and consignments received through road/rail transport.
- ix) Advance Requisition Forms:** - A form is prepared in triplicate to draw the advances for arranging payment in advance for clearance of dispatch documents/procurement of materials against payment.
- x) Purchase Order files :-** Files for maintenance of Central Purchase Orders
- xi) Correspondence Files:** - File to maintain correspondence with suppliers, Depots, Sectional Heads of the Division, other divisions, Central Offices and with other Corporations.

Common Activities at Stores Section

The following are the common Activities at the stores section:

1. Indenting and Forecasting
2. Purchase order maintenance and furnishing of Delivery schedules and monitoring of supplies
3. Collection of materials from receipt section
4. Binning and tagging of materials
5. Maintenance of Bin Cards
6. Issue of materials
7. Performance follow-up
8. Testing of Samples
9. Preferring claims and settlement in respect of items prematurely failed.

Preferring claims and settlement in respect of items prematurely failed

The Store Keeper/incharge of the Stores Section shall maintain a register for recording claims towards premature failure, follow up and settlement of claims. Claims shall be lodged based on the report from Technical Department within the warranty period. The claim shall be got settled by getting replacement/free repairs/reimbursement of the cost of the item/pro-rata recoveries from the payable bills of the firm. Continuous follow up is required to get the claims settled and in case of any disputes, the same may be referred to the Central Offices for necessary guidance..

Conducting Annual Inventory of the Stores Materials

- 1.The inventory should be conducted annually as directed by the Stock Verification Department
- 2.In view of more number of items the annual inventory work shall start before the 20th March of the year and should be completed by 31st March.
- 3.All concerned section drawing stores, shall be intimated the date of stock taking well in advance.

4. All the items for which the issue vouchers are prepared and accounted in the Bin cards but not lifted from the Store shall be cleared off before beginning of the Inventory.
5. All the items for which the receipt vouchers are prepared shall be moved to stores section and binned properly, before commencing of the inventory.
6. No materials shall be kept in temporary locations during the annual inventory and the Stores Officer/Asst. Stores Officer should ensure that all the materials are binned/kept in their locations properly.
7. All the receipt and issue entries should be completed and reconciliation should be done with stores accounts before items are produced for inventory.
8. Stock of all the items in the Divisional Stores/Depot Stores shall be verified and the ground balance shall be counted for physical accuracy and compared with the book balance.
9. The Stores Superintendent/Officer conducting the inventory shall arrange to verify the stock by actual counting, weighing or other measurements as the case may be.
10. Proper care should be taken while verifying the stock of the similar items with slight difference in specification.

ANNEXURE XI (Ref: Para 7.05.02)

AUDIT OF ANNUAL ACCOUNTS OF AUTONOMOUS BODIES/COMPANIES.

Instructions have been issued from time to time about the audit of annual accounts of Autonomous Bodies under section 19/20 of the CAG's (Duties, powers and Conditions of Service) Act. Generally speaking audit under Section 19 is that which is entrusted to the Comptroller & Auditor General under the provisions of the respective legislature while audit under section 20 is one entrusted to the Comptroller & Auditor General of India, not under the respective legislation creating that body, but on request by the President to undertake the audit of accounts of such body or authority on certain agreed terms and conditions. Audit of Autonomous Bodies under the Audit Control

of D.A.C.R is generally conducted under section 20 except of the following bodies which are covered by section 19.....

- (i) University Grants Commission
- (ii) Delhi University
- (iii) Jawaharlal Nehru University
- (iv) Indian Institute of Technology
- (v) All India Institute of Medical Sciences
- (vi) Delhi Development Authority
- (vii) Dental Council of India.

Every organization that receives grants from Government including all Autonomous Bodies, are required to maintain three sets of accounts namely:

- (i) Receipts and payments accounts
- (ii) Income and Expenditure Account and
- (iii) Balance Sheet

The form etc. of these annual accounts are generally laid down by the Government of India from time to time and, where these are not so laid, these have been developed with passage of time, on the principles of account.

The audit of Autonomous Bodies, thus, has to be carried out in 2 stages. Firstly, the audit of the transaction during the year has to be conducted to check that they comply with the Rules and orders and delegation of financial powers etc.,(Audit against Regularity), that the principles of financial propriety have not been infringed (propriety Audit) and that the results expected of the expenditure have been achieved with reasonable efficiency and economy (Efficiency-cum-performance Audit). Secondly, the audit of the annual accounts has to be conducted to ensure the correctness of receipts and payments accounts and Income and Expenditure account and to see that Balance Sheet is not only arithmetically correct but also that the various assets and liabilities shown therein are duly supported by complete enumeration of various debtors, creditors etc. and of items of properties and assets. The technique of regularity audit, propriety audit and efficiency cum performance audit is supposed to be fairly and widely known. This paper has been drawn to clarify some of the aspects which have to be kept in mind by the field parties when conducting audit of the annual accounts at the second stage.

1. Accounting on accrual basis

Normally, the Income and Expenditure account is prepared on accrual basis where we take into account all the income and all the expenditure relating to the period irrespective of whether or not the income has been received and payment has been made. However, for historical reasons, many organizations the cash basis of accounting is still being followed. As it has been made mandatory to follow accrual system of Accounts in the Companies Act, all such cases are to be highlighted in the Notes on Accounts.

2. Capital and Revenue Expenditure

Revenue expenditure goes to the Income and expenditure account while capital expenditure is depicted in the balance sheet. The principles of distinction between capital expenditure and revenue expenditure are well known but the distinction between the two should not be carried to an illogical extent because it is customary to charge small items of expenditure of capital nature to revenue account. The important points to be seen in this connection are that the accounting practice is consistent and reasonable and does not result in creation of secret reserves of material amount.

3. Check of Receipts and Payment Account:

Besides test checking the postings from the books of prime entry to the ledger accounts, justification and authority for each journal or adjustment entry should be examined. It should also be examined whether there is any cancelled adjustments carried out while compiling Income and Expenditure account and balance sheet from the transactions during the year as depicted in the receipts and payments account of the year and the balance sheet of the previous year, should be carefully seen that each journal entry or adjustment in the account is carried out on some definite basis, i.e., supporting data vouchers, sanctions etc. and is free any audit objections.

4. Compilation of Annual Accounts

The compilation of annual accounts should be checked starting from the given receipts and payments accounts during the year and balance sheet at the end the previous year. This exercise should be conducted as if it is an examination question to be solved and in this process each item should be ticked to see that opening balances in the previous year's Balance Sheet have been correctly brought forward and that the transactions appearing in the

receipts and payments Accounts have been correctly accounted for either in the Income and Expenditure account or in the balance sheet. In this process, the arithmetical accuracy of the Income and expenditure account and of the balance sheet should also be checked. While carrying out these checks, we should look for exceptional transactions which have resulted in debits or credits of a material amount during the year compared to similar transactions in the previous year(s).

5. Checking the accounts:

After the checks mentioned in the previous sub-paras have been carried out, the following points should be kept in view in checking the accounts:

(i) Compare important items in Income & Expenditure account with corresponding items of the previous year and ascertain the reasons for material variations.

(ii) See that credits from all sources of income have been brought to account.

(iii) Ascertain if there have been any changes in the basis of accounting which have material effect on the accounts of the year under audit.

(iv) Examine particularly the booking against items which qualify for grants assistance from Government to prevent attempts at securing inflated assistance from Government.

(v) Look for charges/transactions following beyond the scope of authorized activities of the organization.

(vi) In cases where the annual accounts are prepared by consolidating the accounts received from various units of the Autonomous Bodies concerned, it should not only be seen that the consolidation is correct but also it should be verified that somebody in Authority in the units office has certified that the supporting registers, or records of various assets and liabilities depicted in the unit balance sheet have been maintained by the unit, the values of each item of assets has been recorded and their total agreed with the figures depicted in the balance sheet. Similarly, it should be certified by the officer in charge of the units office that investments, if any, have been verified, that detailed accounts, of subscribers to the provident fund have been posted up to

date (or the month up to which posted) and the total of their balances agreed with the closing balance of the respective funds in the balance sheet of year (or the year up to which this has been done). The Autonomous Body concerned should also be requested to obtain detailed schedules of advances, investments, sundry debtors, sundry creditors. Security deposits, deposits with C.P.W.D/D.G.S.& D etc. from the units indicating the name of the person/party and the balances there against so that the total of those respective schedules could be verified with the balances shown in the balance sheet of the unit concerned.

(vii) If any articles like equipment, machinery or library books etc. are received as free gifts, their value should have been estimated by the body concerned and incorporated in the account as an asset under the respective head concerned showing the corresponding amount on the liability side under the head capitalized value of gifted assets (or some similar head).

(viii) Suspense: If the head “suspense” appears either on the asset side or on the liability side of the Balance Sheet of either the body or its units, it should be ascertained that the details of suspense have been worked out/obtained and that the reason for keeping the amount under suspense are available and that the totals of the details works up to the figure shown in the balance sheet as far as possible. Each of the transactions shown under the suspense should be examined in depth and audit comments brought out in the inspection report.

(ix) Provident fund:

Normally the transaction of various provident funds appear in the receipt and payments account of the year but sometimes some bodies keep them separate from their transactions. In such cases, it should be seen that a separate receipts and payments account of provident funds has been prepared and appended to the annual accounts and that the balances of the fund and its investments and cash balance are duly brought out in the balance sheet of the body concerned.

(x) Verification of Assets:

In the balance sheet there will appear fixed assets and floating assets. It should be examined up to which month physical verification of these assets has been carried out and what were the results of such physical verification. If only a partial physical verification of certain sections or units has been carried out, the audit report should bring it out indicating the total number of sections or units. If some sections or units have been brought under physical verification repeatedly and the remaining ones have been successively left out, this shortcoming should also be brought out bringing out the financial impact as far as possible for example by stating the value of the assets in those units where physical verification has not been conducted for years together.

6. Scrutiny of Various Assets and Liabilities in the balance sheet:

This is the most important part of duties of the auditor as it is here that we will have to examine that the assets not only exist but also are correctly valued and that the records of assets have been properly kept. Similarly in the case of liabilities he has to verify that the details have been properly kept, the balance sheet and that the liabilities are discharged as early as possible. Specific steps to be taken in examining some of the important heads of accounts are given below:

A. Assets:

(a) Lands and Buildings

The details of each piece of land and building should have been recorded in sufficient detail indicating the Khatha No. /Plot No. of the land, its boundaries, the approved design according to which the building was constructed and other similar details. The value of each item should be checked to have been recorded against each item and it should be verified that the total of the register of lands and buildings with the figures shown in the balance sheet. The title deeds should also be examined to see that the property is in the name of the Autonomous Body concerned. Addition to the value during the current year should be carefully vouched to see that it represents actual addition or extension to the property.

(b) Equipment, Furniture, Fixtures, Electric and Machinery etc.

In the case of these assets also it should be seen that the registers of stock of these equipments, furniture, fixtures, machinery, electrical, fittings, etc. have

been kept showing the quantity of each item as and when purchased and the value thereof. It should also be seen that the totals of each registers have been worked out and they agree with the figures shown in the Balance Sheet against the respective head of account.

In the case of some large institutions it may not be possible to maintain a centralized register showing the quantity and value of each items purchased and held by the body. In such cases, they might be maintaining the registers section wise, department wise or unit wise. In such a case the central accounts office of the institution must be able to produce to audit section wise, department wise or unit wise break up of value shown in the Balance Sheet and the auditor should check the detailed registers showing the quantity and value kept in each section of the department etc. and that their totals work up to the figure made available by the Central Accounts Office of the body.

If an asset is written up or is sold, the sale proceeds thereof should be taken as receipts of the grantee institutions and shown on the income side of the Income and Expenditure account. The book value of the asset disposed off shall be shown as "Asset Disposed of" below the total value of the assets concerned on the asset side of the balance sheet with minus(-) sign. Simultaneously, the same value should be shown on the liability side under the head capital fund separately as "Capital Investments written off" with a minus (-) sign.

(c) Advances:

In the scrutiny of advances like scooter advance, cycle advance, festival advance, H.B.A., Travelling advance, advance of leave salary, advance of pay etc. it should be seen that detailed schedules have been prepared from the registers of advances, properly kept, the total of the schedules should be verified to agree with the figures shown in the balance sheet. In cases where recoveries have not been made in time in accordance with the rules, the failure should be brought out indicating year-wise since when the recoveries are overdue. All the old cases should be examined to find out why it has not been possible to affect recoveries as per rules and why it is not being cleared at present. The number of persons, from whom the advances are still outstanding, should also be indicated along with the year wise amount of advances overdue.

Some of the institutions might have been given some revolving fund for long term advances like “Advances for House Building” or for purchase of motor conveyance etc. In such cases, it should be seen that fund was authorized to be given as a revolving fund, that it was being utilized for the purpose for which it was given and that the amount at the credit of the fund was not unusually high. For this purpose it should be desirable to show in a tabular form how moneys have been coming for the revolving fund each year separately in the form of grant and in the form of refund of advances from the loanees and to what extent it was being utilized each year.

(d) Departmental advances to staff for expenditure & advances to suppliers, contractors etc.

In support of these advances, there should be available registers or ledger of advances paid to each person or supplier or contractor, schedule of outstanding advances agreed with the total shown in the balance sheet should be available, year wise breakup of outstanding advances should be obtained and reasons for old outstanding items should be examined in audit from the concerned files to see if there has been any dispute or failure. For proper appreciation of the amounts outstanding, the amount of advances paid in each year should also be shown in the same table in which year wise breakup of advances is given.

(e) Advances with C.P.W.D., D.G.S & D., National building construction corporation etc.

Schedules in support of these advances showing the date and purpose for which advances were paid working up to the figure in the balance sheet should be seen, reasons for delays in settlement of these advances should be investigated with reference to the files of the Autonomous Bodies and necessary comments framed thereon.

(f) Investments

Complete schedules of investments should be obtained showing the names of the investments, the actual cost and if applicable the market value of the investments on the date of the balance sheet. If considered necessary the investments may also be verified physical. It should also be checked that interest accrued from investments but not yet received has also been taken into accounts.

(g) Sundry Debtors:

Debtor wise statement of amounts due should be seen to verify that the totals thereof agree with the figures in the Balance Sheet. The terms of the credit allowed should be examined with reference to the policy of the Autonomous Body. The length for which the debts have been outstanding should form the basis for concentrated audit scrutiny. It should be seen that statements have been sent and confirmation of balances have been received. If there are any disputes or delays in making payment, those cases may be examined in depth and audit observations highlighted.

(h) Raw Materials, finished goods, stock-in-hand (publication etc.)

Details of the material, finished goods or stock in hand should be checked to see that each item has been valued correctly and that their total agrees with the corresponding figure in the balance sheet. The auditor should also ascertain the method of stock taking and the basis of valuation and see that the stock sheets have been subjected to a good internal check. It should particularly be seen that the stock is valued on the same basis as in the previous year and the basis is rational and reasonable. Un-sold stock balances of goods sent out on consignment basis, or on sale or return basis, or with the sale depot of the body concerned should be seen to have been valued not at a selling prices but at cost or at least on the same basis as the closing stock in hand.

(i) Grants received for specific schemes/earmarked funds

Earmarked funds or grants received for specific schemes by Autonomous Bodies are shown on the liability side of the balance sheet whereas expenditure on each specific scheme is shown either as a deduct entry there under or on the asset side of the balance sheet. Audit should see that there are schedules available showing up to date grants received for each scheme and also showing the progressive expenditure there against. It should be examined that the schemes are completed with sufficient dispatch and that delay in their completion does not lead to wasteful expenditure or losses in the form of cost overrun. Some of the scheme which have been delayed abnormally, where the pace of expenditure is slow or where expenditure incurred is in excess of the grant received should attract special attention for audit scrutiny and comments.

(j) Bank Balance and Cash Balances:

Bank balances as depicted in the balance sheet should be seen to agree with the bank balance shown in the bank column of the cash book (or in the bank account in ledger) at the end of the year. This should further be verified with reference to the bank pass book. It is advisable to see the bank reconciliation statement up to date, even in respect of the current year in which audit is conducted. Bank reconciliation should be examined thoroughly and year wise analysis of differences should be worked out and action taken or lack of action to set right the difference commented upon.

B. Liabilities:

(a) Capital Fund excess of Income over expenditure and un-spent balance:

Any portion of the grant-in-aid received from Government which is utilized for acquisition of fixed assets or is paid as advance for their acquisition (e.g. advances to C.P.W.D. for construction of building etc.) is to be transferred from the Income and Expenditure Account as a deduct entry from the grants in aid received and credited to the Capital fund in the balance sheet. Thus, normally the total of fixed assets on the asset side of the Balance Sheet should agree with the balance at the credit of the Capital Fund. Excesses of income over expenditure during the year should not be added to the capital fund but shown as a separate balance under the head "Excess of income over expenditure" to which the previous year's balance should also be added. It should thus be seen that the "Capital Fund" and "Excess of Income over Expenditure" are not merged together.

In the case of certain Autonomous Bodies, it has been noticed that excess of income over expenditure is treated as on unspent balance of grants in aid received. This may not be correct depiction in account. Normally a proforma Statement should be drawn by the Autonomous Body auditor indicating the amount of grant received for each object or head of account and expenditure incurred there against to work out the un-spent or unutilized portion of the grants in aid. Only then such amount should be shown as a deduct entry in the income and expenditure account under the head "Grants in aid received" and shown separately in the Balance Sheet as unutilized portion of the grants in

aid received. It follows that in the next year's Income and Expenditure account this un-spent grants will appear as an item of income.

(b) Central Provident Fund, General Provident Fund, and other Funds

The balances under these heads should be supported by the statement of subscriber's balances at the end of year adding up to the balance shown in the Balance Sheet. If this does not agree, the reason therefore should be examined and clearly commented upon. If this work is in arrear, the year up to which it has been completed should also be stated and the manner in which the difference existing in that year has been set right should be commented upon. It should also be seen that interest due is not only posted to the credit of the various subscribers in their ledger cards but also the total thereof is accounted for in the annual accounts as an item of expenditure. The balances of C.P. Fund and G.P. Funds of Autonomous Bodies should normally be invested. If those funds are covered by the Provident Fund Act, 1925, the body can invest it in any manner it likes. In other cases i.e. if it is a recognized provident fund and not covered under the 1925 Act, the balances have to be invested in a particular pattern prescribed by the Government of India. Ministry of Finance. It should be seen that the investments of these funds plus the cash balance on account of these funds agrees with the balance at the credit of these funds on the liability side of the balance sheet and that the prescribed pattern of investment was followed.

(c) Deduction from salary bills:

In some Autonomous Bodies this head of account is seen to exist. Normally this head represents certain recoveries made from employees which are to be passed on to some other office or body such as Income Tax deductions, Provident Fund deductions, recoveries of certain advances from the salary of the deputationists etc. it should be seen that full details showing the name of each person, the nature of recoveries adding up to the figures shown in the balance sheet are available and reasons for not clearing them before the end of the year are indicated. If there are some very old credits outstanding under this head, they should also be commented upon.

(d) Earnest money deposits, security deposits, deposits, Misc. Deposits etc.

It should be seen that proper ledgers or registers have been kept, schedule of balance of each kind of deposits figures have been shown in the balance sheet under the respective head, any adverse balances in the schedules or balances which have not been refunded even after they become due for payment should be investigated for possible audit comments. If there are provisions for lapsing of old outstanding deposits, it should be seen that lapsed deposits have been adjusted.

(e) Sundry Creditors:

This should also be checked in the same way as sundry debtors mentioned in sub para A (g) above. Reason for non-clearance of old outstanding credits should be given special attention.

Annexure XII (Ref: Note to the Chapter VII)

A. LIST OF AUTONOMOUS BODIES UNDER AUDIT

1. Karnataka State Legal Service Authority, Bangalore and District Legal Service Authority (30 Districts)
2. Karnataka Urban Water Supply and Drainage Board, Bangalore
3. Bangalore Development Authority, Bangalore
4. Karnataka Slum Development Board, Bangalore
5. Karnataka Housing Board, Bangalore
6. Bangalore Water Supply and Sewerage Board, Bangalore
7. Karnataka State Human Rights Commission, Bangalore
8. Karnataka Building and Other Construction Workers Welfare Board, Bangalore

Note:- SAR of all the Autonomous Bodies are processed in SAR Cell and Inspection Reports are processed in Special Cell.

B. List of Government Companies

Sl No.	Name of the Company/ Corporation	Department	Section in which IR is Processd
1.	Karnataka State Agro Corn Products Limited	Agriculture & Horticulture	OAD-II
2.	Karnataka State Agro Industries Corporation Limited	Agriculture & Horticulture	OAD-II
3.	Karnataka Agricultural Produce Processing and Export Corporation Limited	Agriculture & Horticulture	OAD-II
4.	Karnataka Togari Abhivruddhi Mandali Limited	Agriculture & Horticulture	OAD-II
5.	Karnataka Compost Development Corporation Limited	Agriculture & Horticulture	OAD-II
6.	The Karnataka Fisheries Development Corporation Limited	Animal Husbandry and Fisheries	OAD-III
7.	Karnataka Sheep & Wool Development Corporation Limited	Animal Husbandry and Fisheries	OAD-III
8.	Karnataka State Police Housing Corporation Limited	Home & Transport	OAD-III
9.	Rajiv Gandhi Rural Housing Development Corporation	Housing	Spl. Cell
10.	Dr. B .R. Ambedkar Development Corporation Limited	Social Welfare	OAD-II
11.	Karnataka Minorities Development Corporation Limited	Social Welfare	OAD-II
12.	D. Devaraj Urs Backward Classes Development Corporation Limited	Social Welfare	OAD-II
13.	Karnataka State Women's Development Corporation Limited	Social Welfare	OAD-II
14.	Karnataka Urban and Infrastructure Development and Finance Corporation Limited	Urban Development	Spl. Cell
15.	Karnataka Rural Infrastructure Development Corporation Limited	Rural Development	OAD-III

16.	Karnataka Vocational Training and Skill Development Corporation Limited	Skill Development (Employment & Training)	OAD-II
17.	Karnataka Thanda Development Corporation Limited	Social Welfare	OAD-II
18.	Karnataka State Mango Development and Marketing Corporation Limited	Agriculture & Horticulture	OAD-II
19.	Karnataka Scheduled Tribes Development Corporation Limited	Social Welfare	OAD-II
20.	Karnataka State Seeds Corporation	Agriculture & Horticulture	OAD-II
21.	Food Karnataka Limited	Agriculture & Horticulture	OAD-II
22.	The Mysore Tobacco Company Limited	Agriculture & Horticulture	OAD-II
23.	Hubli-Dharwas BRTS Company Limited	Urban Development	Special Cell
24.	Bangalore Sub Urban Rail Co. Limited	Urban Development	Special Cell
25.	Karnataka Vishwakarma Communities Development Corporation Limited	Social Welfare	OAD-II
26.	Dr. Babu Jagajivanram Leather Industries Development Corporation Limited	Social Welfare	OAD-II

Note:- SAR of all the Companies are processed in SAR Cell

(Authority:- No. Pr. A.G. (G&SSA)/OAD-1/B/2013-14 Dated 01.04.2013,

Circular No. 2)

ANNEXURE XIII (Ref: Para 8.06)

List of Accounting Standards issued by ICAI

Sl.No.	(AS) No.	Accounting Standard 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	The effects of changes in Foreign Exchange Rates. (Revised 2003) (Revised 2003 is applicable in respect of Foreign Currencies transactions entered on or after 1.04.04)
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 XIV (Ref: Para 9.20)

Refer Internal Control Evaluation Manual of CAG dt. 22.5.2009

- 1. Special Audit Party No:**
- 2. Name of Institution/Office:**
- 3. Period of audit:**
- 4. Dates of audit:**
- 5. Questionnaire on Internal Control Mechanism and Internal Audit relating to Autonomous Bodies and Panchayat Raj institution**

Note: This form is to be filled by the Supervisory Officer/Senior Audit Officer if present. Otherwise it should be filled up by the senior most member of the party. Give specific reply to each question. Don't leave any question unanswered or answered with dashes/dots. If any question is not relevant for an auditee institution answers it as NOT APPLICABLE. On the basis of the questionnaire an evaluation of the internal control mechanism should be included as a paragraph in the Draft Inspection Report.

A. Budgetary Control

Whether

1. The budget of the Organisation is prepared with due diligence and care?
- 2 Expenditure conforms to the budget?
- 3 Proper registers are maintained to record the details of distribution of appropriation/allotment?
- 4 The progress of expenditure is monitored periodically?
- 3 There was excess/savings
- 4 Excess/savings is persistent?
- 5 Allotment is as per requirement?
- 6 Allotment is received in time to enable fruitful expenditure?
- 7 There was rush of expenditure in March?

B Expenditure Control

Whether

- 1 The cashbook is standard one with machine numbered pages?
- 2 Transactions are recorded in the cashbook as and when they occur?
- 3 There is a system of daily closing of Cash book?
- 4 The head of office verify cash balance periodically?
- 5 The custodian of money is the writer of cash book?
- 6 System of reconciliation is effective?
- 7 Recoveries remittable to other heads are remitted in time?
- 8 Advances are adjusted in time?
- 9 More than one advances for the same purpose is pending adjustment against same officer?
- 10 Money kept in office is found more than what is required?
- 11 Money is kept in the office in any forms for long period?
- 12 Steps were taken to avoid duplication of advance?
- 13 There is unnecessary drawals of funds?
- 14 The following registers are maintained?
 - a. stock register of cheque books
 - b. stock register of receipt books
 - c. cheque issue register
- 15 Any cases of theft/loss/defalcation has been located/detected during
If so, details and action taken thereon.

- 16 The expenditure Statement has been submitted to the controlling office in time?
- 17 Assets/records are safeguarded from unauthorized access/use?
- 18 Is it ensured that abstract contingent bills are encashed only by Government servants?
- 19 Steps were taken to avoid delay in submission of detailed bills?

C Operational control

Whether

- 1 There is delegation of powers and division of responsibilities and they are documented and followed?
- 2 Any procedure adopted for reviewing and reporting the performance of each executive?
- 3 The institution evolved an information system at the managerial level for providing
 - a. right personnel for the right job?
 - b. For planning and execution
 - c. Adequate safeguards against evasion of taxes and non tax revenue?
- 4 The institution has made arrangements to make use of the professional expertise of the officials (implementing officers) working in different sectoral areas?
- 5 It has been ensured that the work/project is supported by administrative sanction, technical sanction, detailed estimates and allotment of funds?
- 6 There is a monitoring cell/project implementation committee attached to the central office for conducting ongoing evaluation of the schemes particularly of the infrastructure sector
- 7 Apart from the departmental control what arrangements are made to fix the accountability of the implementing officers on the implementation of the projects initiated by the local body?
- 8 Financial and physical achievements have been evaluated against the target set and reasons analyzed, for the shortfall, if any?
- 9 A review of the objectives of the Autonomous Body has been done at any time?

- 10 The Government's assistance has been utilized for the specified purpose?
- 11 The assistance was necessary, adequate and in time?
- 12 Various registers/records are kept up to date?
- 13 Returns/reports due from lower formation are received in time?
- 14 They are compiled and analyzed and used as monitoring tools?
- 15 Returns due to controlling officers are sent in time?
- 16 Such returns conform to the Actual performance of the Organisation?

D. Inspections/conferences

Whether

- 1 The office is inspected at prescribed intervals by the controlling officers?
- 2 The lapses pointed out are rectified in time?
- 3 Lower formations are inspected by the office as prescribed?
- 4 The lapses pointed out are followed up to the logical conclusions?
- 5 Decisions of conferences/meetings are minuted?
- 6 The decisions are implemented in time?

E. Computerisation

Whether

- 1 The organization has a policy of computerization?
- 2 The policy conforms to the objectives of the Organisations?
- 3 The requirement of hardware/software are properly assessed and documented?
- 4 Purchases of hardware/software are as per requirement?
- 5 Trained personnel are available?
- 6 The systems are installed and put to use?
- 7 The systems are properly safeguarded against fraud/error?
- 8 proper controls have been defined and put in place?
- 9 There was any improvement in quality of service/expenditure as a result of computerization?

F. Stores Management

Whether

- 1 A separate purchase procedure in accordance with the provisions in KFC Vol. I and stores purchase rules, is followed to safeguard the interest of the institutions?
- 2 Attempts for splitting up of purchase orders to avoid sanction of higher authorities/Government were made?
- 3 Purchases were effected during March to utilize the budget allotment, as a policy?
- 4 A stores ledger in the prescribed form is being maintained and the entries made as and when the receipt and issue occur?
- 5 Issue price of stores have been fixed?
- 6 The institution has locked store rooms with access restricted only to authorized person and dual custody of valuable negotiable assets ensured?
- 7 Periodical physical verification of stores is conducted by the competent Authority and recorded in the register. The result of verification and departmental Action taken to make good the shortage/pilferages?
- 8 Action taken to dispose of the old, unserviceable, surplus and damaged stores in time and the results?

G Internal Audit

Whether

- 1 There is an internal audit organization in the department
- 2 There are codes/manuals etc., defining and supporting audit functions?
- 3 Such manuals are reviewed and updated?
- 4 Any standards set by the top management?
- 5 The duties and responsibilities are clearly defined?
- 6 The audit staff is properly trained?
- 7 Any separate cadre of auditing staff exist? Or deployed from line staff for a specific period?
- 8 Any audit plan is prepared and approved by the top executive?
- 9 There are any criteria for selecting field units for audit?
- 10 The periodicity of audit is uniformly followed?
- 11 The extent of coverage is satisfactory?
- 12 There is any abnormal delay in issuing Audit Report?
- 13 The volume of pendency of audit is justifiable?
- 14 The quality of checks is satisfactory?
- 15 Replies to audit reports are received in time?
- 16 Reports and objection are pending settlement for long?

- 17 Any persistent irregularities reported?
- 18 Any departmental Action for non-compliance to audit observation?
- 19 The cost effect analysis justify the system?
- 20 Internal audit makes contribution for the speedy settlement of objections raised by Accountant General through his reports

H Response to audit

Whether

- 1 All the required files/documents made available to audit?
- 2 From the files/documents made available a reasonable opinion as to the functioning of the organization is possible?
- 3 The audit enquiries were properly accepted and answered?
- 4 Replies were furnished to all previous Inspection Reports

I Grant in aid

Refer Internal Control Evaluation Manual of CAG dt. 22.5.2009

Evaluation:

Place

Signature

DATE

NAME

Designation

Questionnaire on Internal Control Mechanism and Internal Audit Relating to Aided Educational Institutions (Additional Checks)

A. Internal Control Mechanism

Whether

1. The date required for checking and counter signing the salary bills of aided educational institutions are available by maintaining the records such as register of sanctioned strength of schools, register of approval of appointments, register of appointment orders received from the manager of the schools, etc.
2. The Internal Audit Wing of the Department of Education has conducted 100% check of the annual staff fixation order for respective years and defects pointed out rectified by the AEO/DEO
3. a. The records of the Aided school were subjected to periodic inspection by the educational authorities as required under Chapter XV of the KERs and Reports issued

- b. prompt remedial Action on such reports taken by school authorities?
Details of liability fixed and recoveries effected/pending to be specified
- 4. The AEO/DEO has conducted annual inspection as well as surprise checks as required under Rule 13 of Chapter XV and Rule 12 of Chapter XXIII of KERs and reports issued to higher authorities
- 2. Results of inspection conducted by the Super check cell of the Director of Public Instructions

B. Internal Audit

- i. The internal audit wing of the Deputy Director of Education concerned has conducted the internal inspection of the Office of the AEO/DEO covering the records relating to Aided schools, up to date and reports issued. (if in arrears, position to be commented). Whether follow up Action taken out promptly and correctly?
- ii. The quality of such report is good. If not what are the weaknesses?

Place

Signature

DATE

NAME

Designation

ANNEXURE XV (Ref: Para 10.06)

Proforma on progress of audit to be sent to the office of the Comptroller and Auditor General along with the audited accounts and separate audit report

- 1) Date on which accounts were made available for audit
- 2) Date on which accounts were approved by the competent Authority
- 3) Date on which audit was conducted
- 4) Date of discussion of separate audit report
- 5) Date of dispatch of draft separate audit report to
 - (i)Autonomous Body
 - (ii)Comptroller and Auditor General’s office
- 6) Reasons for delay at various stages, if any.

Pr. Accountant General

(G&SSA)

ANNEXURE – XVI (Ref: Para 10.09.02/19.07 c)

ANNUAL RETURN OF COMPLETION OF AUDIT OF ACCOUNTS OF
AUTONOMOUS BODIES AND AUTHORITIES ENTRUSTED TO CAG
UNDER SECTION 19(2),19(3)/20(I) OF THE CAG's (DPC) ACT, 1971
FOR THE PERIOD ENDING 31st DECEMBER

SI No.	Name and address of the body/Institution to be audited	Authority for taking up audit (please indicate section of parliamentary enactment for section 19(2) cases and letter No. & date of Government request for section 19(3) or 20(1) cases.	Period of entrustment of audit u/s 19(3), 20(1)
1	2	3	4
Year up to which accounts have so	Letter No. & date with	In case of delay in certification of accounts	Period for which

far been certified and Audit report sent to Government organisation	which audited accounts separate audit report was issued.	& issue of SAR indicate the reason to delay including (i) date of receipt of accounts and (ii) date of completion of audit.	certificatio n of accounts and issue of SAR is in arrears
5	6	7	8
Reason for arrears	Action taken for clearance of arrears	Extent to which normal expenditure audit is in arrears and the reasons thereof steps taken to clear the arrears may also be indicated	Remarks if any
9	10	11	12

ANNEXURE -XVII (Para Ref: 11.02)

A. Format of Separate Audit Report

(Autonomous Bodies other than Port Trusts)

1. 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 – ie. 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- ie. 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 ie. 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 – ie. 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 and 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 replies 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 :

Date:

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, and 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.

B. Format of Audit Certificate

I have audited the attached Balance sheet of (Please indicate the name of AB) as 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. As 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 payment Account/ (strikeout 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 -XVIII (Referred to in Para 11.13.01)

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 Government 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 –XIX (Referred to in Para 11.13.01)

CHECK LIST

(To be sent along with the draft/final SAR submitted to O/o CAG of India)

Item Name of Item Whether enclosed

No. 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) Statements 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 –XX (Ref: Para 11.15)

Quarterly progress Report on SARs sent to headquarters for approval/being finalized by A.Gs/P.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

Sl. No	Name of Autonomous Body	Year of Accounts	Action taken by AG/PDA

2. ACCOUNTS RECEIVED BY FIELD AUDIT OFFICES

Sl. 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.

Sl. No	Name of Autonomous Body.	Year of Accounts	Date of Submission of accounts by AB.	Duration of Audit (Date of commencement and completion of audit)	Date of Issue of draft SAR to Organisation
	1	2	3	4	5
	Date of Receipt of reply from AB	Date of Issue of final SAR to G.O./State Govt.	Date on which audited accounts were placed before parliament State Legislature	Remarks (Reasons for delay)	
	6	7	8	9	

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 –XXI (Ref: Para 14.04)

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;
 - (iv) All receipts and legitimate payments are accurately recorded;
 - (v) The balances reflected in it are worked out correctly from time to time.
2. **Receipts** - Every organization will have a prescribed procedure for issue and account 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;
- (v) 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;
- (vi) The revenue to be realized is correctly assessed, demand notices issued and recovery watched by proper control records and periodical review of these records;
- (vii) The revenue is correctly classified in accounts;
- (viii) 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;
- (ix) 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.
- (x) Loss of revenue is duly examined and under sanction of appropriate Authority.

3. Payment vouchers - Every payment, entered in cash book, has to be supported by a legal acquittance, *inter alia*, there in, 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;

- (iv) 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 avoid 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 fool proof 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 organization. Similarly it is necessary that all payments duly discharged by the organization are duly taken to the accounts of the organization. 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 acquittances 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 from time to time and remitted to the respective accounts?
- (v) Are proper leave accounts and other service records kept?

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-à-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. Medical Reimbursement - Government have instructed vide GO(P) No. 60/2007/Fin. Dated 15.2.2007 that all Public Sector Undertakings, Autonomous Bodies and Statutory Undertakings should follow the Karnataka Government Servant Medical Attendance Rules, 1960, except in cases covered by ESI Scheme.

8. 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.

9. 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 organization 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 in effecting the purchase;
 - (ii) The item is utilized for the specified purpose;
 - (iii) The purchases, issue and consumption are authorized and are according to the prescribed procedure.

10. 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 utilization?

- 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 projects are undertaken?
- vi. Are there cases of overlapping research projects within the organization and outside and if so, how far is such a situation resolved to the best of interests of the organization.
- 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 be 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 under taken?
- 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 organization executed specific agreements on its right over the results of research for marketing, publication, utilization etc? If so, are they adequate and are they duly implemented ? If not, has the organization suffered loss in any case?
- xvi. Does any system exist for evaluation of results of research and proper utilization? 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 organization 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 authorized to be under taken or are they based on comparatively inadequate data? If so, what are the consequences? commercialization of research
- xix. Does any arrangement exist for propagation of results of research to ensure their profitable utilization?
- xx. Is the organization in the know of action taken on results of successful research projects?

11. 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 organization itself or in execution of schemes taken up by the organization?
- (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 has 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 organization 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 work and 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 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?

12. 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 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 not 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, work 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 organization must be having a properly laid down procedure for ascertaining entitlement, amount payable and amount recoverable from month to month; recoveries in these cases 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 of 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.

13. Advances to suppliers and contractors – In the same way as advances to employees, it is necessary to book 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.

14. 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 purposes 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 to 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, finalization 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.

15. 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 loanees;
- (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 fulfilment of the required conditions;
- (vi) The capacity to realize 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 taken into account the position of overdue instalments of loan and interest.

16. 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 therefore.
- (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 in 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 from 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 realizations 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.

17. 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.

18. 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.

19. Records relating to sundry creditors - In the same way as for credit sales, certain organizations 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 therefore 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".

20. 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 investment 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.

21. 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 mid way drop outs, resulting in in-fructuous 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.

22. 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 scheme 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 subscriber 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 interest on investments is realized in time and is correctly accounted for on accrual basis in the annual accounts.
- (v) The balances in each subscriber's account at the end of each year are duly worked out, communicated to the subscriber and acceptance obtained.
- (vi) The balances in all subscribers' accounts are duly drawn up in a prescribed schedule and the total outstanding balance as shown in the schedules is duly reconciled with the balance as shown in the annual accounts.

23. 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 actual and budget provisions are examined at appropriate levels, remedial action taken, where called for and re-appropriations 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 regularization 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.

Annexure – XXII (Ref: Para 18.02)

**A. CALCULATION OF AUDIT FEE AN ILLUSTRATION
(EFFECTIVE FROM 1.1.1992)**

1. Institutions having 6 working days in a week, 256 working days during 1992, leap year.

a) Average Cost = Minimum + (Maximum-Minimum) $\frac{3}{4} \cdot \frac{X}{60}$

Whose X = length of time scale minus 5

i) A.A.O. – Scale of Rs. 2000-60-2300-EB – 75 – 3200

$$X = \frac{2300-2000}{60} + \frac{2200-2300}{60} - 5 = \frac{300}{60} + \frac{900}{60} - 5$$

$$= 5 + 12 - 5 = 12$$

$$\text{Average cost} = 2000 + (3200 - 2000) \left(\frac{3}{4} - \frac{12}{60} \right)$$

$$= 2000 + 200 \times \frac{33}{60}$$

$$60$$

$$= 2000 + 660 = \text{Rs. } 2,660/-$$

ii) Sr. Auditor - Scale Rs. 1400-40-1600-50-2300 ES-60-2600

$$X = \frac{1600-1400}{40} + \frac{2300-1600}{50} + \frac{2600-2300}{60} = \frac{200}{40} + \frac{700}{50} + \frac{300}{60} - 5$$

$$= 5 + 14 + 5 - 5 = 19$$

$$\text{Average Cost} = 1400 + (2600 - 1400) \left(\frac{3}{4} - \frac{19}{60} \right) = 1400 + 1200 \times \frac{26}{60}$$

$$= 1400 + 520 = \text{Rs. } 1920-00$$

iii) Auditor : Scale - Rs. 1200-30-1560-EB-40-2040

$$X = \frac{1560-1200}{30} + \frac{2040-1560}{40} - 5 = \frac{360}{30} + \frac{480}{40} - 5$$

$$= 12 + 12 - 5 = 18$$

$$\text{Average cost} = 1200 + (2040 - 1200) \left(\frac{3}{4} - \frac{18}{60} \right)$$

$$= 1200 + 840 \times \frac{26}{60} = 1200 + 364 = 1564$$

B. Calculation of audit fee an illustration (effective from 1-1-1992)

II) Institution having 5 working days in a week (225 working days during 1992, leap year)

	AAO	Sr.Ar.	Ar.
Average cost	2660	1920	1564
HRA 450	450	450	450
CCA 100	100	75	75
DA(71%)	1889	1363	1110
<u>Total charges</u>	<u>5099</u>	<u>3808</u>	<u>3199</u>
Add indirect charges			
@ 125% of charges	6374	4760	3999
<u>Grant Total</u>	<u>11473</u>	<u>8568</u>	<u>7198</u>

$$\text{Rate of audit} \quad 11473 \times \frac{12}{225} \quad 8568 \times \frac{12}{225} \quad 7198 \times \frac{12}{225}$$

Fees rounded to

Multiple of

Nearest Rs. 5/-

Rs. 610/-

Rs. 455/-

Rs. 385/-

ANNEXURE –XXIII (Ref: Para 18.03)

Records of Autonomous Bodies to be kept

In respect of every Autonomous Body under audit, whether under sections 14, 19 or 20 it is necessary that the audit office maintains a complete set of records, consisting of the following:-

1. A copy of the enactment applicable to the Autonomous Body, if any.
2. 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.

3. A copy of orders relating to delegation of powers issued by the managing body and powers and duties of various committees.
4. Annual Report from year to year.
5. Audited accounts and reports thereon as place before Parliament/Legislature/Managing Committee together with replies, if any, furnished to the reports.
6. Report of review and such other Committees relating to the functioning of the body.

One copy of items (1), (2) and (4) mentioned above should also be kept in the office of the Comptroller and Auditor General for record in cases where the audited accounts and reports are to be placed before Parliament/Legislature

ANNEXURE –XXIV (Ref: Para 19.05)

Data Sheet for Autonomous Bodies

1. Name of the Organisation
2. When constituted
3. Legal status
4. Ministry/Department mainly concerned
5. Organisational set up
6. Form of operation (Territorial Jurisdiction) and details of Head office, Branch office, etc.
7. Audit Officer

8. When audit entrusted first to CAG
9. Objective and major Activities.
10. Sources of financing.
11. Details 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 net asset }
 (b)Income/Deficit } As per last audited accounts.
15. Particulars of audit completion

<u>Date of receipt of</u>	<u>Date of Certification</u>	<u>Date of presentation to</u>
<u>Annual Accounts</u>		<u>Parliament/Legislature</u>

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 Reports
 Brief particulars Reference to Audit Report
19. When review was last done
20. Important Recommendations of PAC
 Brief particulars Reference to PAC Report

ANNEXURE –XXV (Ref: Para 19.12)

List of Returns peculiar to OAD Special Cell	DUE
1. Progress Report regarding the audit of Autonomous Bodies under section 19 & 20 (Monthly)	C.A.G
2. Completion Report/Information regarding audit of Autonomous Bodies under section 19(2), 19(3), 20(1) & 20(2) (Annual 20 th January)	C.A.G with copy to Principal Audit officer concerned
3. Statement showing the programme in the audit of Institution u/s 14 & 15.	C.A.G

(Annual-20th April)

4. Statement indicating loans/grants sanctioned To concerned A.G
to Bodies/Authorities situated within the
jurisdiction of other Accountant General

(Half yearly)

5. Material for Central Audit Report (General Sector)-Annual

i. Regional provident fund Commissioner

Bangalore (20/9)

ii. ESI Corporation, Bangalore (First week of July) DACR New Delhi

iii. Central Schools 31st August

iv. Central Tibetan Schools (30th September)

v. I.I.S.C, Bangalore (16th August)

6. Statistical information regarding audit
of Institutions u/s 14 & 15 for inclusion
in chapter 17 of Central Audit
Report (General Sector) (Annual-31st July)

7. Material for SAR in respect of accounts of D.A.C.R Calcutta
Visveshwaraiah Industrial and Technological
Museum Bangalore (Annual- 15th July)

8. Report regarding last date by which the accounts
of all/any of the following organizations were made
available to audit DACR, New-
Delhi

(i) Employees Provident fund Organisation

(ii) Employees State Insurance Corporation

(iii) Central Schools Organisation

(iv) Tibetan Schools Organization

(Annual – 15th September)

9. Review on periodicity of entrustment of audit C.A.G
(Annual-15th September)

10. Statement of demand for audit fee in respect of
Units/offices of KVIC audited during the year
(Annual-15th February)

R.A.O.KVIC
BOMBAY

INDEX OF AUTHORITY

<i>Para No.</i>	<i>Reference & Para No. of CAG's Manual of Instruction for Audit of Autonomous Bodies 2010</i>	<i>Other replies</i>	<i>Ref & Para No. of the VI Edition of OAD Manual for Autonomous Bodies.</i>	<i>Reference & Para No. of Compendium of Amendments to the Manual of Instructions for audit of autonomous bodies/Other references.</i>
1.1				
1.02				
1.02A		<i>Ref: CAG letter No.51-WR/ Restru/12-2012/Kar dated</i>		

		12.04.2012		
1.02B				
1.03				
1.04				
2.01			1.01	
2.02	1.01			
2.03	1.02			
2.04	1.04			
2.05	1.05			Para 2.6.11 of MSO (Audit)
2.06	1.06			
2.07	1.07			
2.08			1.06	
2.09	1.10			
3.01	2.01			
3.02	2.02			
3.03	2.03			
3.04	2.04			
3.05	2.05			
3.06	2.06			
3.07	2.07			
3.08	2.08			
3.09	2.09			Rule 29 of GFR 2005
3.10	2.10			
3.11	2.11			
3.12	2.12			
3.13	2.13			
3.14	2.14	Para 2 of Circular Lr. No. 824-AuII-86 KW dt. 17.6.1987		
3.15	2.15			
3.16				
3.16.01			2.03.01	
3.16.02			2.03.02	
3.16.03			2.03.03	
3.16.04			2.03.04	
3.16.05			2.03.05	
3.16.06			2.03.06	
3.16.07			2.03.07	
3.16.08			2.03.08	

3.16.09			2.03.09	
3.16.10			2.03.10	
3.16.11			2.03.11	
3.16.12			2.03.12	
3.16.13			2.03.13	
3.16.14			2.03.014	
3.16.15		<i>para 8(1)(2), Circular No.39- Audit II/1985, Letter No. 1748- Audit/18- 85 dated 21.11.1985</i>	2.03.15A	
3.16.16		<i>Circular No-6- Audit/1986, Letter No.193- Audit II/143-85 dated 14.02.1986</i>	2.01.16	
3.16.17		<i>Circular No.18 Audit II/87, letter No. 1262- Audit II/151-82 dated 3.9.1987</i>	2.03.17	
4.01	3.01			
4.02	3.02			
4.03	3.06			
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4.05	3.08	<i>Para 1.15 of Circular dated 29.4.1985 Compendium – Page 7</i>		

4.06	3.09			
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4.09	3.12			
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4.11.01			3.03.01	
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4.11.03			3.03.03	
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4.11.07			3.03.07	
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4.11.09			3.03.09	
4.11.10			3.03.10	
4.11.11			3.03.11	
4.11.11A		<i>Circular No.39- Audit II/1985, Letter No. 1748- Audit II- 18-85 dated 21.11.1985</i>	3.03.11A	
4.11.12			3.03.12	
5.01	4.01			
5.02	4.01			
5.03	4.02			
5.04	4.03			<i>Para 2.62 of MSO (Audit)</i>
5.05	4.02		4.01.03.01	
5.06	4.07 to 4.09			
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5.10	4.17			
5.11	4.18			
5.12	4.19			
5.13			4.01.04	
5.13.01			4.01.04.01	
5.13.01A		<i>Circular No. 2T-Audit II/1985 Letter No.983-Audit – II 176-TA I/80-11 dt. 10.07.1985 O.M. NO.FD. 42. BUD 84 dt.6th November 1984 from Govt. of Karnataka</i>	4.01.04.01 A	
5.13.02			4.01.04.02	
5.13.03			4.01.04.03	
5.13.04			4.01.04.04	
5.13.05			4.01.04.08	
5.13.06			4.01.04.09	
5.14				<i>Para 3.04 of CAG's Manual 1983</i>
6.01	5.01		5.01.01	
6.02	5.02			
6.03	5.03			
6.04	5.04			
6.05	5.05			
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6.07	5.07			
6.08	5.08			
6.09	4.05/5.09			

6.10	5.10			
6.11	5.11			
6.12	5.12	<i>CAG's Circular No. 403/TAI (RGL 19-84-11 dt. 25.3.1985 and CAG's Circular No. 657/Au II/9-84 dt. 22.5.1985</i>		
6.13	5.13			
6.14	5.14			
6.15	5.15	<i>CAG's Circular No. 649-Au II/143-85 dt. 29.4.1985</i>		
6.16	4.12/4.14	<i>CAG's Circular No. 33-Au II/143-85 dt. 20.1.1987</i>		
6.17	5.17			
6.18	5.18			
6.19				
6.19.01			5.01.02.08	
6.19.02			5.01.02.09	
6.19.03		<i>Govt's O.M.NO.FD.42 BUD dt. 6.11.1984</i>	5.01.02.10	
6.20	5.20	<i>CAG's Circular No.364- AuditII/72-90 dt. 17.3.1992</i>		

6.20.01	5.21	<i>CAG's Circular No. 165-Rep (AB)91- 2003 dt. 23.5.2003</i>		
6.20.02	5.22	<i>CAG's Circular No. 33/Audit II/143-85 dt. 20.1.1987</i>		
6.21			5.01.03	
6.21.01		<i>Circular No. 39/Audit-II/85, No.1748- AuditII/ 18-85 dated 21.11.1985</i>	5.01.04	
7.01	6.01			
7.02	6.02			
7.03	6.03			
7.04			6.05.02	
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7.09.03			6.10.03	
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8.01	7.01/7.02/7.04	<i>CAG's Circulars No. 103-AuII/88-2000 dt. 27.3.2002, 201-Rep (AB)/67-99 dt. 8.7.2002, 131-Rep(AB) 71-2004 dt. 14.8.2006</i>		<i>Rule 209(6)xiii of GFR 2005</i>
8.02	7.05/7.06			
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8.06	7.10			
8.07	7.11	<i>CAG's Circular DO letter No.</i>		

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9.01	8.01/8.02			
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9.04	8.05			
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9.07	8.07			
9.08	8.08			
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10.05.01	12.01 to 12.09	CAG's Circular 96-Audit(AP)4- 2003 dt. 14.7.2003 113- Audit(AP)6- 2003 dt. 27.8.2003 61- 84.Rep(C)/30- 2003 dt. 6.4.2004 62- Au(AP)4-2003 dt. 21.3.2005 and 117 Audit(AP)4- 2003 dt. 8.6.2005		Para 1.0.38 No. 39 Chapter 1 of INTOSAI Auditing Standard
10.05.02			7.10.02	
10.06			7.11	
10.07			7.11.01	Correction slip No. 4 dt 24-4- 1990 File No. 143-Audit – II/85-KW-II
10.08			7.12	
10.08.01			7.12.01	File No. 20- Audit III (90 & CS No. 2 dated 24-4- 1990
10.09			7.13	
10.09.01		Circular No.9	7.13.01	

		<p><i>TAI/85 LrNr.403-TAI (RGL) 9-84-11 dt 25-3-85</i></p> <p><i>Circular No. 18/Audit II/1985/LrNo.657 audit II 9-84 dt 22-5-1985</i></p>		
10.09.02		<p><i>Circular No.31 Audit II/85 Lr No. 1075-Audit –II) 18-TAI/85 vol II dt.22-7-1985</i></p>	7.13.02	
10.09.03		<p><i>Director of audit's Do No.649/Audit-II/143-85 dt 29-4-1985</i></p>	7.13.03	
10.09.04		<p><i>Circular No.35-Audit II/1985/LrNo. 1398 Audit –II 273 -85 dt 4-10-1985</i></p>	7.13.04	
10.10			7.14	
11.01			7.05	
11.02	9.02	<p><i>CAG's Circular lr. No. 191-197 Rep (AB)20-86(iii) dt. 11.10.2000, 40-Rep (AB)91-2003 dt.</i></p>		

		25.2.2004, 44- <i>Rep (AB)91- 2003 dt. 25.4.2006</i>		
11.03		<i>Head Quarters DO Reg No.364 Audit II/72-90 dt : 17-3-1992</i>	7.06	
11.04	9.08			
11.05	9.09 TO 9.11	<i>CAG's Circular letter Nos. 111- Rep (AB)49-99 dt. 31.5.1999, 113-Audit (AP)/6-2003 dt. 27.8.2003, 165- Rep(AB)91- 2003 dt. 23.5.2003</i>		
11.06	9.13			<i>Para 1.1 – Ch. IV Auditing Standards</i>
11.07	9.15	<i>CAG's Circular Lr. 40- Rep(AB)91- 2003 dt. 25.2.2004, 58/Rep (AB)91- 2003 dt. 23.5.2006, 39- Rep (AB)/91- 2003 dt. 3.4.2006</i>		
11.08	9.18	<i>CAG's Circular letter No. 40</i>		

		<i>Rep (AB)91-003 dt. 25.2.2004</i>		
11.09	9.19	<i>CAG's Circular letter 40-Rep(AB)91-2003 dt. 25.2.2004</i>		
11.10	9.20	<i>CAG's Circular letter 44-Rep (AB) 91-2003 dt. 25.4.2006</i>		
11.11	9.21	<i>CAG's Circular letter 39-Rep (AB)91-2003dt. 3.4.2006</i>		
11.12			7.07	
11.13	10.01 to 10.04	<i>CAG's Circular lr. 173-Rep(AB)27-84(1) dt. 10.9.1999, 3-rep(AB)360-2000 dt. 8.1.2001</i>		
11.13.01	10.5/10.6	<i>CAG's Circular lr. Dt 10.9.2009, 301-Rep (AB)17-2004 dt. 21.9.2004, 249-Rep (AB)91-2003 dt. 1.8.2004</i>		

11.14	10.08	<i>CAG's Circular Letter No. 173 Rep (AB) 27- 84(1) dt. 10.9.2009</i>		
11.15	10.09	<i>CAG's Circular No. 3-Rep (AB)360-2000 dt.8.1.2001</i>		
11.16	10.10	<i>CAG's Circular dt. 10.9.1999</i>		
11.17	10.12 TO 10.14	<i>CAG's Circular 125-Rep (AB)/5-2000 dt. 30.6.2000, Circular 26- Rep(AB)23- 2000 dt. 2.2.2000</i>		
11.17.01			7.08	
11.18			7.09	
11.18A		<i>DO.No.896-T AI(RGL)/185- 79 DT 25-7- 1983</i>	7.09A	
		<i>DO Lr No. 1754- TAI(RGL)/185- 79 dt 9-12-1982</i>		
11.19				
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12.01	9.01			
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12.03	9.05			<i>AAS 28 & Para 11.4 of Auditing Standards</i>
12.04	9.06			<i>AAS 28 and Para 11.4 of Auditing Standards</i>
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12.07	9.16	<i>CAG's Circular letter 111-Rep(AB)/49-99 dt. 30.5.1999</i>	-	-
13.01	11.01		-	-
13.02	11.02		-	-
13.03	-	Para 1.4 & 1.5 of CAG's P.A. Guidelines, 2014	-	-
13.04	-	Para 1.3 of CAG's P.A. Guidelines, 2014 Para 1.6 to 1.10 of CAG's Performance Audit (P.A.)	-	-

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13.05.01	-	Para 1.14 of CAG's Performance Audit (P.A.) Guidelines, 2014	-	-
13.05.02	-	Para 1.15 of CAG's Performance Audit (P.A.) Guidelines, 2014	-	-
13.06	-	Para 1.16 of CAG's Performance Audit (P.A.) Guidelines, 2014	-	-
13.06.01	-	Para 1.17 of CAG's Performance Audit (P.A.) Guidelines, 2014	-	-
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13.07	-	Para 1.21 of CAG's Performance Audit (P.A.) Guidelines, 2014	-	-
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13.13		<i>Para 5.4 of CAG's PA Guidelines 2014</i>	-	-
13.14		<i>Para 5.5 of CAG's PA Guidelines 2014</i>	-	-
13.15		<i>Para 5.6 of CAG's PA Guidelines 2014</i>	-	-
13.16		<i>Para 5.7 of CAG's PA Guidelines 2014</i>	-	-
13.17		<i>Para 5.8 of CAG's PA Guidelines 2014</i>	-	-
13.18		<i>Para 5.9 of CAG's PA Guidelines 2014</i>	-	-
13.19		<i>Para 5.10 of CAG's PA Guidelines 2014</i>	-	-
13.20		<i>Para 5.11 of CAG's PA Guidelines 2014</i>	-	-
13.21		<i>Para 5.12 of CAG's PA Guidelines 2014</i>	-	-
13.22		<i>Para 5.13 of CAG's PA Guidelines 2014</i>	-	-
13.23		<i>Para 5.14 of CAG's PA Guidelines 2014</i>	-	-
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13.26		<i>Para 5.17 of CAG's PA Guidelines 2014</i>	-	-
13.27		<i>Para 5.18 of CAG's PA Guidelines 2014</i>	-	-
13.28		<i>Para 5.19 of CAG's PA Guidelines 2014</i>	-	-
13.29		<i>Para 5.20 of CAG's PA Guidelines 2014</i>	-	-
13.30		<i>Para 5.21 of CAG's PA Guidelines 2014</i>	-	-
13.31		<i>Para 5.22 of CAG's PA Guidelines 2014</i>	-	-
13.32		<i>Para 5.23 of CAG's PA Guidelines 2014</i>	-	-
13.33		<i>Para 6.1 of CAG's PA Guidelines 2014</i>	-	-
13.34		<i>Para 6.2 of CAG's PA Guidelines 2014</i>	-	-
13.35		<i>Para 6.6 of CAG's PA</i>	-	-

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13.37		<i>Para 6.8 of CAG's PA Guidelines 2014</i>	-	-
13.38		<i>Para 6.9 of CAG's PA Guidelines 2014</i>	-	-
13.39		<i>Para 6.10 of CAG's PA Guidelines 2014</i>	-	-
13.40		<i>Para 6.11 of CAG's PA Guidelines 2014</i>	-	-
13.41		<i>Para 6.12 of CAG's PA Guidelines 2014</i>	-	-
13.42		<i>Para 6.13 of CAG's PA Guidelines 2014</i>	-	-
13.43		<i>Para 6.14 of CAG's PA Guidelines 2014</i>	-	-
13.44		<i>Para 6.15 of CAG's PA Guidelines 2014</i>	-	-
13.45		<i>Para 6.16 of CAG's PA Guidelines 2014</i>	-	-
13.46		<i>Para 6.17 of CAG's PA Guidelines 2014</i>	-	-

13.47		<i>Para 6.18 of CAG's PA Guidelines 2014</i>	-	-
13.48		<i>Para 7.1 of CAG's PA Guidelines 2014</i>	-	-
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13.50		<i>Para 7.3 of CAG's PA Guidelines 2014</i>	-	-
13.51		<i>Para 7.4 of CAG's PA Guidelines 2014</i>	-	-
13.52		<i>Para 7.5 of CAG's PA Guidelines 2014</i>	-	-
13.53		<i>Para 7.6 of CAG's PA Guidelines 2014</i>	-	-
13.54		<i>Para 7.7 of CAG's PA Guidelines 2014</i>	-	-
13.55		<i>Para 7.8 of CAG's PA Guidelines 2014</i>	-	-
13.56		<i>Para 7.9 of CAG's PA Guidelines 2014</i>	-	-
13.57		<i>Para 7.10 of CAG's PA Guidelines 2014</i>	-	-
13.58		<i>Para 7.11 of</i>	-	-

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13.59		<i>Para 7.12 of CAG's PA Guidelines 2014</i>	-	-
13.60		<i>Para 7.13 of CAG's PA Guidelines 2014</i>	-	-
13.61		<i>Para 7.14 of CAG's PA Guidelines 2014</i>	-	-
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13.66		<i>Para 7.19 of CAG's PA Guidelines 2014</i>	-	-
13.67		<i>Para 7.20 of CAG's PA Guidelines 2014</i>	-	-
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13.70		<i>Para 8.2 of CAG's PA Guidelines 2014</i>	-	-
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18.05	-	-	9.05	-
18.06	-	<i>CIRCULAR No. 38/AUDIT-II/1985, LETTER NO 174 -AU-II 147-TAI/75 dated</i>	9.06	-

		7.11.1985.		
19.01	15.02	-	-	-
19.02	15.03	-	-	-
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19.05	15.06	CAG's lr. Rep(AB)/37- 2007 dt. 26.2.2008	-	-
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19.06	15.07	-	-	-
19.07	15.08	1748 Au-II/18- 85 dt. 27.11.85, 1931 Au-II/7- 86 dt. 11.12.1986		
19.08	15.10	CAG's Circular 156-Audit AB 62-97 dated 19.7.2005		Rule 211(4) GFR
19.09	15.11	-	-	-
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25.10				
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26.06	-	-	-	-
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27.02	-	-	-	-
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27.04	-	-	-	-
27.05	-	-	-	-
27.06				

27.07				
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28.03	-	-	-	-
28.04	-	-	-	-
28.05	-	-	-	-
28.06	-	-	-	-
28.07	-	-	-	-
28.08	-	-	-	-
28.09	-	-	-	-
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29.04	-	-	-	-
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31.07	-	-	-	-
31.08	-	-	-	-
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32.06	-	-	-	-
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35.06	-	-	-	-

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53.05	-	-	-	-