Regional Training Institute

Centre of excellence in 'Corporate Governance and Finance'
and 'Audit of Municipal Corporations'
(Indian Audit and Accounts Department)

Audit based on IPSAS-
A case study
With reference to foreign audit reports

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From Principal Director's desk

Regional Training Institute, Mumbai was declared as knowledge centre for Corporate Governance, Finance, General Purpose Financial Reporting (IPSAS) and Audit of Municipal Corporations. In pursuit of excellence in our assigned areas of knowledge centre, we attempt to bring out series of interesting cases on these subjects. In preparing the case study, an effort is made to align it towards guidance on future accounting and audits.

IPSAS based accounting has not been implemented in government departments in India. Knowledge of IPSAS is required for carrying out UN Audits and for inputs relating to Government Accounting Standards Advisory Board (GASAB) for adoption/ adaptation of IPSAS to the government accounting system in India.

As not much material is available in the public domain, the Case Study "Audit based on IPSAS-A case study with reference to foreign audit reports" has been prepared based on two foreign audit reports available on the internet. This is probably the first attempt in the IA &AD to prepare a case study on IPSAS. A study on the possible impact on accounts and audit procedures and systems, resulting from introduction of a revamped accounting system for the government is also attempted herein.

I hope that the readers would benefit from this. Suggestions, if any, are welcome and would help us in future designing of case studies.

RTI, Mumbai
3 September 2015

Abdul Rauf
Principal Director

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1. Background

1.1 International Public Sector Accounting Standards (IPSAS) is a globally recognised General Purpose Financial Reporting Framework for Public Sector. This means that it is a set of generally accepted accounting principles (GAAP) or accounting standards, intended to be adopted by government sector (ministries, departments, attached and subordinate offices, etc.) across the world. The term 'accounting standards' and 'financial reporting standards' are used interchangeably.

1.2 IPSAS have been issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC), an association of prominent accounting and auditing organisations across the world. The standards have been adapted from the International Financial Reporting Standards (IFRS) by giving them a public sector focus. IFRS is recognised globally as best practise in accounting standards for the mercantile (commercial) sector.

1.3 Yet, it is evident that any such accounting system cannot be arbitrarily imposed on sovereign nations. These can only be adopted or adapted by countries if, as and when they choose to. As per Article 150 of the Constitution of India, the accounts of the Union and of the States shall be kept in such form as the President may, on the advice of the Comptroller and Auditor-General of India, prescribe. Rule 66 of General Financial Rules 2005 states that the Controller General of Accounts in the Ministry of Finance (Department of Expenditure) is responsible for prescribing the form of accounts of the Union and States, and to frame, or revise, rules and manuals relating thereto on behalf of the President of India in terms of Article 150 of the Constitution of India, on the advice of the Comptroller and Auditor General of India. We follow cash basis of accounting and not accrual (mercantile) basis of accounting. The General Financial Rules, 2005, the Receipts and Payments Rules, 1983 and the Government Accounting Rules, 1990, Accounting Rules for Treasuries; and Account Code Volume-III alongwith numerous departmental manuals of Comptroller and Auditor General and Accountants General (Accounts and Entitlement), Controllers General of Accounts and instructions of Internal Financial Advisors (IFAs) in various departments, Central and State Treasury Rules, Accounts Manuals and regulations relating to the department concerned, etc. form the existing accounting framework in India. They contain the detailed instructions on the formats of accounts, details of accounting records to be maintained, principles of accounting, accounting entries to be made in respect of various transactions, etc.

1.4 IPSAS, on the other hand, has not been notified by any constitutional or legal mandate. It is a set of standards, which have evolved as best practices in public sector accounting. India, being a leading democracy with established rule of law and firm belief in the importance of transparent and credible accounting practices to protect this status, has decided to adopt a new set of standards for accounting in the public sector. As a part of this transition, we have also decided to adopt accrual basis of accounting in a phased manner. The creation of the organisation called Government Accounting Standards Advisory Board (GASAB) under the auspices of the Comptroller and Auditor General of India with active membership of Controller General of Accounts and senior officers in charge of accounts in various departments and states is a step in this direction. The board has already drafted Indian Government Accounting Standards (IGAS) for cash basis of accounting and Indian Government Financial Reporting Standards (IGFRS) for accrual basis of accounting. It is expected that IPSAS would play a major role in this direction, as it is an already existing set of international best practices in government accounting.

1.5 As on date, the accounts prepared by various government departments, including the Accountant General (Accounts and Entitlement) in states are audited by the Comptroller and Auditor General through field offices headed by Accountants General (or similar ranking officers). With the introduction of new government accounting norms, audit approach would also change.

1.6 One of the immediate effects of introduction of IPSAS is the gradual adoption thereof in the organisations under the United Nations (UN). The transition of accounting under UN agencies from United Nations System Accounting Standards (UNSAS) to IPSAS is already underway. The strength of CAG of India in the area of IPSAS has already been recognised, as is evident from the fact that audit of UN agencies are being allotted to CAG of India from time to time. The reputation of our officers regarding knowledge of IPSAS is a major contributory factor for this. Officers deputed for UN audit would do well to keep themselves aware of IPSAS based accounting and auditing.

1.7 This case study was developed as an attempt to discuss some of the financial (accounts) audit observations on IPSAS-based accounting. It is also intended to assist standard-setters and accounts personnel when IPSAS or similar standards are rolled out in India in the future. It would also give auditors of IPSAS based accounts, especially auditors of UN agencies to look out for similar observations.

1.8 While developing this case study, an obvious constraint was the fact that while no cases could be selected from India, even not many foreign governments have adopted or adapted IPSAS and not many UN agencies would have qualified reports based on IPSAS alone. Ultimately, two reports were selected for this case study, which were available in public domain (internet). These reports are-

(i) The Annual General Report of the Controller And Auditor General, National Audit Office (NAO), The United Republic of Tanzania on the Financial Statements of the Central Government for the year ended 30 June 2013; and

(ii) Management Report by Cook Islands Audit Office on Financial Statements of Aid Management Division (AMD) of the Ministry of Finance and Economic Management for 30 June 2009.

1.9 Tanzania is located in East Africa with an Indian Ocean coastline. Zanzibar, a major port on the medieval marine trade route from the West to India lies in Tanzania and hence the nation has a historical connection with India. It is one of the commonwealth nations which have taken a lead in implementation of IPSAS for its government accounting. The Regional Secretariats (RS) of Tanzania can be compared to State Governments in India. It also has a mechanism of local self government. It is a democratic republic. Hence, the political and legal structure in that country is similar to that of India. The year 2012-13 was the first year in which the Government of Tanzania prepared accounts of its Ministries, Departments and Agencies (MDAs) and RSs based on IPSAS accrual basis of accounting. Thus, it could be a template for other commonwealth, federal, democratic, republican nations seeking to adopt IPSAS or its variants for its national and federal accounting.

1.10 Cook Islands form another member of the commonwealth, located in the South Pacific Ocean. They are associated with New Zealand, with a Parliamentary democracy, with Island councils forming part of the federal structure. Hence, the situation therein can also be linked to other commonwealth, federal, democratic nations seeking to adopt IPSAS.

1.11 The cases exemplify observations which have arisen based on IPSAS-basis of accounting. A comparison with accounting as per existing GAAP in India for government (related instructions on government accounting) has also been made.

2. Arrangement of the case study

Some of the salient audit observations therein are discussed as follows. The important observations are given in bold font and the remarks forming learning points forming part of the case study are given in normal font. A comparison of the same with existing GAAPs in India is given in italics.

3. Audit criteria and sources of audit evidence

The basic audit criteria in accounts audit would be the IPSAS or other nationally adopted accounting standards. The primary sources of audit evidence would be the financial statements themselves, as also the general ledger, other books of accounts, receipts, bills, payment vouchers, cash book, transfer entries (or journal entries), transactions of subsequent financial year, registers showing pending claims, returns and registers on assets, property documents, etc. Other sources of evidence which may be required are detailed below against specific observations.

4. Relevant IPSAS based observations in Tanzania-Transition to IPSAS

The Tanzanian NAO made the following observations on the process of transition to accrual basis IPSAS.

4.1 Areas that need improvement include identification and recognition of intangible assets and reconciliation between cash book and Bank statement.

Learning Points: The idea of identification and recognition of intangible assets of a government is indeed a very topical matter with which all employees of IA & AD can easily identify themselves with. The idea of accounting for intangible assets like 'spectrum' and 'mining rights' is inextricably linked with the CAG of India's reports on Auction of Spectrum and Coal mines. A base value of such assets held by the government can thus be arrived at and shown in the accounts and revalued from time to time. In fact, IPSAS 31 itself requires reference to 'relevant international or national accounting standard dealing with exploration for, and evaluation of, mineral resources' and does not cover expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources. Hence, this is an area in which GASAB may have to develop separate standards.

As regards reconciliation of cash book, the reconciliation of balances as per Cash book and bank statement would become akin to that followed in mercantile entities, if IPSAS based accounting is introduced.

In the current accounting scenario, there does not appear to be a system of identifying, recognising or valuation of intangible assets. This can be initiated if IPSAS or similar principles are adopted and a mechanism of recognising and valuing such assets, is set up; notwithstanding whether such assets are acquired at a cost or inherently owned by the government. Huge losses to the exchequer could be detected/ avoided if these changes are made in the accounting system.

The accounting mechanism in India separates the cash book of field offices (DDOs), who are allotted budgets and book expenditure; from payments released by PAO. According to the Receipts and Payments Rules, 1983, third party cheques would not be routed through cash book. Only cash remittances of challans would be booked. Reconciliation with credit to account of the Government is done by getting a confirmation (challan/token/acknowledgement number, etc.) from the bank which would be recorded on the cash book.

A reconciliation system as per mercantile system, on the other hand, would involve collection of bank statements and reconciliation thereof with all deposits (including cheques) and payments recorded by a field office. This would ensure that no cheques are 'lost in clearing' and would ensure that all cash deposits have been duly and timely credited to Government. It would also compare the cheque payments with debits by bank to government accounts.

4.2 Weaknesses in the IT system resulted in IPSAS cash basis of accounting being used instead of IPSAS accrual basis of accounting. As a result, accounting transactions such as Imprests were directly expensed; the system did not recognize accrual transactions such as payables and receivables, etc.

Learning Points:

(i) In an accrual-based system, unlike as in a cash-based system, Imprests are to be expensed out only as and when expenditure is incurred there-against. The balance unspent cash in Imprest is to be carried forward to the next year. It would be shown as an advance or cash balance, as the case may be. This would throw up cases of unadjusted cash advances like permanent advance, temporary advance and AC Bills. There cannot be a case of an advance remaining unadjusted and without any accounting trail under the IPSAS mechanism.

(ii) Effect of over-reliance on IT systems : its legal, ethical, financial, economic and practical implications in India

Dependence on IT systems is one of the realities of finance and accounting in the modern age. In case of Tanzania, there is one observation regarding how their IT system has not kept pace with changes in the accounting system. But in India, the level of reliance on IT systems is much higher. Implementation of IT based accounting or even relying on IT based data for accounting would involve a number of legal, ethical, financial, economic and practical implications, each of which could yield inputs to agencies involved in transition in accounting process as also yield audit observations. A few of these are detailed below.

(a) Wasteful recurrent expenditure on IT upgradation and migration:

Frequent upgradations and migrations from one system to another, multiple suppliers of software and hardware, duplication of work - especially data entry by multiple persons/contractors and/or on multiple occasions; merely for carrying forward existing data or for correcting mistakes caused by multiple data entry, incompatibility of hardware/ software, data redundancy (excess/ irrelevant data, same or similar data stored in various locations, not linked or matched to each other), different/ difficult technical terminology or jargon, etc. are often associated with IT based systems. Audit and agencies involved in transition to accrual-based accounting would have to examine if IT upgradation/ migration is really needed and would add value or utility to the end-users, or are only leading to a wasteful trend of handing out contracts where none are warranted.

(b) Numerous cards and numbers associated with IT or IT-linked systems:

There is a trend of issuing separate cards and numbers for each IT linked service (PAN/ Voter ID/ Aadhaar, NPR, etc.) involving citizens. Data entry for compiling personal and demographic data for any new IT system might lead to added cost to the government and possible delays in completing the project. Wherever one-time correct data entry or programming can be done, with the output duly authenticated by and in the presence of the individual/ user concerned; or wherever common data/ program can be linked/ drawn from an existing database; such as that of an IT-enabled card or number, this would be cheaper.

Any insistence on repeated data entry, especially without involving the individual/ user concerned, would be a cause of concern as it may lead to intentional errors in data such as the spelling of names or in the programming, in order that the data entry and compilation/ programming contracts continue to be renewed. This would be a possible loophole in data entry based or programming IT contracts which would need to be guarded against by fixing deterrent penalty for delay/ errors, etc. while entering into them. Losses or lapses on this count can be commented upon in Audit.

A simple observation would be that when a number of identity cards exist, backed up by computerised data, there is no real need to incur cost for issue of more and more cards and numbers with same or similar data with multiple data entry in different formats, instead of one-time correction, updating and linking authentic data of existing cards.

(c) Forced reliance on suppliers, complexity and repeated training cost:

Another major drawback of IT-based accounting systems is that like many other IT systems, while many of them are marketed as being user-friendly, they are in fact programmer-oriented rather than user-oriented. Hence, while 'user-friendly' software may be purchased or developed, involving procurement and/ or servicing contracts, at a high cost, the final user may find it to be complicated, unresponsive to his needs or to changes, difficult or confusing in operating or he may have to end up depending on IT personnel/ supplier for even tasks like passing a simple accounting entry. It may also necessitate training of personnel in new and newer software at high and higher costs depending on responsiveness and ability to grasp new complicated jargon, concepts and applications.

(d) Reduced credibility of output

Before building new software for government transactions or for accounting, the experience gained from Tanzania can be kept in mind. The Tanzanian observation is an example of inconsistency in programming between legal accounting practice and system-based accounting output. A case in point in India is the IT software adopted for some tax departments. In the olden days, a notice of demand from a tax department used to cause much trepidation, as it was a manually assessed, signed order rather than a computer generated order. It used to ensure prompt remittance of short-fall in revenue.

With the introduction of IT based assessment of revenue, however, the system of generating notices has significantly lost its salutary effect, focus and at least to some extent, even reliability. Most demand notices are now first scrutinised by assessees from the point of view of whether they are factually correct or whether they are only the result of some data entry or computer error. Even genuine notices would end being taken complacently. The focus of system-based assessment would be on detecting data mismatches and data entry errors (such as PAN number, etc.), rather than tax evasion or avoidance.

Most demands for short-payment/non-payment of revenue are now being received as a result of assessee's data entry errors or defects in the IT system, which are not apparent/

intelligible to, or resolvable by, the layman user, rather than due to genuine under-payment. For instance, notices for payment of TDS and interest are even issued to government offices that deduct tax through book entry, where no payment is involved. Similar erroneous notices could get generated by other revenue departments as well.

Often, the programmers may not take into account the provisions of law while launching the software. For example, though law requires rounding off of net tax payable to the nearest Rs.10/-, the system requires round off to nearest rupee. Such mistakes and incorrect assessments reduce reliability of such notices. The trend of issuing 'system generated letter' which 'does not require signature' is also a lacuna, as it takes away the element of intelligent human scrutiny before such notices are signed and places excessive reliance on computer output.

(e) Violation of civil liberties guaranteed by the Constitution and added cost to citizens

In some cases, even data entry work is now thrust on the assessees themselves, that too in continually changing versions of IT-based forms and software introduced by the concerned revenue departments, rather than being managed by departmental arrangements. Separate and multiple agencies like NSDL, TRACES, special cell for computerised revenue/ tax deduction returns, agencies issuing PAN cards/ other tax numbers, agencies issuing digital signature, reliance on mobile and telecom companies/ IT companies for mobile and e-mail based 'authentication' of returns, etc. are becoming the norm in case of various revenue departments, each with elaborate arrangements for the revenue process.

Some of the above-mentioned agencies/ companies even charge the assessee, rather than the revenue department for what is essentially a tax administration cost. This levy or cost can be interpreted as a tax, as the taxpayer has no option but to incur this cost, in order to comply with tax laws. As per Article 265 of the Constitution of India, no tax shall be levied or collected except by authority of law. These costs are often the result of executive directions rather than law of Legislature and also the recipient is not the government, but other entities. Some of these amounts levied by non-government agencies; such as:

(1) Costs incurred by the citizen for owning and maintaining mobile phones-charging/ recharging, bill payments, etc.,
(2) Internet/ browsing charges,
(3) Fees for issue of PAN card/ tax registration number,
(4) Fees for digital signature,
(5) Filing fees, etc.

can be seen as disguised taxes if, where, or to the extent they are occasioned by tax compliance purpose.

As a part of Para 2.1.3 of CAG's MSO (Audit), the scope of audit includes aiming to:

"(a) safeguard the financial interests of the taxpayer;
(b) assist the Parliament or State/Union Territory Legislature in exercising financial control over the Executive; and

(c) watch that various authorities of the State set up by, or under, the Constitution act in regard to all financial matters in accordance with the Constitution and the laws of Parliament and appropriate Legislatures and the rules and orders issued thereunder.

The right of independent criticism is inherent in the auditorial function."

An executive instruction or law which implicitly imposes on citizens a need to depend upon or hold mobile phone and/ or rely on internet providers or to part with such personal information like mobile number/ e-mail ID with the government, issuers of card, digital signature, etc. or enforces direct payment of fees to agencies to whom work of issuing numbers or tax filing is outsourced; can be examined in Audit scrutiny or by Courts. This is with a view to ascertaining their consistency with constitutional provisions and fundamental right to freedom. *A recent example is litigation on and Supreme Court order disallowing mandatory application of Aadhaar number.* Thus, it is possible that the constitutional validity of these practices may also come into question at some stage and may involve legal, accounting and financial impact. If any of these practices are linked to revenue accounting or cost of raising revenue, they would have to be re-looked into. It may also require changes in IT software, infrastructure and procedures.

(f) Data Security and national security implications:

In addition to the above-mentioned cost and effort of the assessee, a large part of data involving national accounting and revenue would directly or indirectly depend on services of internet service providers, e-mail based on privately managed servers telecom companies, manufacturers of handsets and IT equipment, etc. a substantial number of whom are based or controlled from outside India. This could have data security and national security implications. For example, a tax demand notice could be issued to a private citizen, who may access the same through e-mail or online. The e-mail service may be based on a foreign server or the online access could be from abroad. He may also access the data through a mobile phone, which may run on foreign equipment or based on service provided by a foreign controlled telecom agency. All these would involve citizen's data security and other national security implications.

(iii) Hence, a single, low-cost, integrated and linked, independent, simple-to-use, responsive to change and uniform system across governments and local bodies, developed with active participation of end-users and training at each stage would be a pre-requisite for any new IT-based accounting system to be adopted in India. Need for harmonisation, linkages, constant updation and training would be the learning points from the Tanzanian example. It would be necessary to create systems for simplifying work of the user, rather than to try to mould the user according to what software the IT supplier has on offer.

(iv) As of now, audit observations can be taken on these lines on IT issues and on constitutional validity of some procedures of revenue collection and assessment. Such observations would impact the amount of revenue and tax administration expenditure recorded and would comment on the regularity of some of these levies, expenses and procedures.

(v) These are matters which would require attention in framing any reliable IT-based application for government finances and accounting. It is clear that any accounting of revenue earned based on the types of intimations described above would be incorrect. Similarly, an entity booking such taxes as payable or showing them as a contingent liability would be making a mistake in accounting.

Audit Evidence: Accounting of Imprests with special reference to segregation of payments made till end of the financial period vis-a-vis those made thereafter can yield observations of the specific nature on imprests.

In India, as soon as an Imprest is drawn, it is shown as expense against office expenses head. The fact whether it was exhausted during the year or not is not material for cash-based accounting.

Each government entity in India uses its own set of software applications for accounting, developed in-house or by one or more public sector, private sector or foreign suppliers. In the IA & AD, for example, systems such as VLC (voucher level computerisation), COMPACT (for PAOs), CompDDO (for DDOs), BEMS (for budgetary control), etc. co-exist. Some local bodies and public sector entities use branded ERPs like SAP, while some use tailor-made systems.

4.3 There was inadequate capacity building through training across departments of the audited entities to staff, who are either indirectly or directly involved in the preparation of financial statements.

Learning Points: This is similar to the discussion on training for IT systems. The difference is that there is no multiplicity of software/ hardware, but only a single set of standards. Here again, the successful and prompt implementation of IPSAS or similar standards in India would lie in ensuring simplicity of drafting and implementation of new standards and their quick dissemination to all end-users through training.

In India, an organisation called GASAB has already been constituted for drafting standards for application in the public sector. Training is imparted in the IA & AD by various training institutes for IPSAS, GASAB, UN audit (on subjects including IPSAS), etc. For local bodies and Autonomous bodies, uniform formats of accounts are already in place, which draw from mercantile principles of accounting and public sector practices, which make them a proto-type of IPSAS-like accounting practices for the public sector as a whole. IA&AD is offering Technical Guidance and Supervision, including training on auditing practices relating to local bodies. This would indirectly benefit the accounting systems therein as well.

4.4 Financial reporting framework is under IPSAS accrual basis of accounting while the basis of accounts of the budget is still under cash basis which has resulted into mixed

concepts on accounting for various items of expenditure in the financial statements e.g. accrual expenses were not reported in the statement of financial performance.

Learning Points: Harmonisation of cash based budgeting and accrual based accounting is a challenge implicit during the IPSAS implementation process. It may not always be possible to link tax flows which are cash-based and make budget implementation possible; with accrual-based expenditure. Discussions and provisions exist in IPSAS framework, which talk about transition from cash to accrual and partial adoption of these concepts. These can be used for linking accounts with budget. Para 47 of IPSAS 24 - Presentation of Budget Information in Financial Statements requires that where the financial statements and the budget are not prepared on a comparable basis, they may be reconciled, identifying separately, any basis, timing, and entity differences if a basis other than the accrual basis is adopted for the budget, with net cash flows from operating activities, investing activities, and financing activities. The reconciliation shall be disclosed on the face of the statement of comparison of budget and actual amounts, or in the notes to the financial statements. Thus, the budget would be linked to cash flow statement, rather than to the statement of financial performance (similar to balance sheet).

In India, as on date, the entire system of government accounting is cash-based. Some local bodies and autonomous bodies have adopted distinct accounting for capital and revenue as for mercantile entities, but they are not directly related to budgetary spends, due to autonomy of their financial decisions. The integration of budgeting and accrual accounting would be a requirement in the accounts of any nation that adopts IPSAS-based standards.

4.5 Adoption of IPSAS accrual basis of accounting prior to amendment of the existing legislation e.g. Public Finance Act No. 6 of 2001 (amended 2004) contradicts with the IPSAS accrual basis of accounting philosophy.

Learning Points: The legal framework for adoption of new system of accounting has to keep pace with implementation. As we perform accounting and auditing functions as mandated by the Constitution, it is essential that our scope and mandate is always kept in mind while adopting new systems of accounting. When the accounting standards for public sector are finally rolled out, provisions on advice of CAG, notification by President (or authorised officer), legal clearance by State Legislatures (for local bodies) and enabling amendments in governing acts (for autonomous bodies) would be necessary. Hence, simultaneous action for updation of laws would speed up the process of implementation. A clear cut-off date for uniform implementation would also need to be legally adopted for maintaining uniformity, consistency and comparability and enabling consolidation; of Union, State, local and autonomous bodies' and PSU accounts.
In addition, all related rules, regulations, orders, departmental accounting instructions and manuals would have to be aligned accordingly after following due process of adoption thereof.

In India, GASAB has been set up and a process of notifying the standards has been established.

5. Relevant IPSAS based observations in Tanzania-Specific standard based observations

The IPSAS creates a large swathe of audit criteria, against which accounts and accounting practices can be compared against. Some of the observations on degree of compliance with some individual IPSAS are given below.

5.1 The consolidated financial statements of the United Republic of Tanzania did not include the revenue, expenditure, assets and liabilities of the Local Government Authorities (LGAs) and Parastatal Institutions. This is contrary to IPSAS 6 which requires a Controlling entity to issue consolidated financial statements which consolidates all government controlled entities, foreign and domestic. The disclosed list in the consolidated financial statements was not exhaustive as it excluded LGAs and GBEs.

This resulted in a <u>disclaimer of opinion</u> on the accounts.

Learning points: The comment is on non-compliance with the IPSAS requirement for consolidation of accounts of all public sector entities. The wording of the IPSAS quoted in the detailed observation suggests that even the accounts of PSUs like Government companies, which are classed as Government Business Entities (GBEs) by the IPSAS and follow different accounting standards (*e.g. : - AS/ IndAS in India*) need to be consolidated alongwith accounts of local bodies and autonomous bodies. For example, the accounts of ONGC Ltd. would have to be consolidated with the accounts of Oil Ministry.

In India, a Combined Finance and Revenue Account for 'Core Government' (Government entities other than those maintaining independent accounts like PSUs, ABs) is being prepared. It incorporates in one place comparable information relating to the accounts of the Union and all the States for a year, together with their balances and outstanding liabilities and other information relating to financial health of Union and States. This compilation is based mainly on the figures contained in the respective Finance Accounts of the Governments concerned. However, the accounts of local bodies and autonomous bodies would not directly enter this account, as only budgetary cash flows to such entities would appear in these accounts as an expenditure of the government concerned. This account may have to be aligned with IPSAS requirement, as this account is the nearest to the idea of consolidated accounts.

5.2 The government lacked actuarial valuation of benefits plan for Government retirees contrary to IPSAS 25. Without performing actuarial valuation, the government has failed to arrive at the initial liability for the Defined Benefit Plans and for that case, the Government could neither determine the amount of actuarial gains/losses, the past and current services nor interest cost of the benefit plan.

Learning points: Defined Benefit plans are different from Defined Contribution Plans, inasmuch as for Defined Benefit plans, the final amount of retirement benefits (pension, gratuity, leave encashment, group insurance, etc.) are fixed by law or contract, while in case of Defined Contribution Plans, only the amount of contribution is so fixed, while final benefits are dependent on the performance of a pension scheme into which these contributions are invested. For defined benefit plans, it is necessary to work out an actuarial valuation of the expected current value of future obligations payable towards such benefits. The fact that the government has not worked out this liability has been commented upon.

In India, retirement benefits relating to personnel who joined government service prior to 1 January 2004 is on a defined benefit plan basis. Leave encashment continues on defined benefit basis. The budgeting and accounting thereof is currently based on expected retirements and some estimates based on some data relating to existing pensions. Changing over to actuarial valuation thereof on an annual basis, would, involve significant changes in method of accounting for such benefits, rather than the cash basis of accounting being followed now.

5.3 A complete set of financial statements prepared according to IPSAS - accrual basis includes the following components:

i. Statement of financial position *(similar to balance sheet)***;**

ii. Statement of financial performance *(similar to profit and loss/ income and expenditure account)***;**

iii. Statement of changes in net assets/equity;

iv. Cash flows statement;

v. Statement of comparison of budget and actual amount and

vi. Accounting policies and notes to the financial statements.

Learning points: Unlike the current set of finance and appropriation accounts being followed in India, an altogether new set of accounts would be required under IPSAS. To preserve the linkage with budget, a statement of comparison of budget and actual amount is also included.

5.4 Overstatement of Non-current Assets by Shs.(X)

Ministry reported intangible assets of Shs.(X) as at 30th June 2013. However under Note to the financial statements which explained what constitute this amount, we noted that most of the items did not meet the definition and recognition criteria for intangible assets as prescribed under IPSAS 31.

Learning points: As discussed above in Para 4.1, identification and valuation of intangible assets of a government would be a new challenge. There could be cases of over-valuation, under-valuation or mis-classification.

In India, only the sale of intangible assets appears in the accounts. The procedure of arriving at valuation thereof appears to be more of an administrative exercise rather than an *accounting one. There is no mechanism of assessing value of intangible assets held rather than sold.*

5.5 Expensing of unutilized inventories amounting to Shs.(X).

During the year, the entity expensed unutilized inventories valued at Shs.(X) contrary to the requirements of IPSAS 12 (44).

Learning points: This is a direct corollary of adopting IPSAS. In cash basis of accounting, stocks purchased would be written off as expenditure of the year in which it was paid for. But in case of accounting under IPSAS, stock not yet issued/ consumed/ sold would be carried forward as an asset to the next year and should not directly be written off during the year of purchase.

Audit Evidence: Stock as per Form GFR 41 can be compared with closing stock given in the accounts.

In India, stock records of receipt, issue and balance are maintained in Form GFR 41. But these are not part of the accounts of the government. Stocks are expensed out as soon as they are paid for.

5.6 Incurred expenses not charged in the statement of financial performance Shs.(X)

An amount of Shs.(X) was incurred during the year but was not charged in the statement of financial performance, which resulted into the understatement of the reported expenses by the same amount. This defeats the concept of IPSAS accrual basis of accounting (Para 7 of IPSAS 1).

Learning points: This too is a direct corollary of adopting IPSAS. In cash basis of accounting, expenditure would be written off in the year in which it was paid. But in case of accounting under IPSAS, even expenditure incurred, but not paid would have to be accounted for as expenditure of the year to which it relates.

Audit Evidence: Bills relating to the period paid in the next accounting period and inward register showing bills received during the year can be sources of evidence. An analytical review of payments such as salaries, electricity, etc. can be made to identify gaps in payment or last months' dues remaining unpaid.

In India, expenditure is recorded in the year of payment against budgetary allotment.

5.7 Understatement of expenses in the statement of financial performance Shs.(X)

The Regional Secretariat disclosed payables of Shs.(X) in the statement of financial position as at 30th June, 2013. A further review indicated that, there was neither surplus nor deficit for the period. This implies that, expenditures incurred during the year, which formed part of the payables, were not charged in the statement of financial performance contrary to IPSAS 1 Para 99.

Learning points: This is drafted more as a logical inference than as an observation. The fact that there is neither surplus nor deficit and that there is an amount shown in payables, may not by itself imply that expenditure was incurred during the year, but was not charged, as it could relate to payables carried forward from previous years, especially if there are no financial operations of this nature (unpaid expenditure) during the year. In a rare case, it could also mean that revenues during the year have exactly offset expenditure, resulting in nil surplus or deficit. But the inference is indicative of a common sense approach by Government Audit, which would be correct in practical situations most of the time!

Another inference which could be drawn from this is that probably full-fledged accrual accounting based on double entry book-keeping is not being followed at the voucher level and only a 'cash basis and listing some provisions' approach to accrual accounting has been adopted, that too at the stage of finalising the accounts only. To make accrual accounting truly meaningful, double entry book-keeping at the voucher level, which implicitly imposes checks and balances by ensuring that accounts will not tally till all balances are correctly classified in the income statement (Statement of financial performance) or statement of financial position is also a pre-requisite. When double entry book keeping is followed and if proper system of classifying the balances is adopted, such errors of omission, especially omission of individual balances (e.g.: - affecting expenditure side or affecting payables side) in the accounts would be eliminated.

In India, as expenditure is now cash based, on adoption of accrual basis, such implications of dual aspects of each transaction can be kept in mind.

5.8 Inadequate preparation of cash flows statement

The office received an amount of Shs.(X) development/capital expenditure. However, this amount was not disclosed in the cash flows statement as cash flows from financing activities as required by IPSAS 2.

Learning points: The financing of a government department or office would be from grants received. Hence, it was opined by the NAO that such amounts received should be shown as cash flow from financing activities.

In India, grants received by autonomous bodies are booked as cash inflow by the said bodies. As regards financing of individual government ministries/ departments or offices, there is no transfer of funds, but only a budget allotment to the department/ office by the Ministry of Finance/ Finance Department, which lays down the authorised limit of the amount which the concerned ministries/ departments or offices can draw from government funds for meeting expenditure. Thus, all expenditure is cash flow and these are not further classified into operational, investing or financing activities.

5.9 Land and Building not separated as per requirement of IPSAS 17

Paragraph 74 of IPSAS 17 states that Land and buildings are separable assets and are accounted for separately, even when they are acquired together. Review of the consolidated financial statements noted that land and buildings have not been separated as required by the standard.

Learning points: Often the value of land is not segregated from that of the building constructed on it. It would be even more challenging to determine the component of cost of land on (say) a flat forming part of a multi-storeyed building. The existence of land records, land valuation on date of acquisition for construction/ purchase of a building and records of construction costs would be necessary for this valuation. The value of land appreciates (increases) over time, while that of buildings depreciates (reduces).

Another implication of the requirement of valuation of land is that unlike acquired land, which can be valued at cost and revalued at market prices, ownership of all lands which are not owned by other entities would vest in the Government and hence there cannot be a cost basis of valuation (cost being 'nil' in such cases). Identification, demarcation, possession/ re-possession, assessment, and valuation/ re-valuation of all such land, whether agricultural (irrigated/non-irrigated), commercial, industrial, non-agricultural, barren, forested, wasteland, desert, coastal, wetland, etc. would have to be separately done and disclosed in the accounts. This would have huge implications on matters concerning government land and indirectly on the assessment of land revenue, valuation for sale or allotment of government land, continuance or change of land use and its effect on valuation, removal of encroachments, quantum of compensation for other land-owners on similar valuation, etc. This would be a huge challenge in itself. It would also need creation, probably, for the first time in history, of an accounting record for land as an asset to the Government, identified location-wise.

In India, expenditure on land and building is against budget allotment. It is classified as capital expenditure or works in the year of payment. Cost of Land and Building is indicated in returns like those under Fiscal Responsibility and Budget Management (FRBM) Act, 2003, asset register enclosed with annual demand for budget (Budget Estimates/ Revised Estimates), in office registers and in property documents. The property documents may not be in the accounting office, but with the concerned estate officer. Splitting value of buildings may involve land valuation also, for which local bodies (property tax assessment department)/ state revenue offices (land revenue/ stamp duty assessment / registration departments) would also have to provide inputs.

5.10 Partial revaluation/ nil valuation of Property, Plant and Equipment

IPSAS No.17 Paragraph 53 states that the items within a class of property, plant, and equipment are revalued simultaneously in order to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates, but to the contrary the MDAs/RS had made valuation for some of its buildings and leaving others without being valued and therefore, the amounts presented in the financial statements will have a mixture of costs and re-valued amount as at different dates. A review of supporting schedules for Property, Plant and Equipment (PPE) related to buildings, motor vehicles and motor cycles of MDAs/RS

revealed items on those categories disclosed assets without values contrary to Para 49 of IPSAS 17 resulting to underestimated figure of PP&E. Omission of asset value signifies that proper valuation is yet to be done.

Learning points: As soon as IPSAS is adopted, there will definitely be a revaluation of all components of plant, property and equipment. If no such revaluation has taken place or if the revaluation is incomplete, it would be proved as either there would be no change in the valuation or the supporting documents would be deficient. Similarly, it is possible that some assets may not have any value shown against them. This too is a pointer to non-revaluation as per IPSAS. Assertions like existence, valuation (based on its utility and serviceability, the quantum and time-frame of returns/ benefits from it, etc.), ownership and completeness of non-current assets would require to be tested.

Audit Evidence: List of assets as per Form GFR 40, return under FRBM Act, asset register enclosed with annual demand for budget (Budget Estimates/ Revised Estimates), on-line inventory (where maintained), etc. can be compared with assets given in the accounts.

In India, expenditure on assets is against budget allotment. It is classified as capital expenditure or works in the year of payment. This cost is indicated in returns like those under FRBM Act, asset register enclosed with annual demand for budget (Budget Estimates/ Revised Estimates), in office registers, etc. This would change if fair valuation and revaluation concepts are introduced.

5.11 Misclassification of Development Funds Transfer Shs. (X)

Para 13 of IPSAS 17 defines Property, Plant, and Equipment as tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and are expected to be used during more than one reporting period. Also Para 14 of IPSAS 17 provides recognition criteria for Property, plant, and equipment that shall be recognized as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the entity; and the cost or fair value of the item can be measured reliably. Two MDAs reported transfer of development funds under Property, Plant and Equipment (PPE) as at the end of the financial year 2012/2013. However, the reported amount in the financial statement was transfer of funds to Ministry institutions to meet development activities whereby the item of transfer does not meet the definition of Property, Plant and Equipment as well as the recognition criteria as stated above. Information contained in the financial statements is not reliable and may mislead potential users.

Learning points: Mere transfer of funds for development activities would be akin to budget allotment under capital heads or for works. This cannot be considered as immediate creation of an asset under IPSAS. Even incurring expenditure on capital head of account would not necessarily lead to its recognition as PPE (Property, Plant and Equipment) under IPSAS.

Wasteful expenditure like unnecessary or repeated repairs or re-laying of roads and footpaths, such as cases of replacement of tarmacadam/ concrete/ cement footpaths and roads with low quality paver blocks, followed by constant repairs/ replacement thereof; construction of bridges without approach roads, etc. would result in such expenditure not being classified as Property, Plants and Equipment under IPSAS norms. Naturally, such wasteful expenditure would be directly thrown up or indicated in the accounts itself, merely by adherence to IPSAS. These would provide direct evidence on quality and outcome of capital expenditure incurred and support compliance and performance audit observations. This would serve the ultimate purpose of an SAI, which is "Making a difference to the lives of citizens", as enshrined in ISSAI 12.

In India, expenditure on assets is against budget allotment. It is classified as capital expenditure or works in the year of payment. It is possible that an expenditure, which does not meet the criteria given above would get recognised as a capital expenditure. This would change if IPSAS valuation is introduced.

5.12 Activities such as separation of grants and borrowing, preparation of the accounting manual and the chart of accounts were not completed as planned hence hindering the smooth progress of implementation of the adoption of IPSAS accrual. There is no updated PPE (Property, Plant and Equipment) report disclosing assets details such as bar code, report, schedule of disposed assets etc; also there is neither action plan nor asset management guideline.

Learning points: Setting a time-frame and adherence to the same for adoption of new accounting standards, with identification and understanding of critical processes like preparation of accounting and asset management manuals/ guidelines, chart of accounts, updation of fixed assets register, etc. would be necessary. Unless such documents are ready in the back-ground and understood properly by all users, there cannot be a successful transition to new standards.

In India, the roll-out of new standards is at a nascent stage. If such processes are completed, the new standards can be adopted as soon as a decision is taken to do so. IA & AD has an online inventory module for IT assets. For assets, government offices have records in Form GFR 40, returns under FRBM Act, asset register enclosed with annual demand for budget (Budget Estimates/ Revised Estimates), etc.

5.13 Recommendation: Since the Government has a provision of five years as first time adopters of IPSAS accrual basis, the Government is advised to allocate enough resources in terms of finances and human capital to facilitate smooth operation of the IPSAS accrual project so as to effectively use this transition period.

Learning points: On certain aspects like accounting of Property, Plant and Equipment, IPSAS gives a transition period of 5 years to totally adhere to these standards. While it would be permissible to use this transition period, it would always be beneficial if background work in this regard is completed by deploying adequate and competent human and financial resources and providing training for ensuring a smooth and time-bound transition.

In India, the roll-out of new standards is at a nascent stage. If such processes are completed, the new standards can be adopted as soon as a decision is taken to do so.

6. Relevant IPSAS based observations in Cook Islands

A Management Report was issued by Cook Islands Audit Office on Financial Statements of Aid Management Division (AMD) of the Ministry of Finance and Economic Management for 30 June 2009. The Report issued a qualified opinion due to non-compliance with IPSAS 3. Two other observations were also issued based on IPSAS. These three observations are detailed below.

6.1 Prior period errors- non compliance with generally accepted accounting practice

Prior period errors reported in equity at $(X) relate to the corrections processed as a part of the AMD (Aid Management Division)'s financial reporting improvement project. For this, entries were passed to clear stale cheques, unreconciled bank items and the redistribution of interest liabilities to the relevant Aid liability accounts. Aid assets and liabilities were also reconciled. These corrections were however not processed retrospectively as required by IPSAS-3-Accounting Policies, Changes in Accounting Estimates and Errors but rather corrected directly to equity in the current year. Consequently this balance has been qualified due to non compliance with generally accepted accounting practise.

Learning points: Para 47 of IPSAS-3 requires that an entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

(a) Restating the comparative amounts for prior period(s) presented in which the error occurred; or

(b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

In effect, it means that corrections of errors relating to previous periods should be corrected in such a way as if the accounts of previous periods are re-opened and the corrected figures are shown in the comparative (previous years) figures. The correction cannot simply be made in the current year's accounts.

Non-compliance with this is pointed out in the comment.

In India, there is no concept of prior period in government accounting (except that recovery of previous years' expenditure cannot be reduced from current year expenditure and needs to be classified separately) since all accounting is based on budgetary allotments and actual *cash flows there-against. In Indian mercantile accounting (AS), correction of prior period errors simply need to be disclosed separately in the current year's accounts and need not be re-classified in the comparative figures for previous years. However, expenditure of earlier year(s) which was omitted to be deducted in the relevant year(s) and is shown in the accounts of current year as a prior period adjustment, are not deductible for tax purposes. For tax purposes, the expenditure can be shown only as a deduction against the concerned earlier year by revising the return of that year, if not time-barred. However, the new accounting standards for mercantile accounting in India (IndAS 8-Para 42) exactly mirrors the IPSAS requirement in this regard. Hence, it is expected that there will be convergence of mercantile, taxation and public sector accounting on this matter.*

6.2 Cut off considerations – IPSAS 23 Revenue from Non-Exchange Transactions

Audit Findings

AMD receives the majority of its funding on a monthly basis from NZAID for specific projects that have been approved for completion. Currently, an asset is recognised when the cash is received and a corresponding liability is recognised until the funding is actually spent.

The subsequent release of the liability to revenue in accordance with IPSAS 23 should occur as the obligations under the funding agreement are fulfilled. AMD actually recognise income as the funding is spent on the project. However, consideration should be given to situations when spending does not equate to the fulfilment of the obligations under the funding agreement. In which case, despite funds having been spent, the liability would not be extinguished.

Conversely, AMD should consider if at the year-end a project has been completed (i.e. obligations under the funding agreement have been fulfilled) but all suppliers have not yet been paid. In terms of the current accounting treatment, the project liability will remain until all suppliers have been paid. However, if at year end the project is complete as envisaged by the funding agreement, AMD has no aid liability but rather normal accounts payable to the suppliers. For example, if a project was funded to deliver an education project and at the year end the project has been delivered but certain suppliers were still to be paid, revenue and a corresponding expense should be recognised alongwith a payable and the reduction in the aid liability.

These scenarios relate specifically to cut-off procedures and would only need to be considered at year end.

Learning points: The comment is on non-compliance of IPSAS regarding external aid. It considers two aspects of the aid. One is the need to ensure completion of the project complying with all terms and conditions attached to the aid for the project. The other is the need to ensure that the entire amount of expenditure on the project is met and unpaid amounts are also duly provided for with accountal as expenditure.

A chart in IPSAS 23 following Para 29 thereof deals with the accounting in such situations.

The comment is that the cut-off date set by AMD for determining whether the amount of aid received is a liability or to be taken to revenue is wrongly being based on when it is spent (cash outflow), rather than when all conditions attached to the sanction are complied with. Similarly, as a result of AMD's accounting policy, when amounts were payable to some contractors, these would be kept in the amount of liability meant for aid, even when the project is completed with all conditions attached to the sanction complied with. This would be an incorrect treatment, since the aid should now be booked as income. Any amounts still payable would be normal dues and not relate to the aid received. This is the crux of the comment.

The comment is on the policy and not necessarily on actual occurrence of such a scenario. Even if no such cases exist, there is a need to amend the accounting policy.

Under cash system of accounting, let us assume that a credit purchase of stationery worth Rs.10000/- was made. The material was received on 28 March 2015. The payment was made on 10 April 2015 based on budget of 2015-16. Thus, booking of the expenditure in government accounts would be in 2015-16 only. Under accrual basis, the expenditure should be booked on 28 March 2015 (real-time) recognising, in double entry form, a corresponding liability at the same time of Rs.10,000/-. There are certain other liabilities which need to be created or revalued as on 31 March 2015 only, such as provision for doubtful debts and so on.

In this particular case, the comment specifies that it needs to be considered at year-end only. This means, real-time booking, constant review and accountal of aid-related assets or liabilities is not required. Such accounting, like provisioning, needs to be made only at the end of the year.

No money value is given. But being non-compliance of IPSAS, it has been commented upon in the report.

In India, aid is accounted for as per detailed instructions in Chapter -10 of GFR, 2005, but is again based on cash accounting. Receipt of aid and budgeted expenditure therefrom are separate transactions, often booked in separate departments.

6.3 Recognition of Aid assets – IPSAS 23 Revenue from Non-Exchange Transactions

Audit Findings

In terms of IPSAS 23 an asset should be recognised when it is possible that the future economic benefits or service potential associated with the asset will flow to the entity. Currently AMD recognises the asset (cash from donors) on a cash basis i.e. when funding is received.

We interpret IPSAS 23 envisages the recognition of aid funding (assets) once the project is approved, which precedes the receipt of funds. Based on our discussions with management we understand the Forward Aid Programme (FAP) spans a 3 year period and we agree it would not be prudent to recognise revenue at this stage of approval. However it is our view that as the FAP is rolled down into similar programmes and

projects (yearly basis) the inflow of economic benefits becomes probable and that revenue should be recognised at this point.

Learning points: While the previous comment is on the liabilities and revenue side, this comment is on the booking of the aid as a receivable.

The comment is on the cut-off date for determining when the amount of aid should be accounted for- when received or when it becomes receivable. It is based on accrual vs. prudence in accounting. The aid could be treated as earned (accrued) once there is a reasonable certainty of its receipt. This happens at the stage when detailed plan regarding utilisation of the aid is prepared and approved, which shows that it is not merely an in-principle approval, but an administrative approval and a technical sanction, which is a fairly advanced stage of project commencement.

The comment is on the policy and not necessarily on actual occurrence of such a scenario. Even if no such cases exist, there is a need to amend the accounting policy. No money value is given. But being non-compliance of IPSAS, it has been commented upon in the report.

In India, aid is accounted for as per detailed instructions in Chapter -10 of GFR, 2005, but is again based on cash accounting. Receipt of aid and budgeted expenditure there-from are separate transactions, often booked in separate departments.

7. Conclusion

These examples reveal the challenges in adopting new accounting systems in government as also potential audit observations. It shows the importance of simultaneous, broad-based (Union, State, local bodies, autonomous bodies) and multi-pronged (legal, accounting, training, IT) transition for adoption of new set of standards. It also indicates the importance of uniformity and simplicity in drafting and implementation of new standards.

8. List of Key Documents

1.	Extracts from Report of NAO, Tanzania for 2012-13	27-56
2.	Extracts from Receipts and Payments Rules, 1983	57-60
3.	Extracts from General Financial Rules, 2005	61-68
4.	Format of Return under FRBM Act, 2003	69
5.	Extract of ISSAI 12	71
6.	Extracts from Report by Cook Islands Audit Office	73-76
7.	Extract from IndAS 8	77

SM No. 9 KD-1 Extracts from Report of NAO, Tanzania Ar 2012-13

2012/2013

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE

THE ANNUAL GENERAL REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE CENTRAL GOVERNMENT (MDAs) FOR THE YEAR ENDED 30TH JUNE, 2013

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This general report covers 60 Ministerial Votes, Departments and Agencies, 25 Regional Administrative Secretaries and 32 Embassies

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THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE

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In reply, please quote
Ref.Na.FA.27/249/01/2012/13
28th March, 2014

Your Excellency Dr. Jakaya M. Kikwete,
The President of the United Republic of Tanzania,
State House,
P. O. Box 9120,
DAR ES SALAAM.

RE: SUBMISSION OF THE ANNUAL GENERAL REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE CENTRAL GOVERNMENT FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2013

Pursuant to Article 143(4) of the Constitution of the United Republic of Tanzania of 1977 (revised 2005), and Section 34 (1) (c) of the Public Audit Act No. 11 of 2008.

I have the honour and respect to submit to you the General Audit Report on the Central Government for the financial year ended 30th June, 2013 for your information and necessary action.

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I have provided constructive recommendations which if implemented can mitigate the incidence of irregularities and substantially improve financial accountability in the Government.

I submit.

Ludovick S. L. Utouh
CONTROLLER AND AUDITOR GENERAL

The Adverse Opinion was issued to Tanzania Embassy in Muscat and disclaimer opinion was issued to National Consolidated Accounts.

Generally, there has been a significant regression of the audit opinions as compared to the previous years. Entities issued with unqualified opinion regressed from 46 to 26 entities, representing a decrease of 43% as compared to last year's results. While entities issued with unqualified opinion with matter of emphasis increased to 59 from 57 recorded in the last year. Entities issued with qualified opinions increased from 5 entities of last year audit to 30 entities which is 6 times the last year. Also 1 entity was issued disclaimer of opinion and 1 entity was issued with adverse opinion during the year which was not the case for the last year's audit.

These audit results are not good as they signifies that, the financial statements did not sufficiently meet the requirements of the International Accounting Standards, in this case; IPSAS accrual basis of accounting. This means that, there were some areas of the financial statements which did not portray fair results of the operations of the audited entities. The possible causes of these setbacks may be due to the following factors:

a) The migration to IPSAS accrual basis of accounting. Areas that need improvement include accounting treatment of; expenses incurred during the year, recognition of capital grants received in the cash flows statement, identification and recognition of intangible assets and reconciliation between cash book and Bank statement.

b) Weaknesses in the IFMS, whereby the same Epicor configurations used in IPSAS cash basis of accounting was used in IPSAS accrual basis of accounting. As a result, accounting transactions such as imprests were directly expensed, the system did not recognize accrual transactions such as payables and receivables, etc.

c) There was inadequate, capacity building through training across departments of the audited entities to staff who are either indirectly or directly involved in the preparation of financial statements.

d) Financial reporting framework is under IPSAS accrual basis of accounting while the basis of accounts of the budget is still under cash basis which has resulted into mixed concepts on accounting for various items of expenditure in the financial statements e.g. accrual expenses were not reported in the statement of financial performance.

e) Adoption of IPSAS accrual basis of accounting prior to amendment of the existing legislation e.g. Public Finance Act No. 6 of 2001 (amended 2004) contradicts with the IPSAS accrual basis of accounting philosophy.

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accordance with either International Public Sector Accounting Standards accrual basis of accounting or International Financial Reporting Standards (IFRS).

The submitted financial statements of the MDAs RS and Embassies/High Missions were prepared in compliance with IPSASs -accrual basis of accounting. Also Section 25(4) (a) and (b) of the Public Finance Act require Accounting Officers to submit to the Controller and Auditor General financial statements prepared in accordance with generally accepted accounting practice and in accordance with any instructions issued by the Accountant General and approved by the Permanent Secretary to the Treasury and stating the basis of accounting used. Accounting Circular No. 11 of 2012/2013 issued by Accountant General requires Accounting Officers to prepare and present financial statement using IPSAS accrual basis of accounting.

A complete set of financial statements prepared according to IPSAS - accrual basis includes the following components:

i. Statement of financial position;
ii. Statement of financial performance;
iii. Statement of changes in net assets/equity;
iv. Cash flows statement;
v. Statement of comparison of budget and actual amount and

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vi. Accounting policies and notes to the financial statements.

Section 34 of the Public Audit Act, 2008 and Regulation 88 of the Public Audit Regulations, 2009 requires the Controller and Auditor General after examination and audit of all financial statements to prepare and submit an annual general report. The annual general report shall be submitted by the Controller and Auditor General to the President of URT by 31st March each year and shall be laid by the Minister or appropriate Minister to the National Assembly within seven days of the next sitting of the National Assembly.

1.1.2 Rationale for Audit

1.1.2.1 Audit objectives

The main objective of conducting the audit is to enable the Controller and Auditor General to express an independent audit opinion on the financial statements of Ministries, Independent Government Departments, Agencies, Regional Administrative Secretariats, Tanzania Revenue Authority and Consolidated National Accounts for the year ended 30th June, 2013. Also, to establish whether the financial statements were prepared in all material respects, in accordance with the International Public Sector Accounting Standards (IPSAS) accrual basis of accounting.

circumstance, the auditor refuses to express an opinion.

During the year, one [11] out of 117 audited entities, which is 1% was issued with disclaimer of opinion. The basis that has resulted to the disclaimer of opinion are as follows;

S/N	Name of the Audited Entity
1.	**National Consolidated Account**
	Omission of controlled entities from the Consolidated Financial Statements. Para 20 states that "Consolidated financial statements shall include all controlled entities of the controlling entity, except those referred to in paragraph 21". Para 21 in turn provides that, an entity shall be excluded from consolidation when there is evidence that the control is temporary because the entity is acquired and held with a view to dispose within 12 months from acquisition and management is actively seeking for a buyer. Contrary to this, the prepared Consolidated financial Statements have not included consolidation of LGAs and GBEs which should have been consolidated as per requirements of para 20 of IPSAS 6. The reason for non consolidation of LGAs as given on Note 2 was that the LGs do prepare the financial statements based on IPSAS whereas the Central government has just started preparing its financial statements on IPSAS Accrual basis in 2012/13. The reason provided by the management neither satisfies the requirement of para 21 which provides for the entities which shall not be consolidated nor the requirement of transitional provision under para 65 of IPSAS 6. As for the GBEs the management claims not to

[11]National Consolidated Account

S/N	Name of the Audited Entity
	consolidate them because they give dividends to the government. This is again contrary to the requirement of para 27 of IPSAS 6 which explicitly states that "A controlled entity is not excluded from consolidation because its activities are dissimilar to those of the other entities within the economic entity, for example, the consolidation of GBEs with entities in the budget sector. `Relevant information is provided by consolidating such controlled entities and disclosing additional information in the consolidated financial statements about the different activities of controlled entities'. The omission of LGAs and GBEs from the Consolidated Financial Statement makes the financial statements incomplete hence not presenting a true and fair view of the National Accounts for the year 2012/13. **Application of inappropriate transition provision as basis for preparation of the Financial Statements.** Para 65 and 66 of IPSAS 6 provides a transitional provision for controlling entities which have adopted IPSAS accrual accounting for the first time on the requirement of eliminating inter entities transaction, balances, revenues and expenses (as required by para 45 of IPSAS 6) for a period of three years. In line with this, para 67, requires an entity to disclose that not all such balances, transactions, revenues and expenses within economic entity have been eliminated. The management stated on Note 2, the basis for preparations of the financial statements that the Consolidated financial statements on the basis of transition provision of IPSAS 17on PPE whereby it says that full set of Consolidated financial statement will be accomplished in five years due to adoption of the provision of IPSAS 17. ". This is misleading since IPSAS 17 does not give provision for Consolidation of financial statements rather on reporting PPE.

4) A road map for IPSASs implementation on the first IPSAS accrual financial statements for the central government developed by the Ministry of Finance was inadequately followed. For instance, the Ministry was supposed to update the accounting policies, the accounting manual and prepare a consolidation tree by March 2012. This deadline was not adhered to as they were still in draft form. There was also another challenge in identifying annual leave liability and other employment related liabilities as very few audited entities incorporated them in their financial statements.

The detailed list of audited entities issued with Qualified and Adverse opinion and their actual basis of their qualification is shown in ***Table '5' below.***

Table 5: List of MDAs issued with Qualified Opinion and the their basis

Ministries Departments & Agencies

S/N	Name of the audited MDAs and the basis of qualified opinion
1	**Fire and Rescue Forces**
	Understatement of expenses by Shs.500,162,825 The Fire and Rescue Forces Department incurred an amount of Shs.500,162,825 for goods and service which were procured and received by the Department which at the end of the financial period the same were not paid for, the figure was omitted in the statement of financial performance hence the statement failed to portray a true picture of its operations.
2	**Ministry of Communication Science and Technology**
	Overstatement of Non-current Assets by

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S/N	Name of the audited MDAs and the basis of qualified opinion
	Shs.737,827,680 Ministry reported intangible assets of Shs.737, 827,680 as at 30th June 2013. However under Note 61 to the financial statements which explained what constitute this amount, we noted that most of the items did not meet the definition and recognition criteria for intangible assets as prescribed under IPSAS 31. **Understatement of expenses in the statement of financial performance** The Ministry incurred expenditures of Shs.162, 073,744 that was correctly reported in the statement of financial position as payables. However, the same was not charged into the statement of financial performance as expenses thus resulting into understatement of the reported expenses by the same amount. As a result, the Ministry recorded neither surplus nor deficit during the year. **Non preparation of bank reconciliation statements** Audit of cash flow statement together with statement of financial position disclosed a figure for cash and cash equivalent amounting to Shs.23, 389,759 not supported by related bank reconciliation statements contrary to IPSAS 2(56). As a result, I could not confirm the correctness of the amount of Cash and Cash equivalents.
3	**Ministry of Agriculture Food Security and Cooperatives**
	Overstatement of Non-current Assets by Shs.6,374,281,432 The Ministry reported intangible assets of Shs.6,374,281,432. However, these amount constituted items, which did not meet the definition and recognition criteria for intangible assets as per IPSAS No.31, thus overstated the reported noncurrent assets by the same amount.

S/N	Name of the audited MDAs and the basis of qualified opinion
	Non preparation of bank reconciliation statements Contrary to Regulation 162 of the PFR of 2001, the Ministry did not prepare bank reconciliations as a result, the correctness of the amount of cash and cash equivalent of Shs.5,648,305,420 reported in both the cash flows statement and the statement of financial position could not be established. **Lack of supporting documents of accounts payable Shs.2,162,343,978** Out of Shs.44,739,685,558.75 of the payables reported by the Ministry during the year, an amount of Shs.2,162,343,978 was not supported by relevant documents, thus we could not confirm its correctness.
4	**Ministry of Livestock and Fisheries Development**
	Unsupported Account Payables Shs.344,799,155 The Ministry reported account payables of Shs.344,799,155 related to staff claims, but relevant documents to support them were not produced for verifications. Hence, its genuineness could not be confirmed. **Unreceived Remittances Shs.752,736,291** Shs.10, 091,081,130 were transferred to Tanzania Fisheries Research Institution and Tanzania Veterinary Laboratory Agency. Out of the transferred amount, the recipients did not acknowledge Shs.752, 736,291. **Unsupported deposits balance of Shs.756,274,215** An amount of Shs.756,274,215 was reported as deposit balance as at the end of the financial year. However, this amount was not supported; hence we could not verify its correctness.
5	**Tanzania Commission for AIDS**
	Expensing of unutilized inventories amounting to

S/N	Name of the audited MDAs and the basis of qualified opinion
	Shs.222,013,632 During the year, the commission expensed unutilized inventories valued at Shs.222, 013,632 contrary to the requirements of IPSAS 12 (44). **Unsupported payments amounting to Shs.79,607,500** Expenditure amounting to Shs.79,607,500 were not supported by appropriate acknowledgement receipts and retirement particulars. In the absence of these supporting documents, the authenticity of the amount paid could not be established. **Contradicting information in the financial statements** • There was a contradiction on the amount of exchequer issues received during the year, whereby, in the commentary to the financial statements (pg.14) and statement of exchequer received (pg.56) disclosed an amount of Shs.9,167,936,780 while the statement of vote account (pg.47) disclosed an amount of Shs.9,691,811,644, which created a difference of Shs.523,874,864. • TACAIDS disclosed that, 3 grounded motor vehicles and furniture and fittings were disposed of for Shs.31,800,000 and Shs.4,231,000 respectively. However the amount of disposed motor vehicles was not deducted at all in the PPE movement schedule to arrive at the balance as at 30th June 2013, while an amount of Shs.127,787,101 was deducted in respect of furniture and fittings instead of Shs.4,231,000 which was disclosed in the note.
6	**Ministry of Home Affairs**
	Lack of supporting documents for account payables Shs.84,295,595 The Ministry of Home Affairs reported outstanding

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S/N	Name of the audited MDAs and the basis of qualified opinion
8	**Prime Minister's Office**
	Inadequate preparation of cash flows statement The Prime Minister's office received an amount of Shs.2,750,989,763 development/capital expenditure. However, this amount was not disclosed in the cash flows statement as cash flows from financing activities as required by IPSAS 2. **Over payment to contractor Shs.25,947,276** The PMO contracted Stefnat Engineering and Technical Services Ltd to refurbish the old German Building and disaster management located at Oyster bay at a contract price of Shs.3,177,477,826. The final contract valuation reported a total Shs.32,954,790 as a balance due for payment to the contractor. However, the total funds paid for the final payment was Shs.58,902,066 resulting into unexplained difference of Shs.25,947,276 to the contractor.
9	**Ministry of Health and Social Welfare**
	Un supported expenditure Shs.889,209,329 Payment vouchers amounting to Shs.889,209,329 were not fully supported by proper documents, thus we could not establish their authenticity. **Unsupported medical treatment abroad (embassies) Shs.500,114,305** A total amount of Shs.500,114,304 was transferred to various Tanzania embassies for medical treatment but the expenditure return were not available at the Ministry, thus we could not authenticate them. **Salaries paid to retired officers Shs.87,157,948** The Ministry paid Shs.87,157,948 to various officers who were reached compulsory retirement age range of 61 to 65 years.

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Conth. from p.35/C.36 (p.22-23 of Report).

S/N	Name of the Audited Entity
	Inadequate disclosures. Para 62(a) of IPSAS 6 requires among other things the consolidated financial statements to disclose list of all controlled entities. Contrary to this, the disclosed list in the Consolidated financial statements was not exhaustive as it excluded LGAs and GBEs. **Un-reconciled differences** I reviewed Bank reconciliation statements and noted discrepancies between adjusted bank balances and balance as per cash book amounting to Shs.12,724,073,617.54 The discrepancies were not reflected in the reconciliation statements nor reconciled. **Unadjusted stale cheques** The review of bank reconciliation statement noted stale cheques Shs.168,047,718.73 which have not been adjusted for between two to ten years. **Export-Credit Guarantee Scheme** The review of operations of the scheme noted long outstanding loans under Government guarantee which had been defaulted by beneficiaries with evidence of inability to repay the loans amounting to Shs.8,129,556,449.15; however the Government is yet to honour its parts despite several remainders from Financial Institutions.

2.3 Trend of Audit Opinions

The chat below shows the trend of audit opinions for the past four years consecutively. They further analyse the movement of audit opinions for the past two consecutive years for the MDAs, RS and Embassies Separately.

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S/N	NAME OF THE AUDITED RS AND THE BASIS OF QUALIFIED OPINION
	MSD Funds not recognize in financial statements Shs.253,166,245 During the year, the Ministry of Health and Social Welfare transferred Shs.253,166,245 to MSD for procurement of drugs and medical supplies for Kigoma Regional Hospital. However, receipt of these funds was not recognized in the financial statements.
6	RS KAGERA
	Omission of inventories balance in the financial statements Shs.75,971,420 The Regional Secretariat did not disclose inventories existed at the end of the year amounted to Shs.75,971,420 thus understated the current assets by the same amount. **Payment not supported Shs.31,320,000** The Regional Secretariat incurred expenditures of Shs.31,320,000 but this amount was not proper supported by relevant documents. Thus we could not establish the eligibility of those payments. **Incurred expenses not charged in the statement of financial performance Shs.523,895,425** An amount of Shs.523,895,425 was incurred the secretariat during the year but was not charged in the statement of financial performance, which resulted into the understatement of the reported expenses by the same amount. This defeats the concept of IPSAS accrual basis of accounting, (Para 7 of IPSAS 1). **Non preparation of bank reconciliation statements** Contrary to Regulation 162 of the PFR of 2001, the Regional Secretariat did not prepare bank reconciliations as a result, the correctness of the amount of cash and cash equivalent of Shs.17,724,509 reported in both the cash flows statement and the statement of financial position could not be established.

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S/N	NAME OF THE AUDITED RS AND THE BASIS OF QUALIFIED OPINION
	Incurred expenses not charged in the statement of financial performance Shs.356,771,074 An amount of Shs.356,771,074 was incurred by the Secretariat during the year but was not charged in the statement of financial performance, which resulted into the understatement of the reported expenses by the same amount. This defeats the concept of IPSAS accrual basis of accounting, (Para 7 of IPSAS 1). **Non preparation of bank reconciliation statements** Contrary to Regulation 162 of the PFR of 2001, the Regional Secretariat did not prepare bank reconciliations as a result, the correctness of the amount of cash and cash equivalent of Shs.157,532,432.49 reported in both the cash flows statement and the statement of financial position could not be established.
11	**RS MARA**
	Understatement of Inventory balance by Shs.101,942,400 Mara Regional Secretariat reported inventory balance of Shs.130,493,400 as at 30th June, 2013. However, the physical count during stocktaking as at that date, the inventory balance was valued at Shs.232,435,800 resulting into its understatement by Shs.101,942,400.
12	**RS ARUSHA**
	Overstatement of the Non-current Assets by Shs.246,398,410.45 Arusha Regional Secretariat reported intangible assets of Shs.246,398,410.45 as at 30th June, 3013. However, this amount constituted items, which did not meet the definition and recognition criteria for intangible assets as per IPSAS No.31, thus overstated the reported noncurrent assets by the same amount. **Understatement of expenses in the statement of financial performance Shs.617,865,810** The Regional Secretariat disclosed payables of

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S/N	NAME OF THE AUDITED RS AND THE BASIS OF QUALIFIED OPINION
	Shs.617,865,810.37 in the statement of financial position as at 30th June, 2013. A further review indicated that, there was neither surplus nor deficit for the period. This implies that, expenditures incurred during the year, which formed part of the payables, were not charged in the statement of financial performance contrary to IPSAS 1 Para 99. **Non preparation of bank reconciliation statements** Contrary to Regulation 162 of the PFR of 2001, the Regional Secretariat did not prepare bank reconciliations as a result, the correctness of the amount of cash and cash equivalent of Shs.157,514,999.42 reported in both the cash flows statement and the statement of financial position could not be established. **Non disclosure of funds received from the Ministry of Health through MSD Shs.228,532,794** The regional Secretariat did not recognize in its financial statement, the amount of Shs.228,532,794 received during the year from the Ministry of Health and Social Welfare through for the procurements of drugs and other medical supplies.
14	**RS SHINYANGA**
	Non preparation of bank reconciliation statements Contrary to Regulation 162 of the PFR of 2001, the Regional Secretariat did not prepare bank reconciliations as a result, the correctness of the amount of cash and cash equivalent of Shs.253,147,996.19 reported in both the cash flows statement and the statement of financial position could not be established. **Expenditure Lacking supporting documents Shs.59,634,367.99** Contrary to Reg. 86 (1), the Regional Secretariat effected payments amounted to Shs.59,634,367 whose payment vouchers were not supported by relevant documents and therefore we could not establish their

- The 5 year Action Plan did not take into consideration trainings of staff using Epicor 9.05 on how to use Epicor-asset management module for proper monitoring and understanding of the valuation process.
- Neither action plan nor asset guideline and financial statements disclose any information about valuation of properties especially land and buildings.

(d) Land and Building not separated as per requirement of IPSAS 17

Paragraph 74 of IPSAS 17 states that Land and buildings are separable assets and are accounted for separately, even when they are acquired together. My review of the consolidated financial statements noted that land and buildings have not been separated as required by the standard.

(e) Configuration of Epicor and budget systems have not being properly done to process transactions and generate IPSAS accrual basis of accounting financial statements.

(f) The government budget system, procedures, guidelines and policies are still on IPSAS cash basis while the Central Government's financial reporting has shifted to IPSAS accrual basis with effect from 01st July, 2012. This situation leads to difficulties in implementation to users.

Grounded noncurrent assets which are in good condition needs to be repaired so as to continue getting benefits from them. Those assets which are unserviceable I recommend to the government through respective Accounting Officers to dispose them in order to avoid future loss through deterioration or outrights theft. Referred **annexure 'M'**.

8.3 Partial revaluation of Property, Plant and Equipment

IPSAS No.17 Paragraph 53 states that; "the items within a class of property, plant, and equipment are revalued simultaneously in order to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates", but to the contrary the MDAs/RS had made valuation for some of its buildings and leaving others without being valued and therefore, the amounts presented in the financial statements will have a mixture of costs and re-valued amount as at different dates.

A review of supporting schedules for Property, Plant and Equipment related to buildings, motor vehicles and motor cycles of MDAs/RS revealed items on those categories disclosed assets without values contrary to Para 49 of IPSAS 17 resulting to underestimated figure of PP&E. Omission of asset value signifies that proper valuation is yet to be done. The relevant votes with this challenge are as shown in the **annexure 'N'**.

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Although Central Government has adopted IPSAS accrual basis of accounting and a five years provision has been granted, there's a need of revaluing their assets so as to accommodate them in the financial statements and all assets which will not be revalued need to be disclosed.

8.4 Property, Plant and Equipment lacking ownership documents

As at 30th June 2013, I noted that land and buildings owned by the MDAs and RS had no title deeds in order to confirm rights and obligation of the reported PPEs on legal status and ownership as shown on table 54 below.

Table 53: List of MDAs and RS lacking ownership documents

S/No	Vote	MDAs/RAS	Remarks
1.	68	Ministry of Communication, Science and Technology	Building situated at plot no. 1168/19 along Jamhuri Street has no title deed
2.	72	RAS Dodoma	Missing title deeds Mpwapwa DC's Office Block A ;Bahi-Building plot No.30 block H; Bahi-DC House Plot No.4 Block H, Chamwino DC Office Plot No 902 Block D; Chamwino DC Office Plot No.997 Block D;RC Residential Plot No 42 -43 Mlimani
3.	88	RAS - Dar Es Salaam	Lack of title deeds of the land owned by RAS - Dar Es Salaam
4.	93	Immigration Service Department	Missing title deeds of the following buildings allocated at plots Nos 28,29,30,31,32,45,46,112,113,114,115,
5.	F75	RAS Kilimanjaro	Building located at DAS Office Rombo (Mashati), DAS office Rombo (Usseri) and DC OFFICE -Mwanga acquired in the year 1971,1972 and 1988 respectively

Source: Individual reports for the financial year 2012/2013

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8.7 Misclassification of Development Funds Transfer Shs. 696,991,606,941

Para 13 of IPSAS 17 defines Property, Plant, and Equipment as tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and are expected to be used during more than one reporting period. Also para 14 of IPSAS 17 provides recognition criteria for Property, plant, and equipment that shall be recognized as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the entity; and the cost or fair value of the item can be measured reliably.

During the year under audit I noted that to two (2) MDAs reported transfer of development funds amounting to Shs.696,991,606,941 under Property, Plants and Equipment as at the end of the financial year 2012/2013. However, the reported amount of Shs.696,991,606,941 in the financial statement was transfer of funds to Ministry institutions to meet development activities whereby the item of transfer does not meet the definition of Property, Plant and Equipment as well as the recognition criteria as stated above. Information contained in the financial statements is not reliable and may mislead potential users. The affected Ministries are as shown on table 55 below:

Table 54: List of MDAs and RS with Transfer of Development funds

S/No	Vote	MDAs	Transfer included in the PP&E (Shs)	Remarks
1	46	Ministry of Education and Vocational Training (MoEVT)	26,797,695,648	Transfer to Colleges and Universities
2	98	Ministry of Works	670,193,911,293	Transfer to Ministry Institutions (i.e. TANROADS, TBA and TEMESA) to carry out construction and rehabilitation of roads works, building of government houses and purchase of ferries and heavy plants.
Total			696,991,606,941	

Source: Individual reports and Financial Statement for the financial year 2012/2013

Rectification in the Chart of account to separate items of recurrent and capital nature in the Epicor system needs to be done by the Ministry of Finance through the Accountant General.

8.8 Inadequate management of Ivory tusks stockpile and other trophies

During audit and verification of inventories held at Ivory room-Dar es salaam and outstations under the Ministry of Natural Resources and Tourism, I noted that there is no register maintained to record all inventories held in the main store (ivory room) at the Ministry's headquarters-Dar es Salaam. Local inspection conducted in upcountry stations revealed a large number of trophies were kept at various outstations for more than a year instead of being transported to the Ivory room at the

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current asset register (this weakness has been noted in 22 sampled MDAs and RSs), existence of grounded and un-serviceable Non-current asset (noted in 16 MDAs & RSs), Un revalued Property, Plant and Equipment (noted in 17 MDAs & RSs) and lack of ownership documents.

The few challenges noted on IPSAS 17 and 25 demonstrates a need to those in Government charged with the responsibilities of financial management to address issues in connection with IPSAS accrual implementation particularly in the following areas;

- **Activities Backlog in the implementation of IPSAS Accrual**
  Audit review of the roadmap for IPSAS implementation noted several activities which were planned to be accomplished by 30th June, 2013 to be behind schedule. Activities such as separation of grants and borrowing, preparation of the accounting manual and the chart of accounts were not completed as planned hence hindering the smooth progress of implementation of the adoption of IPSAS accrual.
- **Lack of National Committee responsible for IPSAS implementation**
  The Government is yet to establish a proper National Committee responsible to oversee the progress on the implementation of the IPSAS project. I observed that, the responsibility for

coordination of IPSAS activities has been solely left to the Accountant General. I understand that, IPSAS project involves various keep players responsible for valuation, ownership, recognition and measurement of Government assets. However, the Government has no national committee in place to coordinate and overseen the successful implementation of the whole project.

- **Property, Plant and Equipment (PPE)**
  In adopting the IPSAS accrual basis of accounting, the Government has opted for five years transition provision for PPE, and I have noted that the Directorate of Government Assets Management (DGAM) has an action plan that indicates activities for valuation of government assets for five years (from 2012/13 to 2016/17). However, various challenges need to be addressed. These challenge include the issue of valuation of government assets being done in 2005/06 under the supervision of DGAM, however there is no updated PPE report disclosing assets details such as bar code, report, schedule of disposed assets etc; also there is neither action plan nor asset management guideline and financial statements disclose any information about valuation of properties especially land and buildings.

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- **Lack of actuarial valuation of benefits plan for Government retiree**
  Pension for the public service retirees are paid from the consolidated fund and the arrangements is recognized by the Government as Defined Benefit Plan. In the course of audit, I noted that the government lacked actuarial valuation of the benefits plan for Government retirees contrary to IPSAS 25. Without performing actuarial valuation, the government has failed to arrive at the initial liability for the Defined Benefits Plans and for that case, the Government could neither determine the amount of actuarial gains/losses nor, the past and current services nor interest cost of the benefit plan.

- **Local Government Authorities and Institutions not consolidated in the financial statements**
  On reviewing the consolidated financial statements of the United Republic of Tanzania, it was noted that they did not include the revenue, expenditure, assets and liabilities of the Local Government Authorities (LGAs) and Parastatal Institutions which are in fact using the same IPSAS accrual financial reporting framework. This is contrary to IPSAS 6 which requires a Controlling entity to issue consolidated financial statements which consolidates all government controlled entities, foreign and domestic.

Recommendation

Since the Government has a provision of five years as first time adopters of IPSAS accrual basis, the Government is advised to do the following so as to effectively use this transition period:

- Allocate enough resources in terms of finances and human capital to facilitate smooth operation of the IPSAS accrual project.
- The government should fully comply with IPSAS 25 (Employee benefits) over accounting for Defined Benefit Plans in order to determine its initial liability for defined benefit plans due to IPSAS accrual first year adoption
- Establish IPSAS National Coordination Committee composed by professional accountants and other professions who will be the overseers of the five years roadmap to make sure each step is taken seriously and on time. So far one year has lapsed remaining with four years.
- DGAM should work closely with stakeholders so as to enhance the implementation of the action plan for smooth compliance with IPSAS 17, and make necessary adjustments in the financial statements by separating land and building into two distinct asset classes.
- The government is advised to initiate the process of consolidating the financial statements of LGAs and controlled

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Sl. Nr. 10 KD-2 Extracts from Receipts & Payments Rules, 1983.

NOTE.—Save as otherwise provided, no cheque shall be drawn until it is intended to be issued soon after.

(4) No withdrawal shall be permitted on a claim for the first of any series of payments of pay and allowances to a Government servant (other than a person newly appointed to Government service) prepared by a drawing and disbursing officer unless the claim is supported by a copy of the last pay certificate (in Form G.A.R. 2) issued by the drawing and disbursing officer of the previous office in which the Government servant had served.

(5) An Accounts Officer or Cheque-drawing D.D.O. shall obtain sufficient information as to the nature of every payment he is making and shall not accept a claim which does not formally present that information, unless there are specific orders of Government against disclosure of the nature, on any individual claim or type of claims in the public interest.

Explanation.—In this rule, the term 'withdrawal' with its cognate expressions refers to the withdrawal of funds from the Government Account for disbursements of or on behalf of the Government.

12. *Responsibility for moneys withdrawn.-*

(1) If a cheque drawing D.D.O. receives information from the Accounts Officer that moneys have been incorrectly withdrawn and that a certain slim should be recovered in respect of any bill passed by him, he shall effect the recovery without delay and without regard to any correspondence undertaken or contemplated with reference to the retrenchment order; and he shall, without delay, repay the sum in such manner as the Accounts Officer may direct.

(2) Subject as hereinafter provided in this rule, the procedure to be observed by a Government officer in regard to moneys withdrawn from the Government Account for expenditure shall be regulated by the provisions made in this behalf in Part III of these rules.

(3) A Government officer supplied with funds for expenditure shall be responsible for such funds until an account of them has been rendered to the satisfaction of the Accounts Officer concerned. He shall also be responsible for seeing that payments are made to persons entitled to receive them.

(4) If any doubt arises as to the identity of the Government officer by whom an account of such funds shall be rendered, it shall be decided by the Government.

13. *General instructions for handling cash.-*

Save as otherwise expressly provided in these rules or in any authorised departmental regulations, the following instructions shall be observed by all Government officers who are required to (a) receive Government dues and handle cash or (b) perform the functions of drawing and disbursing officers (with or without cheque drawing powers), or both: —

(i) Every such officer (referred to in this rule as the Head of the Office) should maintain a cash book in Form G.A.R.3.

(ii) All monetary transactions should be entered in the cash book as soon as they occur and attested by the Head of the Office in token of check.

Exception (a).—An 'Account Payee' crossed cheque or bank draft drawn in the personal name of a recipient (Government servant or third party) by a Pay and Accounts Officer (or by a cheque drawing D.D.O.) and routed through a departmental office merely for the purpose of delivery to the recipient thereof, need not be entered by the latter office in its cash book; the delivery of such a cheque or draft to the concerned party may be recorded in, and watched through a separate "crossed cheques and bank drafts transit register."

Exception (b).—Cheques issued by cheque-drawing D.D.O.s are required to be entered in a 'Register of Cheques issued' in Form G.A.R.4. Therefore, only those cheques drawn by him which are encashable in his capacity as Disbursing Officer for arranging payments in cash, need be entered in the cash book.

Exception (c).—Receipts in the form of local cheques, or demand drafts (to be crossed) in favour of Pay and Accounts Officers (or endorsed in their favour as per Note 2 under rule 18) accepted by non-cheque drawing D.D.Os need not be entered in the Cash Book but should be entered in the Register of Valuables (Form G.A.R. 5) and remitted into the accredited bank duly supported by challans for credit to Govt. Account. {Refer Correction Slip 20

(iii) The cash book should be closed regularly and completely checked. The Head of the Office should verify the totalling of the cash book or have this done by some responsible subordinate other than the writer of the cash book and initial it as correct. {Refer to Correction Slip 24}

Exception: In order to minimise the balance under 'Traffic Suspense - Cash-in-Transit' at the close of financial year, Ministry of Railways may keep their cash books open for the month of March each year upto 18th April for N.F.Railway, and upto 10th April in respect of other Indian Railways.

(iv) At the end of each month, Head of the Office should verify the cash balance in the cash book and record a signed and dated certificate to that effect. In regard to any discrepancy noticed therein, the instructions contained in Section V of Chapter 2 of the General Financial Rules, 1963 should be followed. In case the verification of cash balance is not possible on the last working day of a month on account of disbursement of, monthly salary and allowances, it may be done on the first working day of the next month before making any transactions on that day.

(v) Entries made in the cash book regarding remittance of receipts to the accredited bank for credit into Government Account should be attested by the Head of Office after verifying them with reference to the bank's receipt recorded on the pay-in-slips or challans. When the credit appears in the receipt scroll from the bank, the actual date of realisation of the cheque or draft should be indicated by cheque drawing D.D.O.s against the original entry in the cash book so as to keep track of outstanding items.

(vi) An erasure or over-writing of an entry once made in the cash book is strictly prohibited. If a mistake is discovered, it should be corrected by drawing the pen through the incorrect entry and inserting the correct one in red ink between the lines. The Head of Office should initial every such correction and invariably date his initials.

(vii) A Government officer who handles Government money should not, except with the special sanction of the Head of Office be allowed to handle also in his official capacity money which does not belong to the Government. Where under any special sanction, a Government officer deals with both Government and non-Government money in his official capacity, the Government money should be kept in a cash box separate from the non-Government money and the transactions relating to the latter should be accounted for in a separate set of books and kept entirely out of the Government Account.

(viii) The employment of peons to fetch or carry money should be discouraged. When it is absolutely necessary to employ one for this purpose, a man of some length of service and proved trust worthiness should only be selected and in case where the amount to be handled is large, one or more guards should accompany the messenger.

NOTE 1.—The duties imposed by clauses (ii) to (vi) of this rule on the Head of Office may be entrusted to a subordinate gazetted officer nominated by the Head of Office for this purpose.

NOTE 2.—The cash books should be bound in convenient volumes and their pages machine numbered. Before bringing a cash book into use, the Head of Office or the officer nominated by him under Note 1 should count the number of pages and record a certificate of count on the first page of the cash book.

NOTE 3.—If large number of bank drafts, cheques are received by any departmental office, receipt thereof and remittance into bank need not be entered individual itemwise in the cash book. It would be sufficient if the total of the daily entries pertaining to the same classification from a register of valuable (Form G.A.R. 5) maintained for the purpose is carried to the cash book giving cross reference in the latter to the serial numbers thereof in the former.

PART II
RECEIPT OF GOVERNMENT REVENUES, DUES, ETC. AND CREDITING THEM INTO THE GOVERNMENT ACCOUNT

18. *Acceptance of Government revenues, etc. by departmental officers.-*

Government revenues, dues or other moneys receivable on Government account may be realised in cash (namely, in legal tender coins or notes), or by cheques or drafts drawn on any local branch of a scheduled bank or by money orders or postal orders or in such other form as may be prescribed by Government. Revenues and dues of the Government are generally received by departmental Officers or by specified branches of the accredited bank in the form of crossed local drafts or local cheques or in cash unless otherwise specifically ordered. Unless specially authorised to receive higher amounts in cash, departmental officers may normally receive cash upto an amount not exceeding Rs. 100 in each case.

NOTE 1.—The term 'local branch' as used in this rule and in rule 19, means a branch of a bank located at the station in which (a) a departmental officer with cheque drawing powers or (b) a Pay and Accounts Officer accredited to a departmental officer without cheque drawing powers, in whose favour (by official designation) the instrument is to be drawn or (c) the specified branch of the bank is situated.

NOTE 2.—Such instruments being accepted by departmental officers not having cheque drawing powers, should be drawn in favour (indicating official designation) of the concerned Pay and Accounts Officers. However, when cheques or bank drafts are received in the name of departmental officers under any Act or rule or otherwise, these may be endorsed by them for payment to their respective Pay and Accounts Officers. Revenues and dues received in cash by such departmental officers functioning at places other than those of their Pay and Accounts Offices may be remitted to the latter office by means of crossed bank drafts, for being credited into Government Account.

NOTE 3.—Notwithstanding the above provisions, and the provisions of rule 19, a Ministry, Department and, or union territory in consultation with the Controller General of Accounts may specify that only bank drafts (but not cheques) should be tendered in payment of Government dues to any category of or all its departmental officers wherever this is not contrary to the provisions of any Act under which the dues are realised; or the Controller General of Accounts may on his own, stipulate similarly in respect of certain categories of departmental officers.

19. *Cheque, bank drafts tendered in payment of Government revenues, dues, etc.—*

(1) (a) Cheques, bank drafts drawn on local branch of a scheduled bank may be accepted by departmental officers or by the specified branch of the accredited bank or by a bank specially notified for the purpose, in payment of Government dues or in settlement of other transactions with the Government, subject to the provisions of special instructions, if any, issued by a Ministry, Department and, or union territory, in consultation with the Controller General of Accounts, relating to any specific type of dues being followed. The cheques, bank drafts, should be crossed by the drawer before tendering. However, until they are cleared, the Government cannot admit that payment has been received; consequently, the receipt of the cheque alone may be acknowledged when it is tendered. A formal payment receipt shall be given to the tenderer (or sent to his address wherever such an arrangement is envisaged by the department, or bank) after the cheque or draft has been cleared. The preliminary acknowledgement of the receipt of the cheque or draft, will be given in the form indicated below by the departmental Officers:—

"Received cheque/ draft number ------- for Rs -------- drawn on --------- on account of --------".

NOTE 1.—The bank reserve to itself the right to refuse to accept cheques or drafts, collection of which in its opinion cannot reasonably be undertaken. If, however, a bank draft drawn on a branch of a bank is tendered at the same (i.e. the drawee) branch for being credited to Govt. account, the receipted challan may be delivered to the tenderer on the same day, if the draft is otherwise in order. {Refer Correction Slip 11}

NOTE 2.—Metal or paper token or a preliminary acknowledgement as above will be issued by the bank to the depositor to facilitate delivery of the receipted challan to him in due course.

(b) In the event of the cheque or draft being dishonoured, the fact shall be reported at once to the tenderer

Sl. No 11 KD-3 Extracts from GFR 2005

CHAPTER - 7

INVENTORY MANAGEMENT

Rule 186. This chapter contains the basic rules applicable to all Ministries or Departments regarding inventory management. Detailed instructions and procedures relating to inventory management may be prescribed by various Ministries or Departments broadly in conformity with the basic rules contained in this chapter.

Rule 187. Receipt of goods and materials from private suppliers :

(1) While receiving goods and materials from a supplier, the officer–in-charge of stores should refer to the relevant contract terms and follow the prescribed procedure for receiving the materials.

(2) All materials shall be counted, measured or weighed and subjected to visual inspection at the time of receipt to ensure that the quantities are correct, the quality is according to the required specifications and there is no damage or deficiency in the materials. Technical inspection where required should be carried out at this stage by Technical Inspector or Agency approved for the purpose. An appropriate receipt, in terms of the relevant contract provisions may also be given to the supplier on receiving the materials.

(3) Details of the material so received should thereafter be entered in the appropriate stock register. The officer-in-charge of stores should certify that he has actually received the material and recorded it in the appropriate stock registers.

Rule 188. Receipt/issue of goods and materials from internal divisions of the same organisation :

(1) The indenting officer requiring goods and materials from internal division(s) of the same organisation should project an indent in the prescribed form for this purpose. While receiving the supply against the indent, the indenting officer shall examine, count, measure or weigh the materials as the case may be, to ensure that the quantities are correct, the quality is in line with the required specifications and there is no damage or deficiency in the materials. An appropriate receipt shall also be given to this effect by the indenting officer to the division sending the materials.

(2) In the case of issue of materials from stock for departmental use, manufacture, sale, etc., the Officer-in-charge of the stores shall see that an appropriate indent, in the prescribed form has been projected by the indenting officer. A written acknowledgement of receipt of material issued shall be obtained from the indenting officer or his authorised representative at the time of issue of materials.

(3) In case of materials issued to a contractor, the cost of which is recoverable from the contractor, all relevant particulars, including the recovery rates and the total value chargeable to the contractor should be got acknowledged from the contractor duly signed and dated.

(4) If the Officer-in-charge of the stores is unable to comply with the indent in full, he should make the supply to the extent available and make suitable entry to this effect in the indentor's copy of the indent. In case alternative materials are available in lieu of the indented materials, a suitable indication to this effect may be made in the document.

Rule 189. Custody of goods and materials : The officer-in-charge of stores having custody of goods and materials, especially valuable and/or combustible articles, shall take appropriate steps for arranging their safe custody, proper storage accommodation, including arrangements for maintaining required temperature, dust free environment etc.

Rule 190. Lists and Accounts :

(1) The Officer-in-charge of stores shall maintain suitable item-wise lists and accounts and prepare accurate returns in respect of the goods and materials in his charge making it possible at any point of time to check the actual balances with the book balances.

The form of the stock accounts mentioned above shall be determined with reference to the nature of the goods and materials, the frequency of the transactions and the special requirements of the concerned Ministries/Departments.

(2) Separate accounts shall be kept for

(i) Fixed Assets such as plant, machinery, equipment, furniture, fixtures etc. in the Form GFR-40.

(ii) Consumables such as office stationery, chemicals, maintenance spare parts etc. in the Form GFR-41.

(iii) Library books in the Form GFR 35

(iv) Assets of historical/artistic value held by museum/government departments in the Form GFR-42.

Note : *These forms can be supplemented with additional details by Ministries/Departments as required.*

Rule 191. Hiring out of Fixed Assets : When a fixed asset is hired to local bodies, contractors or others, proper record should be kept of the assets and the hire and other charges as determined under rules prescribed by the competent authority, should be recovered regularly. Calculation of the charges to be recovered from the local bodies, contractors and others as above should be based on the historical cost.

Rule 192.

(1) Physical verification of Fixed Assets : The inventory for fixed assets shall ordinarily be maintained at site. Fixed assets should be verified at least once in a year and the outcome of the verification recorded in the corresponding register. Discrepancies, if any, shall be promptly investigated and brought to account.

(2) Verification of Consumables : A physical verification of all the consumable goods and materials should be undertaken at least once in a year and discrepancies, if any, should be recorded in the stock register for appropriate action by the competent authority.

(3) Procedure for verification :

(i) Verification shall always be made in the presence of the officer, responsible for the custody of the inventory being verified.

(ii) A certificate of verification alongwith the findings shall be recorded in the stock register.

(iii) Discrepancies, including shortages, damages and unserviceable goods, if any, identified during verification, shall immediately be brought to the notice of the competent authority for taking appropriate action in accordance with provision given in **Rule 33 to 38**.

Rule 193. Buffer Stock : Depending on the frequency of requirement and quantity thereof as well as the pattern of supply of a consumable material, optimum buffer stock should be determined by the competent authority.

Note : *As the inventory carrying cost is an expenditure that does not add value to the material being stocked, a material remaining in stock for over a year shall generally be considered surplus, unless adequate reasons to treat it otherwise exist.*

Rule 194. Physical verification of Library books :

(i) Complete physical verification of books should be done every year in case of libraries having not more than twenty thousand volumes. For libraries having more than twenty thousand volumes and upto fifty thousand volumes, such verification should be done at least once in three years. Sample physical verification at intervals of not more than three years should be done in case of libraries having more than fifty thousand volumes. In case such a verification reveals unusual or unreasonable shortages, complete verification shall be done.

(ii) Loss of five volumes per one thousand volumes of books issued/consulted in a year may be taken as reasonable provided such losses are not attributable to dishonesty or negligence. However, loss of a book of a value exceeding Rs. 1,000/- (Rupees One thousand only) and rare books irrespective of value shall invariably be investigated and appropriate action taken.

Rule 195. Transfer of charge of goods, materials etc. : In case of transfer of Officer-in-charge of the goods, materials etc., the transferred officer shall see that the goods or material are made over correctly to his successor. A statement giving all relevant details of the goods, materials etc., in question shall be prepared and signed with date by the relieving officer and the relieved officer. Each of these officers will retain a copy of the signed statement.

Rule 196. Disposal of Goods.

(i) An item may be declared surplus or obsolete or unserviceable if the same is of no use to the Ministry or Department. The reasons for declaring the item surplus or obsolete or unserviceable should be recorded by the authority competent to purchase the item.

(ii) The competent authority may, at his discretion, constitute a committee at appropriate level to declare item(s) as surplus or obsolete or unserviceable.

(iii) The book value, guiding price and reserved price, which will be required while disposing of the surplus goods, should also be worked out. In case where it is not possible to work out the book value, the original purchase price of the goods in question may be utilised. A report of stores for disposal shall be prepared in Form GFR - 17.

(iv) In case an item becomes unserviceable due to negligence, fraud or mischief on the part of a Government servant, responsibility for the same should be fixed.

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CHAPTER - 10

BUDGETING AND ACCOUNTING OF EXTERNALLY AIDED PROJECTS

Rule 234. Implementation of Projects or Schemes through external aid receipt:

(1) The projects or schemes of the Government of India to be implemented through external aid receipt from multilateral or bilateral funding agencies shall be shown in the budget proposals approved annually by the Parliament.

(2) The external aid comes from bilateral and multilateral sources as follows :

(i) Bilateral funding to finance specific project(s) by the funding agency(ies) under Government to Government agreement(s); and,

(ii) Multi-lateral funding by Multi-Lateral Funding Agencies, like the World Bank under agreement(s) between the borrower (Government of India) and the Multilateral Funding Agency(ies).

(3) The Department of Economic Affairs, Ministry of Finance as the nodal agency shall execute the legal agreement for loans or grants from external funding Agency(ies). However, grant agreements for Technical Assistance can also be executed by the beneficiary Ministries or Departments with the approval of Ministry of Finance, Department of Economic Affairs.

(4) The Office of the Controller, Aid Accounts and Audit (CAAA) in the Department of Economic Affairs, Ministry of Finance shall be responsible for implementing the financial covenants laid down in the agreement(s) executed by Department(s) of Government of India and the External Funding Agency(ies). A copy of all such agreements shall be sent to the Office of Controller, Aid Accounts and Audit, Department of Economic Affairs for this purpose.

Rule 235. Currency of external aid : The external aid shall flow from the Funding Agency in foreign currency or Indian Rupees and shall be received by the Reserve Bank of India, Mumbai who shall remit the rupee equivalent to the account of Controller, Aid Accounts and Audit, Department of Economic Affairs at Reserve Bank of India, New Delhi. The remittances shall be accounted as external loan/Grant receipts in the Consolidated Fund of India.

Rule 236. Accounting of Cash grants : Cash grants, as distinct from commodity grant or other assistance in kind received from external sources shall be accounted for only by the office of Controller of Aid Accounts and Audit, Department of Economic Affairs.

Rule 237. Procedure for withdrawal : The concerned administrative Ministries or Departments shall be required to make provision of funds under the relevant head of account as 'External Aided Component' in their Detailed Demands for Grants for release of external aid amounts during the year to the respective Project Implementing Agencies. There are mainly two procedures laid down for withdrawal of funds from the loan or grant account: –

(i) **Reimbursement procedure :** Under the reimbursement procedure the Project Implementing Agency shall initially spend or incur expenditure and subsequently claim the amount from the Funding Agency through the office of the Controller, Aid Accounts. The remittances shall be accounted as External Loan or Grant receipt in the Consolidated Fund of India. There are two ways of dealing with the reimbursement claims as given below:

(a) **Reimbursement through Special Account (Revolving Fund Scheme) :** Under the Revolving Fund Scheme, the Funding Agency disburses the estimated expenditure of four months for the projects as initial advance to Government of India under the respective loan or credit or grant agreement. Office of Controller of Aid Accounts & Audit withdraws the amount specified in the agreement as initial deposit from the Funding Agency, by sending a simple withdrawal application in the prescribed format after the loan is declared effective. Such initial deposit designated in US Dollars is received by Reserve Bank of India, Mumbai and Rupee equivalent shall be passed on to Controller of Aid Accounts & Audit through Government Foreign Transaction (GFT) advice. However, Reserve Bank of India, Mumbai shall maintain a loan wise proforma account for liquidation of advance received from Funding Agency. Office of Controller, Aid Accounts and Audit, on receipt of reimbursement claims from Project Implementing Agency, shall send an advice to Reserve Bank of India, Mumbai advising them to debit the Special Account with the US Dollars equivalent of the amount of the eligible claim. Office of Controller, Aid Accounts and Audit shall consolidate all such claims and submit to Funding Agency for replenishment

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of Special Account. This will be accompanied by a statement of debits and credits made during the period by Reserve Bank of India, Mumbai and supporting documents received from the Project Implementing Agency.

(b) **Reimbursement outside Special Account :** Under the reimbursement procedure (where there is no provision in the loan or credit agreement for the Special Account or the balance in the Special Account is 'Nil') office of Controller of Aid Accounts and Audit shall send the reimbursement claims received from the Project Implementing Agency direct to the Funding Agency after checking the eligibility aspect. The Funding Agency shall disburse the eligible expenditure to the borrower's account with Reserve Bank of India, Mumbai, who shall pass on the Rupee equivalent to the account of the Controller of Aid Accounts and Audit at Reserve Bank of India, New Delhi by issue of Government Foreign Transaction (GFT) advice.

(ii) **Direct Payment Procedure :** Under this procedure adopted in some cases the Funding Agency, on the request of the Project Implementing Agency (received through Controller of Aid Accounts and Audit), duly supported by relevant documents, shall directly pay to the contractor or supplier or consultant from the loan or credit or grant account. The Funding Agency, after satisfying itself as to the eligibility of the expenditure etc. remits the amount directly to the account of the payees as per the payment instructions. The Funding Agency apprises the office of Controller of Aid Accounts and Audit and the Project Implementing Agency of the particulars of the payment made. Office of Controller of Aid Accounts and Audit shall work out the rupee equivalent of the foreign currency payment. This rupee equivalent shall be recovered by office of Controller of Aid Accounts and Audit from the Project Implementing Agencies or State Governments which have availed of the Direct Payment Procedure.

Note : *In the case of Central Projects, Centrally Sponsored Projects and Public Sector or Financial Institutions, the concerned administrative Ministry or Department shall release the fund to the Project Implementing Agency with the instruction to deposit rupee equivalent of the foreign currency that have been availed of under Direct Payment Procedure by them to the account of Controller of Aid Accounts and Audit at Reserve Bank of India, New Delhi or State Bank of India, Tis Hazari, Delhi through a challan.*

Rule 238.

(1) **Fund Flow for State Projects financed from external aid source:** The respective Departments of the State Government shall provide in the Budget such expenditure proposed to be incurred under Plan Schemes during the financial year by the Project Implementing Agencies. These shall be in respect of State projects to be financed from external aid sources both under loan or credit and grants and eligible for disbursement from Funding Agency under Reimbursement or Direct Payment Procedure.

(2) **Fund flow for State Projects under Reimbursement Procedure:** The disbursements under the "Reimbursement through Special Account" and "Reimbursement out side Special Account", referred to in **Rule 237 (i),** shall be consolidated at periodical intervals under each loan or credit State-wise by the office of the Controller of Aid Accounts and Audit. The details of the same shall be sent to Plan Finance Division of the Department of Expenditure in the Ministry of Finance for release of funds to the respective State Governments. The Plan Finance division of Department of Expenditure in the Ministry of Finance shall issue sanctions for actual release of the disbursement for each State. A copy of such sanction shall be endorsed to the Finance Department of the concerned State Government for information. The office of the Chief Controller of Accounts, Ministry of Finance shall issue the Inter-Government (IG) Advice to Reserve Bank of India, Central Accounts Section, Nagpur, for effecting the release to the concerned State Governments. The account of the State Government maintained at Reserve Bank of India, Central Accounts Section, Nagpur, shall be credited with the amount so released, thus, completing the cycle of funds from the expenditure incurred from the Budget of the State till receipt of funds of such expenditure from Government of India to the State.

(3) **Fund flow for State Projects under Direct Payment Procedure:** Under Direct Payment Procedure the claims shall be processed as mentioned in **Rule 237 (ii).** Office of Controller of Aid Accounts and Audit shall work out the Rupee equivalent of such Direct Payment based on Reserve Bank of India buying rate applicable for the value date on which the Direct Payment was made. Office of Controller of Aid Accounts and Audit shall consolidate such disbursement in Rupees, and send a list of such disbursement State-wise to Plan Finance Division of Department of Expenditure at periodical intervals requesting them to release the amount to the State concerned notionally and recover the same for credit to Controller of Aid Accounts and Audit's account. The Plan Finance Division shall issue a separate sanction for the amount to be released to the State concerned and for simultaneous recovery and credit back to the account of the Controller of Aid Accounts and Audit. A copy of such sanction shall also be endorsed to the Finance Department of the State Government concerned. The office of the Chief Controller of Accounts, Ministry of Finance shall advise

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Reserve Bank of India, Central Accounts Section, Nagpur, for making necessary adjustment entries in the accounts of the State concerned under intimation to the Finance Department of the State and Controller of Aid Accounts and Audit. This completes the cycle of funds flow in the case of direct payment claims.

Rule 239. Fund flow for Central or Central sponsored Projects : Under the Central or Central sponsored project financed from external aid, whether loan or grant, the process of disbursement of such claims by the Funding Agency shall be the same as explained in **Rule 237.** The respective Ministry or Department get funds when Demands for Grants are passed in the Parliament and advised by the Budget Division of the Ministry of Finance. The funds shall be released to Project Implementing Agency by the administrative Ministry or Department with reference to expenditure incurred by the Project Implementing Agency.

Rule 240. Fund flow for Public Sector or Financial Institutions : When the Project Implementing Agency under Loan or Credit Agreement is a Public Sector or Financial Institution or Autonomous Body and Government of India is the Borrower, the Administrative Ministry concerned shall provide in its budget funds required to be passed on to the Project Implementing Agency for the expenditure incurred by the latter under the externally aided project. The Project Implementing Agency shall submit claims under reimbursement or direct payment procedures to the office of the Controller of Aid Accounts and Audit, Department of Economic Affairs. The disbursement of the claims by the Funding Agency shall be similar as explained in **Rule 237**. The concerned administrative Ministry or Department releases the amount to Project Implementing Agency based on the certification of disbursement received from the Funding Agency as certified by the office of the Controller of Aid Accounts and Audit.

However, where the loan is negotiated directly by a particular Public Sector Undertaking or Financial Institution, the funds from the Funding Agency will flow direct to the borrowing entity.

Rule 241. Repayment of loans : Office of Controller of Aid Accounts and Audit shall be responsible for prompt repayment of principal on the due date as per the agreements. The remittance of foreign currency is arranged through designated Public Sector Commercial Banks and Reserve Bank of India. The Rupee equivalent and the amount of foreign currency remitted shall be intimated by the Banks to Controller of Aid Accounts and Audit. The Rupee equivalent of the foreign currency remitted is credited to the respective Banks' account maintained at Reserve Bank of India, New Delhi, by debit to Controller of Aid Accounts and Audit's account as per standing arrangement. On the receipt of the advice from Reserve Bank of India, New Delhi, Controller of Aid Accounts and Audit shall debit the concerned loan account in the Consolidated Fund of India. The repayment of loans shall be classified as charged expenditure.

Rule 242. Interest Payments : Interest on external loans shall be paid on the due date as stipulated in the loan or credit agreements against the budget provision made for this purpose. Interest payments shall be accounted for as debit under the Major Head '2049-Interest Payments' for external loans in the Consolidated Fund of India. The procedure for transfer of amount shall be the same as followed in the case of repayment of loans, referred to in **Rule 241** above. The interest payment shall be classified as charged expenditure.

Rule 243. Accounting of exchange variation : The exchange variation in respect of foreign loans that have been fully repaid shall be written off to "8680-Miscellaneous Government Accounts - Write off from Heads of Accounts closing to balance" per contra credit to relevant Minor Head, Sub Head under "6002-External Debt" to which the expenditure or repayment stands debited.

Rule 244. Aid in form of materials and equipments : In cases where materials, equipments and other commodities, without involving any cash inflow, are received as aid from foreign countries, the Funding Agency issues an advice to the concerned Ministry or Department giving details of materials supplied along with the value thereof. The Ministry or Department concerned in turn shall intimate the details to the office of the Controller of Aid Accounts and Audit, Department of Economic Affairs for making the budget provision in regard to aid material or equipment.

Note : *Refer to Para 4.8.1 of Civil Accounts Manual and Note (1) below Major Head '3606-Aid Materials and Equipments' of List of Major and Minor Heads of Account of Union and States for detail procedure of adjustment of value of the materials etc. received.*

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FORM GFR - 40
[See Rule 190. (2) (i)]

REGISTER OF FIXED ASSETS

Name and description of the Fixed Assets ________________________

Date	Particulars of Asset	Particulars of supplier		Cost of the Asset	Location of the Asset	Remarks
		Name and address	Bill No. and date			
1	**2**	**3**	**4**	**5**	**6**	**7**

NOTE : The items of similar nature but having significant distinctive features (e.g. study table, office table, computer table, etc.) should be accounted for separately in stock.

FORM GFR - 41
[See Rule 190. (2) (ii)]

STOCK REGISTER OF CONSUMABLES SUCH AS STATIONERY, CHEMICALS, SPARE PARTS ETC.

Name of Article ____________________ **Unit of Accounts** ____________________

Date 1	Particulars 2	Suppliers Invoice No. and Date 3	Receipt 4	Issue Voucher No. 5	Issue 6	Balance 7	Unit Price 8

NOTE : User's indent in original shall be treated as issue voucher. Issue voucher number shall be in consecutive order, financial year wise and it should be noted on each indent.

Sl. No. 12 KD-6 Form of Return under FRBM Act.

From D-4
[See rule 6]

ASSET REGISTER

	Assets at the beginning of the reporting year	Assets acquired during the reporting year	Cumulative total of assets at the end of the reporting year
	Cost (Rs.cr)	Cost (Rs. cr)	Cost (Rs.cr)
Physical assets:			
Land			
Building			
Office			
Residential			
Roads			
Bridges			
Irrigation Projects			
Power projects			
Other capital projects			
Machinery & Equipment			
Office Equipment			
Vehicles			
Total			
Financial assets			
Equity Investment			
Shares			
Bonus shares			
Loans and advances			
Loans to State & UT Govts			
Loans to Foreign Govts			
Loans to companies			
Loans to others			
Other financial investments			
Total			

Notes:
1. Assets above the threshold value of Rupees two lakh only to be recorded.
2. This disclosure statement does not include assets of Cabinet Secretariat, Central Police Organisations, Ministry of Defence, Departments of Space and Atomic Energy.
3. Reporting year refers to the second year preceding the year for which the annual financial statement and demands for grants are presented.

F No. 7(3)-B(D)/2003
M. PRASAD, Jt. Secy.

Sl. No. 13 KD-5 Extract of ISSAI 12

Annexure B

The 12 principles of the value and benefits of SAIs under each of the three objectives are:

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Sl. No. 14 KD-6 Extract from Report by Cook Islands Audit Office.

COOK ISLANDS
GOVERNMENT

Cook Islands Audit Office

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Public Sector Auditing

Management Report for 30 June 2009 Financial Statements

Aid Management Division (AMD) Ministry of Finance & Economic Management

To:

Jim Armistead, Aid Manager

Distribution List:

Hon Henry Puna, Prime Minister
Hon Tom Marsters, Deputy Prime Minister
Hon Mark Brown, Minister for Finance and Audit
Richard Neves, Financial Secretary
Navy Epati, PSC Commissioner
Marie Francis, Chairperson of PERC

Date of Report: 26 August 2011

1 Introduction

This report has been prepared to present to the management of the Aid Management Division, the report details the anomalies emerging from our audit procedures conducted on the systems and processes underlying the significant balances and transactions reported through the 30 June 2009 financial statements. This report provides a summary of:

- our audit opinion, and
- the significant issues arising from the audit.

The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made.

You will appreciate that while our audit is carried out in accordance with New Zealand Auditing Standards, it cannot, and should not, be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency.

Management is responsible for implementing an internal control structure to maintain the reliability of the financial statements, safeguard assets and to mitigate risks in the entity. Because of the test nature and other limitations of an audit, it cannot provide an absolute assurance that there are no misstatements whether arising from fraud or error.

We must emphasise that:

- we did not examine internal controls other than to the extent necessary to determine the nature, extent and timing of our audit procedures;
- this report does not include all matters that came to our attention, but only those we regard as sufficiently important that they require management's attention;
- except as specifically stated, this report covers only the period of the financial statements and will not be updated to take into account any subsequent information or circumstances unless we are requested to do so.

AUDIT OPINION

We have issued a qualified opinion on the Aid Management Division's financial statements for the 30 June 2009 financial year.

Our qualification is issued in respect of prior period errors reported in equity at $313,556. This is made up of various corrections processed as part of the AMD's financial reporting improvement project. The corrections were however not processed retrospectively as required by IPSAS 3 – *Accounting Policies, Changes in Accounting Estimates and Errors* but rather corrected directly to equity in the current year.

2 Audit Findings

Following the recommendations contained in previous audit reports, AMD recruited the services of consultant Elizabeth Tommy in May 2011 to improve the internal controls, financial records and financial reporting systems around donor aid funds managed by AMD.

The resulting financial statements and supporting audit documentation submitted for audit showed a considerable improvement over previous years. Even more noteworthy is that eight of the previous year's nine significant audit findings have been completely cleared.

AMD are to be commended for their initiative in implementing the improvement project and the Audit Office encourages them to ensure that all improved internal controls, reporting processes and knowledge are embedded in the division following the completion of the project.

The Audit office would like to thank the division staff for the assistance provided during the course of the audit.

2.1 Prior period errors -non compliance with generally accepted accounting practice

Audit Findings

Prior period errors reported in equity at $313,556 relate to the corrections processed as part of the AMD's financial reporting improvement project. As a result of the project, entries were passed to clear stale cheques, unreconciled bank items and the redistribution of interest liabilities to the relevant Aid liability accounts. Aid assets and aid liabilities were also reconciled. These corrections were however not processed retrospectively as required by IPSAS 3 – *Accounting Policies, Changes in Accounting Estimates and Errors* but rather corrected directly to equity in the current year. Consequently this balance has been qualified due to non compliance with generally accepted accounting practise.

2.2 Cut off considerations – IPSAS 23 *Revenue from Non-Exchange Transactions*

Audit Findings

AMD receives the majority of its funding on a monthly basis from NZAID for specific projects that have been approved for completion. Currently, an asset is recognised when the cash is received and a corresponding liability is recognised until the funding is actually spent.

The subsequent release of the liability to revenue in accordance with IPSAS 23 should occur as the obligations under the funding agreement are fulfilled. AMD actually recognise income as the funding is spent on the project. However, consideration should be given to situations when spending does not equate to the fulfilment of the obligations under the funding arrangement. In which case, despite funds having been spent, the liability would not be extinguished.

Conversely, AMD should consider if at year end a project has been completed (i.e. obligations under the funding agreement have been fulfilled) but all suppliers have not yet been paid. In terms of the current accounting treatment, the project liability will remain until all suppliers have been paid. However, if at year end the project is complete as envisaged by the funding agreement, AMD has no aid liability but rather normal accounts payable to the suppliers. For example, if a project was funded to deliver an education project and at year end the project had been delivered but certain suppliers were still to be paid, revenue and a corresponding expense should be recognised along with a payable and the reduction in the aid liability.

These scenarios relate specifically to cut-off procedures and would only need to be considered at year end.

Risk Level	High
Recommendation	At year end AMD should consider the liabilities recognised and determine whether there is a performance obligation outstanding on the project to ensure the recognition of a liability is in accordance with IPSAS 23. If there is no further performance obligation then revenue should be recognised.
Ministry / Head of Ministry Response	

2.3 Recognition of Aid assets - IPSAS 23 *Revenue from Non-Exchange Transactions*

Audit Findings

In terms of IPSAS 23 an asset should be recognised when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity. Currently AMD recognise the asset (cash from donors) on a cash basis i.e. when funding is received.

We interpret IPSAS 23 envisages the recognition of aid funding (assets) once the project is approved, which precedes the receipt of funds. Based on our discussions with management we understand the Forward Aid Programme (FAP) spans a 3 year period and we agree it would not be prudent to recognise revenue at this stage of approval. However it is our view that as the FAP is rolled down into smaller programmes and projects (yearly basis) the inflow of economic benefits becomes probable and that revenue should be recognised at this point.

Risk Level	High
Recommendation	At year end, AMD should consider whether there are any projects that have been approved in principal but for which funding has not yet been received. and that should be recognised as an asset in accordance with IPSAS 23
Ministry / Head of Ministry Response	

2.4 Bank reconciliations

Audit Findings

Our audit of bank reconciliations revealed the following anomalies:

- Bank reconciliation were not signed by the preparer and reviewer as required under the Cook Islands Government Financial Policies and Procedures Manual (CIGFPPM), Part B, Section 6.
- Some outstanding cheques per the year end bank reconciliations became stale in the subsequent period. However, we noted these cheques were cleared in subsequent periods.

We commend AMD's efforts to clear old reconciling items from bank reconciliations and for reconciling bank accounts and term deposits to bank statements, bank confirmations and aid project liability accounts.

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Sl.No. 15 KP-7 Extract from Ind AS 8

40 **If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact.**

Errors

41 Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind ASs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs 42–47).

42 **Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by:**

(a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or

(b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

Limitations on retrospective restatement

43 **A prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.**

44 **When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and equity for the earliest period for which retrospective restatement is practicable (which may be the current period).**

45 **When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.**

46 The correction of a prior period error is excluded from profit or loss for the period in which the error is discovered. Any information presented about prior periods,