1 Introduction

1.1 Historical background[1]

In the early nineties, Government of India enacted two landmark pieces of legislation – the 73rd and 74th Constitution Amendment Acts. The amendments, introduced in 1992, aimed at empowering rural and urban local governments as 'institutions of self-governance'. Significant changes were expected to come about by virtue of the amendments in empowering Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) and giving them a greater role than ever before. They were to be the institutions of planning for economic growth, as well as, the primary agents for implementing State and Centrally Sponsored Schemes.

Reviewing the state of PRIs and ULBs, the XIth Finance Commission (FC) report (2000) expressed grave concern over the upkeep of accounts by local bodies (LBs) and their audit. Despite a Director, Local Fund Audit (or an equivalent authority) in position in most of the States to carry out audit of local bodies, there was widespread deficiency in accounts keeping and audit. To a large extent, the reason was shortage of staff in LBs, but more importantly, the staff did not have requisite skills for maintaining accounts. On the other hand, the report observed that there was an urgent necessity for upgrading technical skills among local fund auditors. The independence of the local fund auditors was also suspect and their report hardly ever elicited response from the auditee organisations or the government in most States.

The XIth Finance Commission report made several recommendations for establishing accountability of local bodies and strengthening the audit mechanism. A key recommendation was the conceptualisation of **Technical Guidance & Support (TGS)** by Comptroller and Auditor General (C&AG).

> *"The Director, Local Fund Auditor or any other agency made responsible for the audit of the accounts of local bodies, should work under the technical guidance and supervision (TGS) of the C&AG in the same manner as the Chief Electoral Officers of the States operate under the control and supervision of the Central Election Commission"[2]*

1Extracts from Audit of Local Bodies given here: https://cag.gov.in/uploads/cag_pdf/thematic_history/chap_14.pdf
[2] Para 8.19 (c) of the XIth FC Report

The Ministry of Finance (Department of Expenditure) issued guidelines for the utilisation of local bodies grants recommended by the Eleventh Finance Commission (2000–01 to 2004–05) in June 2001. The guidelines suggested that to give effect to the recommendations of the Eleventh Finance Commission regarding TGS, State Governments should send a request to C&AG under Section 20(1) of C&AG's (Duties Powers and Conditions of Service - DPC) Act, 1971. The provisions of section 20(1) of the DPC Act state that the C&AG may be requested by the President or the Governor of a State or the Administrator of a Union territory having a legislative assembly, to undertake the audit of the accounts of a body or authority on such terms and conditions as may be agreed up on between him and the concerned government.

Successive FC Reports have also reiterated the need for C&AG to strengthen the quality and effectiveness of audits of LBs. Accordingly, from 2003 onwards, States started entrusting TGS to C&AG by issuing Entrustment Orders (most states issued orders in 2011). As of March 2020, Entrustment Orders have been issued by 27 State Governments[3].

1.2 Regulatory framework

The TGS arrangement is under Section 20(1) of the C&AG (DPC) Act, 1971. Its key features as a "collaborative arrangement between the C&AG and the local fund auditor" is primarily governed by Regulations 120 to 124 (see **Exhibit 1**) of the Regulation on Audit and Accounts (2020) issued vide Section 23 of the C&AG DPC Act, 1971 (see Exhibit 1). In addition, Entrustment Orders issued by State Governments provide the scope of TGS - these are aligned to the Regulations. The C&AG's Auditing Standards and Guidelines apply to TGS also[4]. While the above define the overall environment within which TGS operates, this Practice Guide provides specific guidance on TGS implementation.

---

[3] *In West Bengal C&AG is the primary Auditor. J&K entrustment Order not included.*

[4] *Including but not limited to:*

- *C&AG's Auditing Standards (Mar 2017)*
- *Audit Quality Management Framework (Jun 2009)*
- *C&AG Compliance Audit Guidelines (Feb 2016)*
- *C&AG Performance Audit Guidelines (Jun 2014)*
- *Guidance Notes:*
    - *Drafting and presentation of audit reports (Sep 2017)*
    - *Improving the quality of IRs (Sep 2017)*
    - *Developing recommendations (Oct 2014)*

Complete list of Standards and applicable pronouncements can be accessed here:
https://cag.gov.in/en/guidance-notes-practice-guides.

Extract from Regulations on Audit and Accounts, 2020

120. Arrangements regarding technical guidance and support

The functions of technical guidance and support to audit of Panchayati Raj Institutions and Urban Local Bodies have been entrusted to the Comptroller and Auditor General under Section 20(1) of the Act in many States.

The salient features of the collaborative arrangement between the Comptroller and Auditor General and the local fund auditor under technical guidance and support as incorporated in various Government orders of State Governments are as follows:

(1) The local fund auditor will prepare by the end of March every year, an annual audit plan for audit of Panchayati Raj Institutions and Urban Local Bodies in the next financial year and forward it to the Accountant General (Audit) of the State;

(2) The audit methodology and procedures for audit of Panchayati Raj Institutions and Urban Local Bodies by the local fund auditor will be as per various Acts and statutes enacted by the State Government and guidelines prescribed by the Comptroller and Auditor General.

(3) Copies of inspection reports in respect of selected local bodies shall be forwarded by the local fund auditor to the Accountant General (Audit) for advice on system improvements and the Accountant General (Audit) shall review the same with a view to make suggestions for improvement of existing systems being followed by the local fund audit department. The Accountant General (Audit) will also monitor the quality of the inspection reports issued by the local fund auditor by scrutinising such inspection reports.

(4) The local fund auditor will furnish returns in such format as may be prescribed by the Comptroller and Auditor General for advice and monitoring.

(5) The Accountant General (Audit) would conduct test check of some of Panchayati Raj Institutions and Urban Local Bodies in order to provide technical guidance. The report of the test check would be sent to the local fund auditor for pursuance of action to be taken by Panchayati Raj Institutions and Urban Local Bodies. The local fund auditor will pursue the compliance of such paragraphs in the inspection reports of the Accountant General (Audit) in the same manner as if these are his own reports.

(6) Irrespective of the money value of the objections, any serious irregularities such as system deficiencies, serious violation of rules and fraud noticed by local fund auditor will be intimated to the Accountant General (Audit).

(7) The local fund auditor shall develop, in consultation with Accountant General (Audit), a system of internal control in his organisation.

(8) The Accountant General (Audit) shall also undertake training and capacity building of the local fund audit staff.

121. Audit not to include certification of accounts

Unless specifically provided, audit by the Accountant General (Audit) in terms of paragraph (5) of the preceding Regulation does not include the certification of accounts of Panchayati Raj Institutions or Urban Local Bodies.

122. Role of Accountant General (Audit) in pursuance of inspection reports

Notwithstanding anything contained in the Regulations of this chapter regarding pursuance of paragraphs in the inspection reports of the Accountant General (Audit) by the local fund auditor, the Accountant General (Audit) will also ensure their regular pursuance.

Extract from Regulations on Audit and Accounts, 2020

123. Forwarding of results of audit to the Government
The Accountant General (Audit) will send to the concerned Secretary or Secretaries to the Government by the end of June every year an annual technical inspection report, including the results of audit of Panchayati Raj Institutions and Urban Local Bodies conducted by his office during the preceding year under the ambit of regulation 120 (5) and other activities under TGS. The Secretary or Secretaries may ensure that appropriate remedial action is taken expeditiously and the Accountant General (Audit) is informed of the action taken. In the States where the Examiner of Local Fund Accounts audits the Local Bodies, the technical inspection report shall be prepared by the Examiner of Local Fund Accounts and countersigned by Accountant General (Audit).

124. Inclusion of results of audit in audit report
Where the results of audit of Panchayati Raj institutions and Urban Local Bodies are included in the audit report of the Comptroller and Auditor General and placed before the legislature, the relevant Regulations pertaining to reporting the results of audit and audit reports shall apply.

Exhibit 1: Extract of Regulation on Accounts & Audit

1.3 TGS Mission Statement

The Mission Statement of TGS emerged out of a consultative process amongst internal stakeholders which included officers of the C&AG Head Quarters as well as from State PAG offices. The TGS Mission Statement in respect of LBs complements the overall Vision and Mission of the C&AG as the Supreme Audit Institution (SAI) of India.

To contribute to the strengthening of Public Financial Management and Accountability (PFM&A), through timely and high-quality audits of Local Bodies in India by 2025, in collaboration with Primary Audit Institutions.

The meaning of key words of the Mission Statement are as follows:

i. **Audit**– includes audit of accounts/financial audit, compliance audit, performance audit, and all types of audit engagements mandated for Primary Audit Institutions (PAIs). TGS will aim to collaborate with the State Government to strengthen PAI's capacity across all types of audit.

ii. **Timely audit–**
   - For Financial Audits - Completion within six months from end of Financial Year.
   - For Others - As per Annual Audit Plan of the respective PAI.

iii. **High-quality audit**– An audit adhering to applicable rules, regulations, standards, manuals, and C&AG's guidelines achieving the objectives of the audit.