

For use in Indian Audit and Accounts Department only

MANUAL OF CENTRAL AUDIT
VOL. I- DEPARTMENTAL AUDIT
(Second Edition, 2010)

Issued by :

The Principal Accountant General (C&CA), Kerala, Thiruvananthapuram

PREFACE

This is the second edition of the Manual of Central Audit, Vol-I – Departmental Audit issued in accordance with paragraph 2.2 of the Comptroller and Auditor General’s Manual of Standing Orders (Administrative) Vol.I.

While the first edition had 11 Chapters, this second edition has 14 Chapters and each Chapter has been enlarged and revised according to MSO(Audit), Second Edition 2002.

The instructions contained in this manual are supplementary to those laid down in the various codes and manuals of the Comptroller and Auditor General of India and do not in any way override them. This manual should not be quoted or referred to as an authority in any of the correspondence outside this office.

Any errors or omissions detected in the manual may be brought to the notice of the Principal Accountant General (C&CA) through IAU Sections. The responsibility for keeping this Manual up to date rests with the IAU I Section, Thiruvananthapuram in charge of Departmental Audit and for this purpose that section should issue correction slips from time to time in consultation with the Co-ordination Section (Audit) wherever necessary.

Sd/-

Thiruvananthapuram
Date: 4th May 2010

V.KURIAN
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CHAPTER – I

INTRODUCTORY

1.1 The Accountant General's Office was bifurcated with effect from 01.03.1984 into two distinct offices viz. office of the Accountant General (Accounts and Entitlements) dealing with Accounts and Entitlements and Office of the Principal Accountant General (Audit) dealing with all audit functions. Subsequently, vide HQrs office order dated 1.10.2009, the Office of the Principal Accountant General (Audit), Kerala is redesignated as Office of the Principal Accountant General (C&CA), Kerala consequent on the creation of the new Office of the Accountant General (WF&RA), Kerala.

1.2 The Central Audit wing deals with Audit of accounts and vouchers received in (A&E) office from the Treasury offices and other accounting units and with audit of sanctions and Government orders received from Government and other subordinate authorities. The Central audit sections are CAPs, IAUs, FAA, EAP and Co-ordination etc.

1.3 The system and procedure contained in the Manual of Standing Orders (Audit) and Manual of Instructions on Central Audit (MICA) are to be followed *mutatis mutandis* in conducting central Audit.

1.4 Regarding the extent and quantum of audit, the instructions contained in the Secret Memorandum of Subsidiary Instructions issued by the Principal Accountant General (C&CA), Thiruvananthapuram are to be followed.

1.5 The Manual of Central Audit consists of seven volumes as shown below:-

| | | |
|---------|---|---|
| Vol.I | - | Departmental Audit |
| Vol.II | - | Gazetted Entitlement Audit |
| Vol.III | - | Pension Audit |
| Vol.IV | - | PF Audit |
| Vol.V | - | Works Audit |
| Vol.VI | - | Forest Audit |
| Vol.VII | - | Audit of Accounts Records and Certification of Accounts |

1.6 The responsibility for keeping each volume of the Central Audit Manual (Civil) up to date vests with the Central Audit Section concerned.

1.7 This Manual of Central Audit relates to Volume – I – Departmental Audit and deals with the audit function of Central Audit Wing except those functions coming under the purview of other wings such as Gazetted Entitlements, Pension, Provident Fund, Works, Forest, Certification of Accounts, Finance and Appropriation Accounts etc. This Departmental Audit aims at the audit of establishment vouchers, Government Sanctions and Government Orders.

CHAPTER - II

DEPARTMENTAL AUDIT

2.1 The Central Audit of Vouchers and Accounts will be carried out every month by Central Audit Parties (CAP) of the Audit Office situated in the (A&E) Office. The vouchers and other treasury document are not to be transported to Audit building as it may result in loss of vouchers and documents. The work of CAPs will be supervised by Central Audit Support Section (CASS), re-named as Integrated Audit Units (IAU) by office order No. 85 dated 19.08.1992 of Co-ordination Section. Further, Test Checks on the accounting and entitlement functions of the A&E office will be conducted by the Central Audit Parties.

2.2 The staff strength of each IAU Section and CAP will generally be as indicated below:

| | <u>IAU</u> | <u>CAP</u> |
|-------------------------------|------------|------------|
| Asst. Audit Officers | 2 | 0.5 |
| Senior Auditor/Auditor | 7 or 8 | 3 or 4 |
| Clerk-Typist | 1 or 2 | NIL |

(vide office order No.2 dated 14.08.1984 of Co-ordination Section)

2.3 The duties and responsibilities of the staff of CAPs are outlined in Annexure 2.4.1 of MICA (Manual of Instruction on Central Audit) and amended by orders issued from time to time.

2.4 IAU Sections in the Audit Office will co-ordinate and pursue the work of CAPs. After scrutiny and editing of Audit Notes/objection memos by applying the relevant rules/regulations, the IAU section will send them in convenient batches every month to the Department concerned with a copy to the Accountant General (A&E). IAU Section will deal with the concerned correspondence thereafter up to finality. The IAU Section will maintain a Register of objection Memos and Half margin Notes and take continuous action with departmental officers for the clearance of objection memos and Half Margin notes. IAU will also carry out supporting functions like:

- (i) Drawing up audit programmes of CAPs
- (ii) Auditing sanctions and orders issued by Government and other subordinate Authorities
- (iii) Maintenance of various registers and files including Portfolio Register
- (iv) Selecting potential material for audit reports and
- (v) General co-ordination of work

2.5 The duties and responsibilities of personnel in IAU are indicated in Annexure 3.1.1 of MICA and orders issued from time to time.

2.6 Copies of sanctions issued by the Central/State Government and subordinate authorities will be received by the IAU section concerned where they will be examined in accordance with the relevant instructions in MSO(Audit) before admission in Audit. Objections arising out of audit of sanctions should be communicated by IAU to the department concerned with a copy to the Accountant General (A&E) and their settlement closely watched. There should be a close coordination between each IAU and the CAPs concerned. The results of scrutiny of all sanctions and orders should be made readily available to the CAP Section before actual Central Audit of the transactions concerned takes place. It shall be the duty of the IAU to supply the relevant sanction files along with important points to CAPs when such parties take up audit.

2.7 The Accountant General (A&E) may

(i) Ensure that proper seating arrangements are made for the CAPs. The Principal Accountant General (C&CA) is informed periodically about the particulars of vouchers/records which are available for central audit.

(ii) Obtain a certificate regarding completion of audit from the Principal Accountant General (C&CA) in the following proforma:

“Certified that the audit of the vouchers for the month pertaining to(here nature of transaction should be specified) has been completed on”

(iii) Ensure that the central audit is completed within the prescribed time limit.

(vide CAG's letter No.944-Accounts-11/47-85 dated 15.5.1985)

2.8 Procedure for completion of Central Audit by the Central Audit Parties in the (A&E) Office.

(i) According to the instructions issued by the Comptroller and Auditor General of India in his letter No.165-AC II/58-89-11 dated 1.3.90, Audit should send requisitions to (A&E) office for vouchers for audit. All the IAU Sections should therefore send a voucher requisition slip to the sections concerned in A&E office on the 1st of every month calling for vouchers due for audit in that month. Timely issue of requisition slips should be treated as a matter of crucial importance by the Audit Officer.

(ii) Normally there should not be any difficulty in furnishing the Audit Certificate when vouchers are made available by the Accountant General (A&E).

(iii) However, in cases where the relevant vouchers etc. have been made available by the Accountant General (A&E) but the audit has not been completed, the Principal Accountant General (C&CA) will depict arrears on account of non-issuance of Audit Certificate as internal arrears in terms of mandays in his state of work reports according to the existing standards of working out arrears in terms of mandays. The Accountant General (A&E) will also exhibit these arrears in concrete terms in his state of work reports without assessing them in mandays.

(iv) On the other hand, where, the Accountant General (A&E) has not been able to sort out the vouchers, make bundles thereof and hand over them to CAPs for audit, they will work out the arrears in mandays at the rate, fixed locally by the Principal Accountant General (C&CA). The Principal Accountant General (C&CA) will also incorporate these arrears (audit due but vouchers not handed over to him) in concrete terms in his state of work reports without indicating arrears in mandays.

(vide CAG's General circular No.75-Accounts/1985 dated 5.12.1985)

(v) In order to avoid duplication of work done by the Internal Test Audit (ITA) wing of the (A&E) Office and the audit done by the Principal Accountant General (C&CA) the latter may review the ITA reports of the (A&E) Office and follow up action taken thereon before undertaking the audit/review of the works done by the Accountant General (A&E). The points raised by ITA need not be repeated in the audit reports issued by the Principal Accountant General (C&CA).

(Vide CAG's circular No.26-Audit/II/1985 dated 18.6.1985)

CHAPTER – III

AUDIT OF EXPENDITURE

3.1 General

1. The general duties of the Auditors in regard to the audit of paid vouchers are described in paras 3.1.20, 3.16.19 to 3.16.23 of MSO (Audit).

2. The maintenance of Selection Register for selection of vouchers for audit and sorting out the vouchers into establishment, contingent, grant-in-aid, travelling allowance and miscellaneous are dispensed with. Instead, a list of vouchers selected for audit and review is handed over to each auditor by the VLC-Cell concerned.

3. The Auditor should then proceed to audit the vouchers by applying the relevant rules in each case and should make audit enfacement on the audited vouchers. The sub-vouchers are to be cancelled and objection if any noticed should be clearly written on the voucher and initialled.

3.2 Audit Objectives

1. The primary objectives of audit of expenditure are to check whether:

- (i) funds have been authorized by the competent authority prescribing the limits within which expenditure can be incurred.
- (ii) the expenditure conforms to the relevant provisions of the Act and the Constitution and of the laws made thereunder and is also in accordance with the financial rules and regulations framed by the competent authority;
- (iii) either a special or general sanction of the competent authority authorizing the expenditure is available; and
- (iv) all financial transactions have been correctly recorded in the accounts under examination and have been allocated to the appropriate heads of account.

2. The expenditure should be incurred with due regard to the broad and general principles of financial propriety. Any case involving a breach of these

principles and thus resulting in improper expenditure or waste of public money should be treated by Audit in the same manner as a case of irregular or unauthorized expenditure.

3.3 Audit of Vouchers

In the detailed audit of vouchers in support of payments, it should be seen that:-

(i) The vouchers are in the prescribed form, in original and duly acknowledged by the payees in token of receipt. A brief abstract should be included in the authorized official language under the signature of the drawing officer on all vouchers prepared in any other language and the signatures, if not in the authorized script, should be transliterated. Sub-vouchers, if any, should contain notes of the dates of payment.

(ii) Vouchers should be numbered with reference to the Schedule of List of Payments, Schedule Dockets or other accounts, as the case may be.

(iii) Individual amounts detailed in the vouchers should add up to the totals and the totals indicated both in words and in figures.

(iv) The vouchers should bear a pay order signed by the Treasury Officer where the vouchers are encashed at treasuries or by the disbursing officer concerned in other cases. In particular, in cases where the payment is made at a bank, the voucher should contain the pay order of the authorized Government Officer, where required under the rules.

(v) Stamps bearing the legend 'Paid' should be affixed on the vouchers

(vi) There should be no erasures on the vouchers and the officer concerned should attest individually all corrections and alterations on every occasion they were made.

(vii) Unless otherwise provided in the rules of Government, stamps should be affixed to all vouchers involving a net payment in excess of Rs 5,000, the stamps being punched.

(viii) No payment should be made on a voucher or on an order signed by a subordinate instead of the head of the office himself or on a voucher or order on which only a facsimile signature has been stamped /affixed. The sanctioning

authority or a gazetted Government Servant duly authorized for the purpose should also certify all copies of sanctions.

(ix) Wherever prescribed, agreement should be effected between two different documents.

(x) A treasury voucher paid by transfer should be stamped as having been so paid; the head of account to which it has been credited should also be noted on the voucher.

(xi) Deductions on account of subscriptions to Provident Fund, FBS, GIS and Income Tax should be made wherever applicable.

(xii) No bills pertaining to pay or any allowance not claimed within one year of its becoming due (or such other period as may be prescribed in this behalf) should be admitted for payment without the sanction of the Accountant General (A&E) in cases where the rules of the Government so prescribe.

(xiii) Stores should be purchased through the purchase organization of the Ministry of Supply of the Central Government when this is required by the orders of the Government and payment for such stores should have also been made by that Ministry's Pay and Accounts Office, except when the amount involved is less than a rupee.

[Para 3.1.20 of MSO(Audit)]

3.4 Audit of Classification

1. The Principal Accountant General (C&CA) will be responsible for checking the classifications, recorded on paid vouchers selected for audit, in accordance with the provisions contained in paras 3.16.19 to 3.16.23 of MSO (Audit) read with Annexure 2.4.1 of MICA. The Auditors/Senior Auditors will ensure that

(i) Major, minor and detailed heads of accounts as noted in the paid vouchers selected for audit are authorized head,

(ii) The expenditure has been classified as per the provisions made in the annual financial statement approved by the Parliament/State Legislature and is in accordance with the provisions of Rule 22 of "Form of Accounts of the Union and States (Basic) Rules 1983",

(iii) No expenditure has been classified as 'charged' on the Consolidated Fund of India, of the State or of the Union Territory, as the case may be, except in accordance with the terms of the Constitution, and conversely that no expenditure that should be 'charged' has been classified as 'voted', and

(iv) The expenditure which should have been classified under the Capital section of account has not been classified under Revenue or vice-versa.

2. The checks in respect of classification between Capital and Revenue as given in paras 3.16.22 to 3.16.23 of MSO (Audit) should also be exercised.

(i) Audit should see that commonly accepted accounting or commercial principles are not infringed.

(ii) It should verify that the accounts exhibit the true financial facts and

(iii) It should bring to notice any transgression of generally accepted principles of public finance.

3. The Assistant Audit Officer will check the classification of vouchers above Rs 2,00,000 required to be audited by him, as per the provision contained in Annexure 2.4.1 of MICA and review the classification as prescribed in para 4.2 of MICA. 20 per cent of the vouchers checked by the Assistant Audit Officer will be reviewed by the Audit Officer. The Group Officer can also undertake test check of classification from time to time at his discretion.

3.5 Certificate of completion of Audit and Review

After completion of Audit, the completion certificate in the form given below alongwith the audit memos/notes should be sent to IAU.

CAP No.

Try./Dept.

Major Head

Month

Certificate of completion of Audit and Review

| Name of Asst. Audit Officer/ Sr.Adr./Auditor | Vouchers audited No. | Vouchers reviewed No. | No. of audit memos prepared and sent to | Full signature |
|---|-----------------------------|------------------------------|--|-----------------------|
|---|-----------------------------|------------------------------|--|-----------------------|

Signature of Assistant Audit Officer

3.6 Audit Against Propriety

1. It is an essential and inherent function of audit to bring to light not only cases of clear irregularity, but also every matter which in its judgement appears to involve improper expenditure or waste of public money or stores eventhough the accounts themselves may be in order and no obvious irregularity has been committed. It is of equal importance to see that the broad principles of orthodox finance are borne in mind not only by disbursing officers but also by sanctioning authorities. Thus the propriety audit extends beyond the formality of the expenditure to its wisdom, faithfulness and economy.

[Para 2.2.46 of MSO (Audit)]

2. Its objective is to support a reasonably high standard of public financial morality, sound financial administration and devotion to Government's financial interests. Audit should see that:

- (i) The expenditure should not be prima facie more than the occasion demands. The expenditure from Public Fund shall be incurred in the same way as a person of ordinary prudence would exercise in respect of expenditure from his own pocket.
- (ii) No authority should exercise its powers of sanctioning expenditure to pass an order that will be directly or indirectly, to its own advantage.
- (iii) Public money should not be utilised for the benefit of a particular person or section of a community unless the amount of expenditure involved is insignificant or a claim for the amount could be enforced in a court of law or the expenditure is in pursuance of a recognized policy or custom.

(iv) The amount of allowances such as travelling allowances granted to meet expenditure of a particular type should be so regulated that the allowances are not, on the whole, sources of profit to the recipients.

[Para 2.2.47 of MSO (Audit)]

3. The cases in which audit has pointed out certain expenditure to be extravagant and made suggestions to competent authorities for the stoppage or reduction of expenditure are required to be re-examined. Such an examination is to be conducted not merely to see that there is proper authority in support of the expenditure incurred but also to ascertain the necessity for such expenditure. If it is found that the incurring of the expenditure is unavoidable it should be seen whether the same results could not have been obtained with greater economy, whether the rate and scale of expenditure are justified in the circumstances etc.

CHAPTER – IV

AUDIT OF SANCTIONS AND ORDERS OF GOVERNMENT

4.1 Audit of sanctions of expenditure

(i) The procedure for audit of sanction is contained in para 2.2.34 to 2.2.45 of MSO (Audit) Vol.I.

(ii) All sanctions received in the office should be carefully scrutinized with a view to ascertaining the validity of the sanction conveyed therein. A sanction which has already been scrutinized by the Audit Office before issue need not be reaudited unless there is prima facie need for such reaudit.

(iii) Sanctions may be finally admitted by the Assistant Audit officer of the section when they are accorded by competent authorities subordinate to the State Government and are in accordance with the clear letter of the rules delegating powers to such authorities. In other cases the sanction order should be submitted to the Audit Officer after scrutiny.

(iv) Sanctions accorded by the State Government in excess of Rs 50,000 should be scrutinized by the Audit Officers before they are accepted. These sanctions should be submitted to the higher authorities for orders whenever a relaxation of any rule is involved or it is proposed to challenge the order.

(v) According to instructions given in the Office order No.55 (Coord.(Au) 11-147/88-89/327 dated 6.7.1988), all sanctions involving expenditure of Rs 3 lakh and above may invariably be submitted to the Group Officer and those involving expenditure of Rs 5 lakh and above to the Principal Accountant General (C&CA) before their acceptance in audit. However these instructions do not apply to sanctions relating to entitlement.

Later it was ordered in O.O.No.80 (No. Coordn (Au) 11-147/90-91 dated 6.5.91) that, all sanctions involving expenditure of Rs 3 lakh and above should be submitted to the Group Officer who in turn will mark to the Principal Accountant General (C&CA) only sanctions which according to his discretion, deserve the attention of the Principal Accountant General (C&CA).

4.2 Sanction accorded in relaxation of Financial Rules

(i) Sanction accorded by Government in relaxation of Financial Rules are of two categories:-

- (a) Relaxation, envisaged in the rules themselves and
- (b) Relaxation not provided for in the rules. It should be examined in audit whether the reasons given for relaxation are satisfactory or not.

(ii) Sanctions involving grant of concessions outside the rules should be examined carefully and challenged wherever necessary. Whenever it is found essential for purposes of Central Audit to call for copies of correspondence leading to the issue of a Government order, they should be called for only from Government in the department concerned and not from the departmental officers.

(iii) Any letter challenging a sanction accorded by Government on grounds of propriety or otherwise should issue only under the orders of Deputy Accountant General/ Principal Accountant General (C&CA).

(iv) During the scrutiny of sanction it should be seen that all financial sanctions are issued over the signature of the officer concerned in ink and not over cyclostyled signature.

4.3 Authentication of notification and sanction orders issued by the State Government

Article 166 of the Constitution of India stipulates that every order made or executed by or on behalf of Government of the State should be made or executed in the name of the Governor and should be authenticated in such manner as may be specified in the rules framed by the Governor. With a view to securing the validity of all financial sanctions and other orders of Government, audit should ensure that all orders or instruments made or executed by or on behalf of Government conform to the requirements of the Constitution. For this purpose it should be seen-

- (a) that all orders or instruments made or executed by or on behalf of Government of Kerala are expressed as having been made or executed in the name of the Governor of Kerala.

(b) that orders or instruments so made or executed are authenticated by the signature of a Secretary, a Joint Secretary, a Deputy Secretary and Under Secretary or any other gazetted officer who may be specifically empowered in that behalf by Government.

NOTE :These instructions do not however, apply to letters from Government (not of the nature of financial sanctions, statutory rule or order under a statute) or to official memoranda. If there are departures from the prescribed form of communication, steps should be taken to bring the matter to the notice of the department concerned for rectification.

4.4 Communication of Sanction

The procedure for communication of financial sanction and orders of Central and State Governments to audit is prescribed in Para 39 of the Compilation of GFRs and in Articles 54 to 57 of KFC Vol. I respectively.

4.5 Scrutiny of sanctions

The general principles for the audit of sanctions to expenditure are laid down in paragraphs 2.2.34 to 2.2.45 of MSO (Audit). Audit enforcement in the prescribed form should always be recorded on sanctions before they are filed.

Audit should see that

- (1) the authority sanctioning is competent to do so and there is no doubt or ambiguity or objectionable features in the order.
- 2) the official status of the sanctioning officer to whom the powers have been delegated is sufficiently high to warrant the exercise of the delegated powers by him.
- 3) the powers are not in excess of those enjoyed by officers of corresponding rank or status in other departments and not inconsistent or unsuitable or unsafe.
- 4) There is no breach of any financial or accounting arrangements sanctioned by the Comptroller and Auditor General or Government.
- 5) if the status of an officer is not high or is open to objection, and yet if administrative convenience demands such a delegation, it might be suggested, if necessary, to the sanctioning authority to provide adequate safeguards.

6) all sanctions for the grant of special pay and compensatory allowance should be scrutinized to see that they satisfy the condition in the definition of these terms in the relevant service rules.

4.6 In the audit of sanctions to expenditure from the point of view of competency of the sanctioning authority, the guiding principles enunciated below should be observed:

(i) If the sanctioning authority is vested with full powers in respect of a certain class of expenditure, a sanction accorded under those powers can be challenged by Audit only on grounds of propriety [see also paragraph 2.2.47 of MSO (Audit)]

(ii) If the authority is vested with powers that may be exercised only after paying due regard to certain criteria expressed in a general form, sanctions accorded under those powers can be challenged by Audit:

(a) if the disregard of the criteria is considered to be so serious as to make the sanction perverse; or

(b) if the facts of the case are such as to make the Principal Accountant General (C&CA) confident that one or more of the criteria have been disregarded.

(iii) If the sanctioning authority is vested with powers that are expressed in precise terms, the Principal Accountant General (C&CA) is bound to ascertain that the order defining its powers is obeyed exactly in every instance.

(iv) For the purpose of financial sanction, a group of works which forms a single project shall be considered as one work, and the necessity for obtaining the sanction of a higher authority to a project is not avoided by reason of the fact that the cost of each particular work in the project does not require such sanction.

Notes:

1. ***In respect of irrigation, navigation, embankment or drainage works, the construction estimates of which have been closed, this rule is subject to the special rules prescribed for sanctions to incur capital expenditure.***

2. ***A preliminary enquiry, survey or experiment, which must necessarily precede the formulation of any project or scheme,***

need not be considered for the purpose of this rule as forming part of that project or scheme.

(v) If any one part or component of a scheme requires the sanction of a higher authority, Audit should hold under objection any expenditure thereon until the necessary sanction is obtained; in determining whether objection should be raised to expenditure on any other part or component of the scheme prior to the receipt of such sanction, it should be seen that the expenditure is not likely to exceed, at a later date, the limit up to which sanction can be accorded by the original sanctioning authority.

[Para 2.2.37 of MSO (Audit)]

4.7 Besides the question of competency of the authority sanctioning the expenditure the scrutiny of sanction should involve the following points:

- (1) whether the expenditure is a legitimate charge on the provisions from which it is proposed to be met
- (2) whether the expenditure conforms to the statutory provisions as well as the relevant financial rules, regulation and orders
- (3) whether the expenditure is in conformity with the standards of financial propriety
- (4) whether, in the case of sanction to new schemes of expenditure, a satisfactory procedure of accounting has been evolved by the sanctioning authority and the detailed cost and time schedules, physical targets and other objects of the expenditure have been duly stipulated.

[Para 2.2.38 of MSO (Audit)]

4.8 i) All sanctions to expenditure should be noted and properly attested in the audit register, or any other record where prescribed, to facilitate audit of the expenditure covered by the sanctions. If it is known that the charge will entail a recovery from a third party, or that such recovery has been ordered by the sanctioning authority, a note thereof should also be made and properly attested in a suitable register so that the recovery may be watched.

ii) Recurring charges which are payable on the fulfillment of certain conditions or till the occurrence of a certain event should be admitted in audit on

receipt of a certificate from the drawing officer to the effect that the necessary conditions have been duly fulfilled or the event has not yet occurred, as the case may be.

[Paras 2.2.40 and 2.2.41 of MSO (Audit)]

4.9 Insufficient and irregular sanction

i) In all cases where sanctions are challenged on grounds of regularity or propriety, a distinction should be made between sanctions which are challenged on grounds of regularity or propriety and those such as delegation orders which in the opinion of audit require review by the Government, in the interest of better financial control. In the latter cases audit is merely suggesting or advising an improvement in the order of delegation of power for such action as Government may decide. Such orders of delegation as well as any expenditure incurred under the powers so delegated should not be treated as objectionable.

ii) A class of important objections cannot be omitted from collective reports or statistics; these must, however, be excluded from the ordinary records of objections booked against disbursing officers. These are objections relating to insufficient or otherwise irregular sanctions accorded by any authority above the disbursing officer. A record of these objections should be kept in a special register in Form MSO (Audit)-7. A separate register should ordinarily be maintained for the record of objections relating to irregular sanctions of the administrative departments or ministries of Government. The Principal Accountant General (C&CA) should periodically review this register. He shall, at his discretion, determine the number of registers to be maintained for similar objections relating to sanctions accorded by other authorities and prescribe the manner in which these registers should be reviewed periodically. Correspondence relating to these objections should be addressed to the sanctioning authority. The disbursing officer(s) should, however, be informed simultaneously that the sanction has been held under objection. If it is considered necessary, at any time before the removal of the objection, to retrench the amount disbursed, the sanctioning authority should be addressed to issue the necessary retrenchment order to the disbursing officer(s).

[Para 7.2.3 of MSO (Audit)]

4.10 Audit against rules and orders (Audit against Regularity)

(i) The procedure for audit against rules and orders is contained in paragraphs 2.2.22 to 2.2.30 of MSO (Audit). In connection with a case of interpretation of certain rules in the civil service regulations by a State Government, the Comptroller and Auditor General observed that the power to interpret the rules does not imply that an interpreting authority has the power to import into any rules, meaning which is plainly against the wording of the rule itself. If it is so desired, it may amend the rule to conform to what, in its opinion, would be equitable but unless and until that is done, audit is not bound to accept an interpretation which is opposed to the wording of the rule itself. Ordinarily all cases in which a wrong interpretation has been adopted in the past, should be so revised that effect is given to the new interpretation in making payments due after the date on which the new interpretation is given. If the re-opening of past cases is impracticable or undesirable special orders of the authority competent to give the interpretation should be obtained.

(ii) On a question whether a Principal Accountant General (C&CA) should insist on a State Government paying an officer an amount which he (Principal Accountant General (C&CA)) considers to be due to the officer under the rules, the Comptroller and Auditor General has decided that it would be proper for the Principal Accountant General (C&CA) to place his interpretation of the rules before the State Government and that the audit officer has no power to insist on a State Government paying an officer more than what they deemed to be due to him.

(iii) Audit against regularity consists in verifying that the expenditure conforms to the relevant provisions of the Constitution and of the laws and rules made there under and is also in accordance with the financial rules, regulations and orders issued by a competent authority either in pursuance of any provisions of the Constitution or by virtue of powers formally delegated to it by a higher authority. The rules, regulations and orders against which audit is conducted mainly fall under the following categories:

1. rules and orders regulating the powers to incur and sanction expenditure as well as delegation of powers to incur and sanction

expenditure from the Consolidated Fund and Contingency Fund of India or of a State or of a Union Territory having a Legislative Assembly;

2. rules and orders dealing with the mode of presentation of claims against Government, withdrawing moneys from the Consolidated Funds, Contingency Funds and Public Accounts and in general the financial rules prescribing the detailed procedure to be followed by Government servants in dealing with Government transactions; and

3. rules and orders regulating the conditions of service and pay and allowances and pensions of Government servants.

(iv) Audit in relation to regularity of expenditure is of a quasi-judicial character. It involves interpretation of the Constitution, Statutes, rules and orders with reference to the case law of previous decisions and precedents. The Comptroller and Auditor General has not, however, save in the case of rules made by himself, the final power of interpretation; this resides in the authority specified in the Constitution or the Authority which is the author of the rule or order so long as the interpretation is not against the orders of a superior authority or contrary to any established financial principle or rule. Interpretation by Audit should be based on the plain meaning of the Article of the Constitution, Section of the Statute, rule or order, except where this is inconsistent with another Article, Section, rule or order; in such a case the inconsistency should be referred to the competent authority for resolution or removal.

(v) It is, however, the duty of Audit to bring to the notice of the competent authority any expenditure that does not appear to be covered by the terms of the Article, Section, rule or order quoted as justifying it, and which has been incurred by placing upon the Article, Section, rule or order an interpretation which may seem to it not to be a natural, plain or reasonable one. In the case of regulations framed by a department of Government, Audit will accept what the department considers to be the correct interpretation of its own regulations, provided that such interpretation is not opposed to the ruling of any superior authority or contrary to any established financial principle or rule. Such discretionary power of interpretation does not, however, give a department a free hand to interpret its rules to suit particular cases other than in a natural or

reasonable manner. So long as a rule or regulation is not amended, the department is bound by it. Rules should be scrupulously adhered to and where it is found, in practice, that some discretion is necessary in the application of a particular rule, such discretion should be provided only in terms of that rule.

(vi) It is an important function of Audit to ensure that rules and regulations are observed not merely in their letter but also in their spirit. For example, sanctions and orders for the grant of special pay or other allowances or concessions should be questioned in Audit if they are in conflict with the broad spirit or main principles of the relevant service rules.

[Paras 2.2.22 to 2.2.25 of MSO (Audit)]

4.11 Scrutiny of Rules and Orders

(i) In relation to audit of expenditure against regularity, it is the duty of Audit to examine all financial rules and orders issued by the Executive authorities affecting expenditure and other transactions subjected to audit to see that the rules and orders are themselves *intra vires* and to ensure that the transactions to which they relate may be effectively audited.

(ii) In scrutinizing rules and orders it should be seen that:

- (1) they are not inconsistent with any provisions of the Constitution or of any laws made there under;
- (2) they are consistent with the essential requirements of audit and accounts as determined by the Comptroller and Auditor General;
- (3) they do not conflict with the orders of, or rules made by, any higher authority; and
- (4) the authority issuing rules that have not been separately approved by the competent authority is vested with the necessary powers to frame them.

(iii) In applying the second check prescribed in the preceding paragraph, the Audit Officer should be guided by any subsidiary instructions issued by the Comptroller and Auditor General from time to time. The principle to be observed is that the discretion vested in authorities empowered to make rules is not to be fettered unnecessarily merely because difficulties may arise in the application of necessary audit checks or the maintenance of proper accounts. If the

procedure for accounting and audit can be amended without sacrificing efficiency or additional expense, the rule should be accepted, and the relevant procedure amended appropriately. All doubtful points, unless they are trivial, should be referred to the Comptroller and Auditor General.

In applying the third check dealt with in paragraph (ii) above, the guiding principles enunciated at Sl.Nos. (i) to (iii) of paragraph 2.2.37 of MSO (Audit) should be observed. Further, if the Principal Accountant General (C&CA) has reason to believe that undue advantage has been taken of the provisions of any orders under which the rule is issued, he may bring the case to the notice of the proper superior authority.

[Paras 2.2.26 to 2.2.29 of MSO (Audit)]

4.12 Scrutiny of orders relating to delegation of financial powers

(i) The Group Officer may accept orders of delegation issued by the Central/State Governments on behalf of the Principal Accountant General (C&CA). Audit should bear in mind the following points in the course of examination of the orders of delegation of financial authority:-

- (a) that the delegating authority is competent to issue the orders
- (b) that the orders of delegation are worded correctly, clearly and unambiguously
- (c) that no re-delegation of the powers is made without the concurrence of the higher authority or the finance department where the delegated authority is not already empowered to re-delegate its powers to a lower authority.
- (d) that the authority to whom the powers are delegated may be expected to use them in a responsible manner and is not likely to abuse the powers.

Eg: The powers of the Head of the department to countersign TA bills of subordinate officers should not be delegated to his Assistant who may be of lower status than the officers whose bills have to be countersigned.

- (e) that powers of a technical nature like sanction of technical estimates of works, selection of tenders for construction work or purchase of machinery etc. are not delegated to an authority who does not possess the requisite technical qualifications and experience.
- (f) the powers which normally rest solely with Government like sanctioning of re-appropriation, expenditure from the contingency fund etc. are not delegated to any lower authority.
- (g) that the delegation is not likely to result in deterioration in the efficiency of control over the expenditure in extravagance or allowing a departure from the general principles or procedure laid down, by Government, except for sufficient reasons.

(ii) In order to facilitate audit of sanction and expenditure it is essential to maintain a systematic record of all orders of financial delegation in a separate register. This register should be kept in a complete manner and should be utilized for reference while conducting audit.

(iii) All orders of delegation of financial authority should be scrutinized carefully because audit of sanctions as well as of expenditure or other transactions may be conducted against these orders for an indefinite length of time once these have been accepted. They should therefore receive the personal attention of the Principal Accountant General (C&CA) and should be formally accepted by him before they are admitted in audit.

(iv) Though no audit objection can be taken in certain cases to the terms of an order of delegation or other financial rule, the Principal Accountant General (C&CA) may nevertheless be of the view that the order could seriously impair the efficacy of financial control. For instance, the principle of authorizing disbursing officers themselves to sanction special charges may be carried too far or extended to cases in which some sort of control by a higher authority appears advisable. If such cases are important, the Principal Accountant General (C&CA) should make a suitable reference to the Finance Ministry or Department so as to provide an opportunity to the latter to review the relevant orders.

[Paras 2.2.30 & 2.2.31 of MSO (Audit)]

4.13 Periodical review of sanctions of permanent nature/with long period of currency

Paragraph 2.2.42 of MSO (Audit) says that sanctions with a long period of currency as well as sanctions of a permanent nature require to be reviewed periodically, so that, if there is any reason to think that the Administrative authority concerned should be requested to review the sanction, such action may be taken.

4.14 General scrutiny of Ex-gratia payments

Ex-gratia payments are generally those that are not normally admissible under the existing rules etc. but are sanctioned as an act of grace. Such payments can be made only under the special orders of Government. The scrutiny is directed towards ascertaining any particular or extra-ordinary features in the sanction.

CHAPTER – V

ESTABLISHMENT AUDIT

5.1 The main rules and procedures for the audit of establishment bills are laid down in Section III Chapter 3 of MSO (Audit), Paragraphs 3.3.1 to 3.3.14. The system of establishment audit consists of the following essential components:-

- (i) Audit of sanctions to establishment, Check of classification of expenditure on such establishment and audit of general or specific sanctions to pay and allowances.
- (ii) Number audit or audit against sanctioned strength of an establishment.
- (iii) Nominal audit or check of correctness of pay and allowances drawn in the vouchers.
- (iv) Check of initial records maintained in departmental offices.

[Para 3.3.2 of MSO (Audit)]

5.2 The following checks should be applied to ensure:

- (i) that the bills are prepared in the prescribed form and necessary certificates recorded on it
- (ii) that rules laid down in KFC in regard to the preparation of the bills have been observed by the Drawing Officer.
- (iii) that arrear claims are drawn in a Supplementary bill and the required certificate regarding notings on the main bills recorded on it.
- (iv) that if an advance of pay is allowed, it should be seen that it is supported by an order signed by the officer competent to sanction it.
- (v) that special pay, personal pay and other allowances claimed are admissible under the rules and orders in force.

5.3 Audit of sanctions to establishment, check of classification of expenditure on establishment and audit of general sanction to pay and allowances and specific sanctions relating to grant of special pay or compensatory allowances should be conducted in Central audit with reference to the provisions contained in Chapter

II.2 and those relating to Audit of classification contained in Chapter III.16 of MSO (Audit). Important points for information should be entered in a separate register and made available to local audit parties for detailed check.

[Para 3.3.4 of MSO (Audit)]

5.4 The instructions contained in paragraphs 3.2.4 to 3.2.6 and 3.2.12 to 3.2.19 relating to Gazetted Government Servants' audit are also applicable *mutatis mutandis* in the case of non-gazetted establishments. Apart from the check of arithmetical calculations, Central audit of establishment vouchers will be limited to a general scrutiny to see that they are in the prescribed form and are complete in all respects. In offices where the VLC package has stabilized, certain additional data of immense use for audit has been captured in the Employee Module. This data should be intelligently analysed by using Computer Aided Audit Techniques (CAATs).

5.5 Audit of pay and allowances

1. Nominal audit of pay and allowances drawn for individuals should be conducted with reference to the service rules and general and special orders of Government governing appointments, transfers, joining time, suspension, retirement, pay scales, different types of special pay and compensatory allowances and also with reference to the initial and primary records such as service books, increment certificates, orders of appointment/promotion/reversion, sanctions to leave, orders, if any, of suspension and the subsistence allowance admissible etc.

2. In addition to the audit of pay and allowances drawn in the pay bills of establishment for the months selected for detailed audit, cases of increments sanctioned to the members of establishment and cases of fixation of pay on promotion or reversion during the period covered by local audit should also be test checked.

3. When, however, a new time scale of pay is introduced or an existing time scale of pay is revised in isolated cases, the calculation of initial rates of pay and date(s) of next increment fixed for each incumbent should be scrutinized in the audit office, after calling for the service books and such other necessary particulars, or in local audit, as is deemed convenient.

5.6 Payment of surrender leave salary

1. The State Government employees are eligible to surrender earned leave for 30 days in a financial year with effect from 1.4.2006 as per GO(P) No.145/2006/Fin dated 25.3.2006. While auditing the vouchers in support of payment of surrender leave salary, the following checks are to be ensured.

- (i) that the limit is not exceeded
- (ii) that the surrender was done in one spell in a financial year
- (iii) that compensatory allowances not admissible with leave salary are not paid
- (iv) that necessary certificates regarding debiting of leave surrendered in the EL account of the incumbent was noted in the bills.

2. State Government employees are eligible to surrender EL at their credit on retirement which is limited to 300 days with effect from 1.4.2006 vide pay revision order G.O (P) No.145/2006/Fin dated 25.3.2006. But terminal surrender of EL is not permissible in cases of resignation, dismissal or removal vide Government of Kerala's circular No.32/92/Fin dated 19.06.1992.

3. In the audit of leave salary payment, it should be verified whether:

- (i) the leave salary of a non-gazetted servant is drawn over the signature of the head of the office, who is responsible for any over charge.
- (ii) the drawing officer has recorded, in the case of a non-gazetted Government Servant on leave preparatory to retirement, refused leave, terminal leave or such other leave on the expiry of which he/she is not expected to return to duty, a certificate on the leave salary bill to the effect that he/she was not re-employed under Government, any local fund or a private employer during the period for which leave salary is drawn, such certificate being furnished after obtaining a declaration from the non-gazetted Government servant; and
- (iii) all the conditions prescribed by the Union or State Government or the Union Territory Administrations concerned relating to the encashment of earned leave while availing of Leave Travel Concession or at the time of superannuation, such as ceilings on accumulation and encashment,

duration of leave to be availed of as a condition precedent for encashment, retention of a minimum balance in the leave account, recording of relevant entries in the Service Books etc. have been fully complied with.

[Para 3.3.9 of MSO(Audit)]

CHAPTER - VI

AUDIT OF MEDICAL CLAIMS

6.1 In addition to the usual checks ensured in the audit of expenditure as prescribed in Paras 2.2.2 to 2.2.48 and Para 3.1.20 of MSO Audit, details of which are included in Chapter 3 of the CAP Manual, the following checks are also to be applied.

- (i) that the charges for reimbursement are claimed in accordance with the instructions relating to medical reimbursement.
- (ii) that the medical attendance and treatment has been obtained from the authorized medical attendant or hospital.
- (iii) that the claim is supported by requisite receipts in support of charges for medical attendance and treatment.
- (iv) that the cash memos etc. duly countersigned and supported by essentiality certificate are attached in support of the claims.
- (v) that the necessary vouchers and receipts are attached in support of tests conducted in or treatment afforded at hospitals, eg: X-ray, blood test etc.
- (vi) that the hospital bills for treatment as in-patient show the allocation of charges under medical attendance, bedding, diet, nursery and medicines and the recoupement of only admissible items has been allowed.
- (vii) that the claims have been countersigned by the Competent Controlling Officer.
- (viii) that the cost of medicines purchased and reimbursed is not the medicines for which reimbursement is not admissible as per rules.

CHAPTER – VII

AUDIT OF TRAVELLING ALLOWANCE CLAIMS

7.1 The rules and procedures for the audit of travelling allowance are laid down in paragraphs 3.2.15 to 3.2.18 of MSO (Audit) 2002. It is the general principle that TA should be so regulated that it is not on the whole a source of profit to the recipient.

7.2 The following aspects should be examined in the Audit of travelling allowance bills:-

- (i) The journey was necessary and authorized by general or special orders of the Competent Authority
- (ii) The journey was actually performed and was done as expeditiously as possible.
- (iii) No claim in respect of the journey has been submitted previously.
- (iv) The amount had been correctly drawn with reference to the rates and general conditions in force.

7.3 The responsibility for the scrutiny of travelling allowance bills are shared between the Controlling Officers and the Audit Officers because some of the checks prescribed above cannot be independently exercised by the Audit Office. Audit should ensure that the Controlling Officers properly exercise the scrutiny entrusted to them under the rules of the Government in relation to these bills.

7.4 In the majority of cases, countersignature of bills by the Controlling Officer is necessary. This requirement does not, however, dispense with the necessity for formal audit with reference to the rates and general conditions. Ordinarily, the countersignature by the proper authority or the signature of the Drawing Officer when a bill does not require counter signature, should be accepted as final evidence of the correctness of the facts of the journey on which the claim is based and of the Controlling or the Drawing Officer as the case may be, having exercised the scrutiny entrusted to him under the rules of the Government. Occasionally a test check should be undertaken to verify that the bills have been scrutinized properly by these officers.

7.5 In cases where the mode of travel, class of accommodation, rates of daily allowance etc. are determined on the basis of the pay of the Government Servant, particulars thereof shown in the bill should be checked during audit with reference to the pay bills or Gazetted Entitlement Register. The daily allowance, mileage allowance etc. claimed in the bill should be admitted based on the rates prescribed in the rules and the fares claimed in respect of different modes of travel should be similarly checked with reference to the applicable fare tables of the agencies concerned.

7.6 In addition of the above examination, the following checks should be applied while auditing TA bills:-

- 1) that the bills are drawn in the prescribed form
- 2) that the dates, hours and the purpose of the journey ie. whether on tour or on transfer etc. are noted in the bill.
- 3) that the railway fare claimed is correct by reference to railway time table.
- 4) that the various certificates prescribed are signed and the bills are countersigned by the controlling authority wherever necessary.
- 5) that no TA is passed for journey which are not beyond 8 Kms from headquarters or for halts within 8 Kms of headquarters
- 6) that the bills on which payment is made are duly receipted by the drawing officers
- 7) that if the first item in a TA bill is a halt, the Auditor has to check it with the previous bill to see that the ten days limit has not been exceeded without special authority or obtain the information by a reference to the drawing officer in case it is difficult to obtain the information from the previous bills.
- 8) that if the TA is claimed by an officer for proceeding on duty beyond the limits of his jurisdiction, the journey is duly authorized.
- 9) that the claim on account of TA of officers summoned to give evidence are supported by court certificate in the prescribed form

- 10) that in the case of transfer TA claims, the full relationship of the members of the family of the Government servant and their ages have been stated in the bill. It should be seen that no TA is claimed in respect of persons not falling within the definition of family as per rules.
- 11) that the rates of TA/DA in respect of the journeys on tour/transfer are in accordance with the provisions in Kerala Service Rules.
- 12) that the leave travel concession availed of by the Government servant is in accordance with the rules framed from time to time.
- 13) that the monthly/quarterly claiming limits of TA applicable to State Government servants from time to time is not exceeded. The monthly limit may be exceeded by 20 *per cent*, but the increase should be adjusted within the limit for a quarter. The quarterly limit shall not be exceeded. The limits prescribed will apply only to journeys performed within an officer's jurisdiction. Journeys outside an officer's jurisdiction undertaken under orders of competent authority will not be reckoned for the purpose of the ceiling.
- 14) that for the journeys in departmental vehicles by State Government officers, the ceiling limits were reduced by 50 *per cent*.
- 15) that the TA claims of grade III & IV officers had not exceeded the limit admissible to Grade II (b) officers concerned depending upon area of jurisdiction

[Para 3.2.15 to Para 3.2.18 of MSO (Audit)]

CHAPTER – VIII
CONTINGENT AUDIT

8.1 The rules and procedures for the audit of contingent expenditure are contained in Chapter IV, Section III of MSO (Audit). They ensure:-

- (i) that each class of expenditure
 - (a) is a proper charge against the grant or Appropriation concerned
 - (b) has received such sanction as is necessary and
 - (c) has been incurred by a Government servant competent to incur it.
- (ii) that such vouchers as are required by audit have been submitted.
- (iii) that any certificates required under the general rules of the Government concerned have been provided.
- (iv) that the rates are apparently not extravagant and that standards of financial propriety have been properly observed.
- (v) that the bill is in proper form and the classification is correctly recorded thereon.
- (vi) that unusually large incidence of expenditure in the month of March does not lead to irregularities and
- (vii) that stores not immediately required or in excess of requirement have not been procured merely to avoid lapse of budget grant and remain unutilised.

[Para 3.4.7 of MSO (Audit) 2002]

8.2 In addition to those provisions, in auditing contingent bills the following points should be particularly seen by the Auditor:

- 1) no charges are entered in the contingent bills, which can be finally admitted in audit otherwise than as contingent charges.
- 2) the contingent bills have been drawn by an officer who has the authority to draw such bills.
- 3) the arithmetical calculations and totals are correct.

- 4) the contingent bills contain sufficient details for admitting the expenditure.
- 5) the required sanction is quoted in the bills.
- 6) no charges are drawn on the authority of an order or sanction which has lapsed.
- 7) the required stock certificate is recorded in the case of purchase of stores and stock.
- 8) every sub-voucher of a bill taken up for audit is scrutinized and ensured that they are duly cancelled by the drawing officer.
- 9) extravagant rates, prices or unusual expenditure are challenged and that adequate authority is quoted or attached for charges which the drawing officer has no power to sanction.
- 10) the memoranda of allotment at the end of the contingent bills selected for audit showing the total amount of appropriation, the up to date expenditure incurred (including the amount of the current bill) and the balance of the amount available, are filled in.

8.3 It has been decided by the Comptroller and Auditor General that, where expenditure of a special nature and involving manufacture of some products comes to the notice of audit and where such transaction finds a place in the appropriation accounts, there should be an intelligent review by audit with reference to the results and out put based on local subsidiary accounts.

It should be seen that the claim on account of pay and allowances of the staff paid from contingencies are in accordance with the sanctioned rates.

NOTE: *In Circular No.15 Audit II/786 (No.8125 Audit II/27-85/dated 6-6-1986) the Comptroller and Auditor General had mentioned the procedure to be followed by the Principal Accountant General (C&CA) regarding the acceptance of certificate of payments in lieu of wanting paid vouchers which states that they, as a special case, continue to be audited in the same way as original voucher even if they are not marked for audit. The Central Audit Parties have to audit them and should review the register maintained in (A&E) office to record the certificates of payments accepted by A&E office. If the Central Audit Parties during the course of audit of these certificates find some unusual circumstances or malafides attached to the non - production of original vouchers, the matter should be brought to the*

notice of the Principal Accountant General (C&CA) for further investigation, if found necessary.

(Office order No.33 Co-ordn.(Au) 11-147/86-87/384 dated 1.8.1986)

8.4 Rush of expenditure in March

Paragraph 3.4.7 (vi) of MSO (Audit) lays down that it should be specifically seen among other things, that if the expenditure in March is unusually large, it does not lead to irregularities.

In scrutinizing the expenditure for March the audit should see by a comparison of expenditure during the previous months of the year that there has not been a rush of expenditure in this month. The under mentioned principles should be borne in mind in scrutinizing the bills for March.

(1) To detect unusual payments

All vouchers selected for audit in the March accounts should be examined minutely with a view to challenging transactions that may not appear to be bonafide payments for work actually done or supplies actually made. If serious irregularities are involved the vouchers of the entire category irrespective of the selection already made for audit should be examined. Special care should be taken in respect of vouchers not received with the accounts.

(2) To detect payments in anticipation of actual requirements in order to avoid lapse of funds

With regard to payment in anticipation of requirements in order to avoid lapse of funds audit has a right to interfere. There may be cases in which stores are purchased far in excess of requirements with a view to utilizing the entire allotment, without being lapsed. Such cases should be specially looked into and must be investigated.

(3) To detect extravagance in expenditure

Rush of expenditure in March may lead to extravagance. The principle to be borne in mind is that payment should be distributed evenly as far as possible in all the months. In cases of departure from this principle, audit should investigate whether it is justifiable.

8.5 Check by audit of Value added tax shown on the sub vouchers attached to contingent bills

In respect of payments under contracts, it has to be seen in audit that the payment of KVAT by Government is specially stipulated in the contract and the calculations are arithmetically correct.

In the audit of expenditure on VAT, audit is responsible for seeing that the tax has been paid only when it is payable under the KVAT Act and the rules made thereunder and the rate at which the tax has been paid is correct.

Only when amount of VAT claimed in the contingent bill selected for audit is not less than Rs 1,000 in each individual case, audit should exercise this check as indicated above.

The audit section should carefully study the KVAT Act and the rules made thereunder for general guidance during audit of sub vouchers of contingent bills. They may also seek the advice of the State Revenue Audit Section (VAT) in all cases of doubt or requiring detailed scrutiny.

8.6 Secret Service Expenditure

The accounts of secret service expenditure are not subject to scrutiny by this office. The expenditure should normally be admitted in audit on the strength of the certificates obtained from the competent authorities. Such expenditure incurred by each officer provided with funds for the purpose is audited by departmental officer nominated by Government who furnishes the audit certificate to the Accountant General (A&E). Consequent on the restructuring of the Indian Audit and Accounts Department, it has been decided by headquarters office in letter No.240-TA I/83-84 (Circular No. 4-TA I/1985) dated 21.02.1985 that the receipts of the administrative audit certificates may be watched by the Accountant General (A&E) who may also retain these certificates in his office for audit by the Central Audit Parties.

The procedure for audit of the above audit certificates by the Principal Accountant General (C&CA) is furnished in office order No.20 dated 26.06.1985 (No. Co-ordn. (Au)/11-147/84-85/431 dated 26.-6.1985) which states that after compilation of the accounts every month, co-ordination section of the (A&E) office will be receiving the vouchers relating to secret service expenditure for

posting in the Register of Secret Service expenditure maintained in that section and keeping them under safe custody. That section will be taking action for obtaining the administrative audit certificates from the nominated officers in respect of expenditure incurred, soon after the close of accounts of each financial year. IAU Section has to arrange the audit of the above audit certificates by one of the Assistant Audit Officers of the Central Audit Parties attached to it during the first week of October and March every year.

8.7 Checking of double payments and fraudulent payments in Central Audit

Departmental officers receive bills/invoices from suppliers either in duplicate or triplicate of which only the original bills/invoices should be signed or countersigned by them, the remaining copy or copies being only initialled. Only the original bills/invoices duly passed by the drawing officer should be admitted in audit as sub voucher in support of contingent bills. If copies are received an objection should be raised and the amount kept under objection till the originals are made available. This will obviate the chances of the same claims being preferred over again fraudulently.

Want of attestation by drawing officer on signature on endorsed contingent bills should be brought to the notice of the treasury officer.

CHAPTER - IX

AUDIT OF THE PURCHASE OF STORES, CONTRACTS AND AGREEMENTS

9.1 Detailed procedural instructions for the audit of stores, contracts and agreements and the bills for supply of stores etc. are embodied in Chapter 7 of Section III of MSO (Audit), 2002.

9.2 The fundamental principles to be observed by the authorities authorized to enter into contracts or agreements involving expenditure from the Consolidated fund are:-

- (i) the terms of a contract must be precise and definite, and there must be no room therein for ambiguity or misconstruction.
- (ii) Standard forms of contracts should be adopted wherever possible, the terms being subjected to adequate prior scrutiny.
- (iii) As far as possible, legal and financial advice should be taken in the drafting of contracts before they are finally entered into.
- (iv) No contract involving an uncertain or indefinite liability or any condition of an unusual character should be entered into without the prior consent of the competent financial authority.
- (v) Similarly, terms of a contract once entered into should not be materially varied without the prior consent of the competent financial authority.
- (vi) Contracts should invariably be placed only after inviting open tenders and the lowest tender accepted. In cases where it is not considered practicable to invite open tenders or to accept the lowest tender, the reasons for the deviations should be recorded.
- (vii) In selecting the tender to be accepted, the financial status of the tendering individuals and firms must be taken into consideration, in addition to all other relevant factors.

- (viii) Even in cases where a formal written contract is not entered into, no order for supply should be placed without at least a written agreement in regard to price.
- (ix) Provision must be made in contracts for safeguarding Government property entrusted to contractors.
- (x) When a contract is likely to endure for a period of more than five years, it should include, wherever feasible, a provision for its unconditional revocation or cancellation by Government at any time after the expiry of six months' notice to that effect.

9.3 Deviations from contracts require authority not inferior to that required for the conclusion of the original contract. Audit should also see that any payments outside the strict terms of the contract or in excess of the contracted rates are not made without the consent of the competent financial authority.

9.4 Cases in which there is evidence that an officer or agent of a contracting department has an undue common interest with the other contracting party should be brought to the notice of the competent higher authority for such action as it may deem necessary.

9.5 Standing contracts should be reviewed occasionally and if Audit has reason to believe that the rates accepted in those contracts are considerably higher than the rates prevailing at the time of review, such variations should be brought to the notice of the competent authority.

9.6 Copies of contracts and agreements relating to purchase of the value of Rs 5 lakh and above should invariably be obtained and examined in Central Audit. All rates and running contracts as well as all important and unusual contracts should be scrutinized irrespective of the amount of contract.

9.7 The departmental officers should be required to send monthly lists of all contracts entered into by them, besides copies of all contracts and agreements for purchases of Rs 5 lakh and above and all rate and running contracts. Copies of all important and unusual contracts included in the monthly list should be called for, for scrutiny in Central Audit. In order to facilitate audit of payments against these contracts, relevant details of (i) sanction, (ii) contractors, (iii) the nature of the work or materials to be supplied, (iv) brief particulars of rates, important

conditions, etc; and (v) the delivery or completion schedule should be recorded in a Register [Form MSO (Audit)-I] maintained in the Central Audit Support Section (also known as Integrated Audit Unit Section in some offices) and made available to the Central Audit Parties who may refer, wherever necessary, to the copies of the contracts made available by the departments concerned. The Central Audit Party should note in the register only those payments that are audited. There may, however, be cases where all vouchers paid against contracts of the value of Rs 5 lakh and above may not come up for audit. In cases where no payments have been noted in the register for as long a period as one year or so or during the entire contract period, which is generally very short in respect of contracts entered into by civil departments, specific inquiries may be made from the departments concerned to ascertain if the contract has actually been operative and if so, details of the vouchers through which the payments were made and other relevant particulars may be called for.

9.8 Unusual items in the contracts and agreements should be scrutinized carefully if necessary in consultation with the Propriety Audit/Higher Audit Section in the headquarters. The OAD (Headquarters) Section should also be informed of such purchases without delay so that they may arrange a programme of local audit to enable scrutiny of the relevant purchase files.

9.9 The Audit Officer of the Central Audit Support (Integrated Audit Unit) Section should review contract agreements critically and communicate its results to the departments concerned. Points noticed in the course of the review, which have to be borne in mind while conducting local audit, should be entered in the Register of Important Points for Local Audit and communicated to the local audit parties as and when the local audit of the offices concerned is taken up.

[Para 3.7.2 to 3.7.10 of MSO (Audit)]

9.10 Audit of bills for purchases and supplies of stores

The following points are to be verified in auditing bills of contractors or suppliers:

- (i) The purchase of the stores has been sanctioned by the competent authority

- (ii) All purchases of stores are made in accordance with the instructions laid down in Chapter 8 of the Compilation of General Financial Rules (Revised and Enlarged), 1963, or the similar rules of the Governments concerned, with special reference to the rule that no purchase which requires the sanction of a superior financial authority is sanctioned by a lower authority in instalments by splitting the requirements so as to obviate the necessity for sanction of the competent authority.
- (iii) The rates charged in the bills are in conformity with those in the agreements.
- (iv) The necessary inspection certificates have been furnished with the bills in cases where the contract stipulates inspection in stages, at the time of manufacture or after erection at site.
- (v) Claims in respect of railway freight, insurance charges, etc. are duly supported by cash receipts, irrespective of the amount involved, when orders have been placed FOR destination basis.
- (vi) The prices claimed in respect of contracts concluded on the basis of prices prevailing in the market on the date of receipt of the order by the firm or on the day of supply are not at variance from the market prices as intimated by the suppliers and have also been confirmed by the purchasing officers.
- (vii) The actual dates of dispatch/delivery of stores conform to those stipulated in the contracts/agreements in cases where deliveries are to be spread over and made in phases at different times, involving varying prices linked to deliveries.
- (viii) No payments on account of customs duty or increase in customs duty have been made except under the provisions of the contract or under orders of the competent authority in respect of stores procured from outside the country.
- (ix) Discrepancies or deficiencies, if any, pointed out by the consignees in their receipt certificates have been duly taken into account and appropriately dealt with before releasing final payments for supplies in

respect of which the advance or part payments have been stipulated in the contracts ; and

- (x) The stores have been delivered within the stipulated period and belated deliveries or slippages, if any, have been regularized by the competent authority.

[Para 3.7.16 of MSO (Audit)]

9.11 Audit of Acceptance of Tender (AT), Contracts and Agreements

Important points to be verified while auditing Acceptance of tenders (ATs), contracts or agreements are as follows:

- (i) Complete particulars of quantities and rates/prices should have been furnished while the rates/prices stipulated being firm.
- (ii) Important and material clauses relating to delivery schedule, place of delivery, inspection of stores, dispatch instructions, particulars of consignee, etc. should have been clearly specified and not omitted.
- (iii) Normally, the AT/purchase order should have been signed by an authority competent to enter into contracts. If, however, this has been signed by an authority not competent to enter into the contract, it should be verified that a certificate to the effect that the competent authority has approved the purchase is recorded thereon, mentioning also the designation.
- (iv) Provisions relating to payment of sales tax, excise duty etc. should be checked with reference to the instructions issued by the Government from time to time. Vague provisions such as “sales tax will be paid, if legally leviable” should be objected to and the contracting officer asked to state in definite terms whether sales tax, excise duty etc. are payable and, if so, the rates, basis of payment etc.
- (v) Penalties leviable under the terms of the contract should have been enforced in the event of any default or breach of the conditions.
- (vi) Requests for dispatch of heavy goods by passenger train involving payment of freight charges disproportionate to the value of the materials should be reported to the local audit party for detailed

examination. In such cases, the party should examine whether higher rates of freight charges were also agreed to on earlier occasions on grounds of urgency and whether the circumstances really justified the additional expenditure.

- (vii) Cases involving payment of compensation to contractors/suppliers' firms may be avoided.
- (viii) Contracts, even if sanctioned by the competent authority including the Government shall not contain any extraordinary or unusual stipulations.
- (ix) Cases involving adoption of any special and apparently objectionable procedures of purchase, inspection and payment, may be avoided.
- (x) It is obligatory on the part of each and every department of the Central, State and Union Territory Governments to procure stores required on a recurring basis, and borne on the rate contracts entered into by the DGS&D, either through the Directorate General or, if the officer concerned has been declared as a Direct Demanding Officer, directly from the firm concerned. Failure to avail of the benefit of these rate contracts and resorting instead to local purchases at higher prices, either by splitting the purchase orders so as to ensure that the financial powers delegated to the officers for local purchases are not exceeded, or under some other pretext, including the ground that the officer concerned was not aware of the conclusion of the rate contract for the particular item, results in avoidable extra expenditure to Government. The Principal Accountant General (C&CA) and the Principal Directors of Audit should point out such cases, if any, noticed in the course of audit of the accounts of the departments concerned. In case such failures are found to be widely prevalent in a department or of a large magnitude, appropriate comments should be proposed for inclusion in the Audit Report.

[Paras 3.7.13 to 3.7.21 of MSO (Audit)]

CHAPTER - X

GRANTS - IN - AID AUDIT

10.1 General

1. The general principles to the Audit of Grants-in-aid made by Government to Autonomous Bodies, concerns, Panchayat Institutions or individuals are laid down in Paragraphs 3.5.1 to 3.5.17 of MSO (Audit), Second Edition 2002.

2. The main aim of audit of grants-in-aid is to ensure that the grants are utilized for the purpose for which these are given and that sound economical financial management practices are duly followed while incurring expenditure out of such grants. Audit has also to bring to light instances of waste, failures, system weaknesses and deficiencies resulting in infructuous expenditure.

10.2 Audit Approach

1. Audit of grants-in-aid includes test check of records in Central Audit, Local audit and the relevant records in A&E Office. Audit Offices are required to plan for effective utilization of the VLC database in Central Audit as well as in field audit of expenditure from grants-in-aid.

2. Audit in the case of grants-in-aid can be applied (i) to the original grant itself and (ii) to the expenditure that is subsequently incurred from it by the grantee.

3. In order to identify the bodies and authorities that attract audit under Section 14 and 15 of the Act, Government and Heads of Departments are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose(s) for which the assistance was sanctioned and the total expenditure of the institutions.

4. Audit is to be conducted with reference to the original sanction as well as the extent of and conditions governing the delegation of financial powers to different authorities of the Union, the State or Union Territory Governments. This may be done either in Central Audit or in local Audit.

5. All sanctions relating to the grants and the corresponding utilization certificates are to be checked with reference to the Register of Grants-in-aid and

the Grants-in-aid Audit Register maintained in the (A&E) office in respect of each department.

6. The grants-in-aid vouchers are to be checked with reference to the Register of Grants-in-aid against the relevant sanctions recorded in the Register

[Paras 3.5.2 to 3.5.7 of MSO(Audit)]

10.3 Issues for Audit Scrutiny

The audit of the grants is to be conducted according to the general principles and rules laid down for the audit of expenditure from the consolidated Fund (please see Chapter 3 and 4 of this Manual) with particular emphasis on the following aspects.

1. Audit has to verify that each item of expenditure is covered by the sanction of the authority competent to sanction it. Audit has not only to see that the expenditure is covered by a sanction, either general or special but also to satisfy itself:-

- (i) that the authority sanctioning it is competent to do so by virtue of the powers vested in it by the provisions of the Constitution and of the laws, rules or orders made thereunder or by the rules of delegation of financial authority framed by the Competent authority and
- (ii) that the sanction is definite and thus needs no reference either to the sanctioning authority itself or to any higher authority. Audit has also to see that the expenditure conforms to the provisions of the sanctions.

2. Audit should check that-

- (a) the sanction conforms to the pattern of assistance or rules governing such grants-in-aid as approved by the Finance Ministry.
- (b) The suitability of the institution seeking the grant has been assured by the sanctioning authority.
- (c) No grants are sanctioned where there is reasonable doubt or suggestion or corrupt practices unless the institution concerned has been cleared of the allegations.

- (d) Every order sanctioning a grant indicates whether it is recurring or non-recurring in nature and the object for which it is given and clearly specifies the general and special conditions if any attached to the grant.
- (e) A provision to the effect that the accounts of the grantee institutions shall be open to inspection by the sanctioning authority/Audit whenever considered necessary by them is incorporated in all orders sanctioning grants-in-aid.

3. Before a grant is paid, the sanctioning authorities, as far as possible, obtain audited statements of the accounts of the grantee institutions in order to establish that the grant is justified by their financial position and also to ensure that any previous grant was spent for the purpose for which it was intended.

- 1. It should be watched that except in special circumstances, grants are not paid in excess of actual requirements of the grantee for the financial year or say for a period of one year from the date of issue of the sanction and that any general or special orders for releasing a particular grant in instalments are complied with.
- 2. Unless the Government directs otherwise in any particular case, every order sanctioning a grant shall indicate whether it is recurring or non-recurring in nature and specify clearly the objects for which it is given and the conditions if any attached to the grant. In the case of non-recurring grant for specified objects, the order shall also specify the time limit within which the grant or each instalment of it is to be spent.
- 3. When recurring grants-in-aid are made to an institution, Audit will verify as far as possible, that the institution continues to function as intended and that the circumstances in recognition of which the grant was sanctioned still continue to exist.
- 4. When no condition is attached to a grant, Audit is in no way concerned with the manner in which the grant is utilized by the grantee.
- 5. Where conditions are attached to the grant, whatever be the nature of the conditions, Audit has to verify the objects of utilization, time

frame within which the money must be spent and fulfillment of all conditions

[Paras 3.5.8 to 3.5.17 of MSO (Audit)]

10.4 Audit checks

The following further audit checks are to be exercised:-

a. to see that the paid voucher contains certificates of drawing officer or other competent authorities to the effect that the conditions, if any, attached to the grant which are susceptible of fulfillment subsequent to the date of the order sanctioning the grants and at the time of drawal of money have been fulfilled.

b. To call for a Certificate in the case of recurring grants-in-aid that the grantee continues to function as such institution and that the circumstances in recognition of which the grant was originally sanctioned still continue to exist.

c. To see that in the case of a part of running account, payment against a lumpsum sanction payable in instalments (eg: grants for a building or other work), the progressive outlay is watched against the lumpsum sanctioned.

d. To see that the actual payees receipts are attached to fully vouched contingent bills and where that is not done, the amount should be placed in the objection book and ensure the receipt of the documents.

e. To see that portion of the amount which is not ultimately required for expenditure upon the object for which the grant was sanctioned, has been surrendered to Government.

f. To see that the expenditure has been incurred on the object for which the grant was sanctioned.

10.5 Audit of grant given by Government of India to the State Government

In the audit of these grants, the principles set forth in paragraphs 3.5.3 to 3.5.12 of MSO (Audit) should be carefully applied. In addition to conducting the usual audit of the expenditure incurred by the State Government out of the grant, it should be seen that the objects for which the grants were sanctioned were actually achieved and within the target days laid down in the sanction to the grant. For this purpose, necessary certificates should be obtained from Government or from authorities utilizing the grants as the case may be.

10.6 Utilisation Certificate

Watching the receipt of U.Cs is an accounting function and has to be performed by the Accountant General (A&E).

- (i) The sanctioning authority is required to furnish to the Accountant General (A&E) a formal certificate confirming the proper utilisation of the grant from the administrative, technical and financial points of view. Audit should watch the compliance of this requirement.
- (ii) The Utilization Certificates furnished by the authorities of the administrative Government to the Accountant General (A&E) may be accepted in audit. However, a test check should be applied, where possible, this being extended even to an examination of the adequacy of the procedures followed for obtaining the assurance upon which the certificates are based. Normally, the certificates should be based on audited statements of accounts and reports regarding the performance or achievements of the grantee in relation to the objects and conditions of the grants.

CHAPTER – XI

AUDIT OF AC-DC BILLS AND ADVANCES

11.1 AC - DC bills

1. The Abstract Contingent Bill Register maintained in the office of the Accountant General (A&E) should be checked in detail by the CAPs with reference to the Abstract Contingent Bills and NDC Bills received from the compilation sections of the A&E Office. Cases of amounts drawn on AC bills and kept outside Government Account in Personal Deposit Account, bank accounts etc. particularly in the month of March, should be collected and pursued with the Department/Government by the IAUs for inclusion in the Audit Report.

[Para 3.1.28 of MSO (Audit)]

2. In the case of Centrally Assisted and Externally Aided Schemes, the expenditure in Civil offices is met by drawing funds on AC bills. The admissible expenditure will be the expenditure supported by DC bills. The Statement of Expenditure (SOE) is to be scrutinized with reference to the report of AC - DC bills received in A&E office.

[Para 3.17.23 of MSO (Audit)]

11.2 Advances

1. In the case of advances sanctioned to Government officers/Contractors, towards Government expenditure, Audit should see that:-

- i. Necessary provision exists for such advances
- ii. Such advances are necessary and authorized
- iii. The advances drawn have been spent for the specified purpose
- iv. There is no inordinate delay in adjusting such advances

2. Government order sanctioning such advances should be scrutinized with a view to see that:-

- i. The order clearly specifies the purpose of the advances
- ii. The period within which the advance is to be adjusted, is specified.
- iii. There is provision in the budget from which the advance is to be met.

3. It should also be seen that the advance, if any previously drawn has already been accounted for. The detailed adjustment accounts should be carefully scrutinized and audit should bring to notice delay, if any in repayment of unspent balance to the treasury.

CHAPTER – XII

AUDIT CERTIFICATES FOR NON-PLAN SCHEMES

12.1 i) The State/Union Territory Governments receive from different Ministries of the Government of India assistance in the form of loans and/or grants for a number of non-plan schemes like expenditure on mitigating natural calamities, rehabilitating refugees, loans for fertilizers, loans under National loans scholarship schemes etc.

[Para 3.23.16 of MSO (Audit)]

ii) Audit certificates are given when called for, for non-plan assistance released for specific purposes. After the accounts of the year are closed, the Accountant General (A&E) will prepare statement of expenditure for the assistance in question, indicating therein the items kept under objection by him and furnish them to the Principal Accountant General (C&CA) for audit and certification. The IAU section in the office of the Principal Accountant General (C&CA), should audit the statement received from the Accounts and Entitlements office and forward certified copies of the statements, indicating therein the amounts kept under objection to the State/Union Territory Government to enable them to prefer the final claims based on these audited statements.

[Para 3.23.18 of MSO (Audit)]

iii) The instructions contained in paragraphs 3.23.21 and 3.23.22 of MSO (Audit) should be observed while issuing audit certificates.

iv) In cases where the audit certificate is issued before the local audit is undertaken, it should be specifically brought out that the certificate is issued subject to local audit in due course and also without any prejudice to the right to include in the Audit Report any audit comments in regard to the utilization of the Central assistance by the State Government.

v) A quarterly progress report indicating the number of schemes for which certificates are to be issued and the progress made in the certification of accounts from time to time should be forwarded by the Principal Accountant General (C&CA) to the Office of the Comptroller and Auditor General by the first week of the month following the quarter to which the report relates. The

information should be furnished year-wise and separately for each category of Non-Plan schemes. The report for the quarter ending March should be accompanied by a list of schemes for which the audit certificate could not be issued.

vi) The IAU Section is responsible for issuance of Audit Certificates in respect of Non-plan schemes partially aided by Government of India. In respect of Non-plan schemes fully aided by Government of India as well as plan schemes aided by Government of India, the responsibility for issuance of Audit Certificates is vested with EAP Section*.

*(*EAP Section merged with Special Cell (HQ)III Section w;e;f 1.1.2020)*

CHAPTER – XIII

AUDIT OF MISCELLANEOUS MATTERS

13.1 NIL Payment vouchers

Payments of money by Transfer (commonly known as NIL payment vouchers) from the Consolidated Fund to the Public Account (Deposit Heads, Zilla Parishad or Panchayat Accounts etc.) should be scrupulously audited and reviewed every month and receipt of a certificate that this has been done, watched by IAU. After scrutiny of such NIL payment vouchers, these sections should furnish a consolidated report every month to the Report Section detailing such NIL payments effected during the month.

[Para 3.1.20 (xiii) (i) of MSO(Audit)]

13.2 Purchases on Proforma Invoices

All purchases made on proforma invoices where the materials have not been received and taken to stock should be audited in detail. CAPs should furnish details of such purchases to IAUs for further follow up action.

[Para 3.1.20 (xiii) (iii) of MSO (Audit)]

13.3 Vouchers not received with accounts

Vouchers and other documents, which were not received with the Monthly Account, should, on receipt subsequently, be audited in the same manner as they should have been audited, had they been received at the stipulated time. If a particular voucher due for audit could not be audited either due to its non-receipt, or of its supporting documents, particulars thereof should be recorded in a suitable register and the subsequent completion of the prescribed audit checks watched. In order to ensure that this process is not unduly delayed, the Branch Officer should review the pending items in the register, every month and the Group Officer every quarter.

However, cases where a formal audit objection is issued and pursued in respect of a wanting document, need not be entered in this register.

[Para 3.1.23 of MSO(Audit)]

13.4 Certificate of Payment (COP)

Cases where certificates of payments are received in lieu of lost vouchers or payee's receipts should be audited in detail, as a special case, in the same manner as the original vouchers, even if they have not been selected for audit. Acceptance of COPs in lieu of wanting vouchers will be done, in accordance with the monetary limits prescribed, by the Branch Officer or Group Officer in the A&E office after using the primary Accounting Checks in the same manner as in the case of original vouchers. Particulars of COPs so accepted will be recorded in a register maintained for the purpose. Unusual features or malafides related to the non-production of original vouchers noticed in the course of audit of COPs should be brought to the notice of the Principal Accountant General (C&CA) for further investigation.

[Para 3.1.24 of MSO (Audit)]

13.5 Compensation for land under the Land Acquisition Act

i) The general principles and rules of audit governing audit of expenditure are applicable to the vouchers relating to payment of compensation for land.

ii) Land Award Statements are received, checked, and disposed of by the (A&E) office. The procedure to be observed in this regard will be prescribed by the Accountant General (A&E) with reference to the rules made by Government for payment of compensation for land taken under the Land Acquisition Act. The payment vouchers should be audited against the award statements and entries in the register of land charges maintained by the Accountant General (A&E).

[Para 4.3.32 (vi) of MSO (Audit)]

13.6 Audit of Refund of Receipts

i. The principal points to be examined in the audit of charges for refunds are that (i) the refunds have been made under sufficient authority and are supported by duly receipted vouchers in proper form; and (ii) these vouchers contain a certificate that the refund has been noted against the original credit in the departmental account as well as the signature of the Treasury or Sub-Treasury

Officer in token of their having verified the original credit into the Treasury/Sub-Treasury made either individually or in lump sum.

ii) Bills for Government Servants' share of fees for work done for private bodies paid into the Government treasury under the rules made by Government should be audited according to the procedure prescribed for auditing bills for refunds of revenue.

iii) Refunds of revenue are classified in detail in the same manner as revenue receipts but the amount of refund is taken as reduction of revenue receipts.

[Para 3.23.4 & 3.23.14 of MSO (Audit)]

13.7 Mis-appropriation of Revenue Receipts

All moneys received by or tendered to Government offices on account of revenue of the Union or State should be paid in full without delay into the treasury or bank except to the extent provided under rules and departmental receipts should not be appropriated for departmental expenditure.

The appropriation of departmental receipts for meeting departmental expenditure contrary to the provisions of rules is a serious irregularity. Cases of such irregularity that may come to light in the course of audit should be brought prominently to the notice of all the heads of office and departmental disbursing officers.

13.8 Audit of Interest Payment Vouchers

Audit should be conducted according to the provisions in para 3.13.27 of MSO (Audit). It should be verified that-

- (1) the amount entered in the voucher as the half-yearly interest in fact represents one half-year's interest due on the amount of the loan mentioned in each promissory note/deposit.
- (2) the total amount due is the half-year's interest multiplied by the number of half years as entered in the column provided for the purpose.

- (3) the amount due as shown in the voucher has been correctly computed,
- (4) the receipt is properly signed, either by the person named as the holder or by his representative and
- (5) Income tax at the maximum rate is deducted from the interest due unless the owner of the security has produced with his receipt for interest, a declaration under Section 197 A of Income Tax Act, 1961 or a certificate issued by the Income Tax Officer authorizing exemption from Tax or levy of tax at a lower rate of the tax.

13.9 Miscellaneous Audit

In every case where the audit procedure is not specifically laid down, the Auditor must see that there is a voucher in support of every payment and that there is sufficient authority to pass it.

CHAPTER - XIV

RESULTS OF AUDIT

14.1 Raising and pursuance of objections

1. The general principles and rules for raising and pursuance of objection and closing of objections are laid down in Paras 7.1.1 to 7.2.37 of MSO (Audit), Second Edition, 2002.

2. Central Audit parties are not required to maintain any objection book. The objection books are to be maintained by IAU as per Annexure 3.1.1 of MICA. According to the instructions in Office order NO.2 vide letter Co-ordn. (Au) 11-147/84-85/282 dated 14-8-84, all audit memos prepared by the Senior Auditor/Auditor in CAP should be vetted by the Assistant Audit Officer before they are sent to IAU.

3. Audit memos/notes prepared by CAPs during Central audit are required to be scrutinized and audited by IAU before issue. In such cases where the IAU feels any difficulty or doubt about audit memos prepared by CAPs, it should seek clarification from the member of CAP concerned who prepared the audit memo, who may if necessary consult the records again and clarify the position. Similar verification of replies where necessary may also be got done through the CAP concerned.

4. The power of waiver of petty objections detailed in paragraphs 7.1.3 & 7.1.5 of MSO (Audit) should be exercised. For this purpose all the objections raised by the Auditors are to be carefully scrutinized by the Assistant Audit Officers who will obtain the orders of the Audit Officers before communicating the objections to the officers concerned.

5. Objections that have been waived should be communicated to the officers concerned for guidance with the object of instructing them to avoid the mistakes. Before suggesting for waiver of the objections it is the duty of the Assistant Audit Officer to see whether the same type of irregularity was committed in the past in the same office and if necessary to insist on the recoveries being made with the object of securing the compliance with the rules and orders.

6. All observations and objections must be conveyed in courteous and impersonal terms and must be clear and intelligible. [Para 7.1.6 of MSO (Audit)]. Objections and observations in relation to any account or transactions subjected to audit should be communicated to the disbursing officers and, where necessary to the Controlling authorities at the earliest opportunity. The treasury officer should be addressed only when recoveries have to be ordered or in respect of objections for the removal of which he is directly responsible. Objections should be entered in the objection book before communication

7. Attention of the head of office may be drawn by a special letter in the case of offices in which no attention was paid to the directions of Audit with regard to ordinary inaccuracies or carelessness in the preparation of bills etc. while the same mistakes are being repeated. Any persistent disregard or deliberate evasion of relevant rules and the supply of misleading information etc. should be brought to the notice of the superior authority concerned.

8. For communicating objections, etc., the forms prescribed in MSO (Audit) and the Book of Account Forms should be used. Money values should be recorded in respect of objection such as want of vouchers, want of sanctions to advances, overpayment, short recoveries etc. Money value need not be indicated in cases of errors in accounts, vouchers etc. which do not indicate any deficit or surplus and stamp not affixed on a voucher otherwise complete etc.

14.2 General Principles

1. Audit depends, for its effectiveness, on its right and duty to report the results of its scrutiny to the proper authority so that appropriate action may be taken where possible to rectify the irregularity or impropriety, or to prevent its recurrence. This authority may be a departmental authority, Government itself or, in the last resort, the Legislature, through the Public Accounts Committee and Committee on Public Undertakings.

2. An auditor must develop an instinct for assessing the importance of an individual irregularity as well as adequacy of the system. The auditor must remember that his primary functions are to secure the substantial correctness of accounts, the regularity and propriety of individual financial transactions and to examine the adequacy of systems and procedures. On completion of the detailed

audit of accounts and transactions and on noticing infractions of rules and orders, he must decide whether to insist on the regularization or rectification of irregularities or errors in individual cases and improvements in systems or whether to be satisfied with their prevention or recurrence in future.

3. In exercising his discretion about the treatment of the results of his audit, the auditor should pay due regard to the following general principles:

- (i) It is an important responsibility of Audit to ensure that various financial rules and orders satisfy the provisions of the law and are otherwise free from audit objection and that these are properly applied. However, it is not its function to prescribe what the rules and order should be.
- (ii) While it is imperative that financial rules and orders must be observed, mere rigid and literal enforcement of such rules and orders may degenerate into wholly unintelligent audit.
- (iii) As a general rule, undue insistence on trifling errors and technical irregularities should be avoided, and more time and attention devoted to the investigation of really important and substantial irregularities with the objective not only of securing rectification of the particular irregularity but also of ensuring regularity and propriety in similar cases in future.
- (iv) It may, however, have to be recognized that failure to appreciate the significance of what appears to be trifling irregularity may result in failure to discover an important fraud or defalcation. Therefore, notice may be taken of the cumulative effect of numerous petty errors or irregularities as being indicative of carelessness and inefficiency in the maintenance of accounts or in financial administration generally.

[Paras 7.1.1 to 7.1.3 of MSO (Audit)]

14.3 Communication of Audit Observations

The following general principles should be kept in view while communicating audit observations to the departments/Government:

(i) All observations and objections must be conveyed in courteous and impersonal terms, and must be clear and intelligible. They should also be based on undisputed facts and amended or revised to the extent considered necessary based on the views held and clarifications furnished by the executive officers, which should be given due consideration.

(ii) It is of the utmost importance that any statement or criticism of an irregularity in an Audit Report should be accurate, fair, moderately worded and dispassionate. Innuendo is forbidden; if a charge cannot be substantiated there should not be even any hint of it.

(iii) Objections and observations in relation to any account or transactions subjected to audit should be communicated to the disbursing and, where necessary, to the controlling authorities at the earliest opportunity. The Treasury Officer should be addressed only when recoveries have to be ordered or in respect of objections for the settlement of which he is directly responsible.

(iv) Reports of individual cases of serious financial irregularities should be addressed, in the first instance, to the controlling authority concerned or to such other authority as may be specified by Government, though copies may be sent simultaneously to a higher authority for information in cases that are regarded to be so grave or serious that they will eventually have to be brought to the notice of that authority.

(v) Unless otherwise provided in any case, it is important that complete details of objections should be registered in the prescribed records maintained in the Audit Office before these are communicated to the authorities concerned.

(vi) If a particular irregularity or case of fraud is considered serious enough to merit the attention of investigating authorities/agencies, it ought to find mention in the Audit Report.

(vii) Principal Accountants General, Principal Directors of Audit etc. shall not, on their own, report any case to vigilance or any other investigating authority, nor should they endorse copies of extracts from Inspection Reports to any such agency. If at all it is considered necessary to bring specific cases to the notice of investigating agencies, such as the Central Bureau of Investigation, Central and State Vigilance Commissions, Intelligence Agencies, Lok Ayukta etc.

this should be done only with the specific approval of the Additional Deputy Comptroller and Auditor General.

(viii) While forwarding cases to investigating agencies, the Principal Accountant General/Principal Director would appropriately include all details of the case and where necessary, indicate also names of individuals, firms, etc. These should not, however, be mentioned in the Audit Report without the approval of the Additional Deputy Comptroller and Auditor General.

(ix) Principal Accountants General, Principal Directors etc., should not, as a matter of course or routine, hold press conferences or participate in panel discussions that are broadcast over radio or on television. They should brief the press only under exceptional circumstances after obtaining the prior approval of the Deputy Comptroller and Auditor General or Additional Deputy Comptroller and Auditor General concerned.

[Para 7.1.6 of MSO (Audit)]

14.4 Pursuance of Audit Observations

1. The responsibility for the settlement of objections and of other points raised in audit devolves primarily upon disbursing officers, heads of offices and controlling authorities. To assist the Finance Ministry or Department of the Government concerned in enforcing financial and accounting discipline, the Principal Accountant General (C&CA) is expected to maintain a constant and careful watch over objections and to keep the controlling authorities fully acquainted with not only individual instances of serious disregard of financial rules and orders but also generally with the progress of the clearance of objections. The procedure to be observed in this regard should be determined by the Principal Accountant General in consultation with the Finance Department.

2. The audit objections outstanding for more than three years should be analysed and reviewed. The guidelines enumerated in Paragraphs 7.1.13 to 7.1.18 of MSO (Audit) may be followed for pursuance or dropping of objections.

3. To raise an objection and not pursue it further without any valid reason sends wrong signals to the organizations subjected to audit. An objection should not be treated as having been settled in the absence of a reply since settlement is possible based on the merits of the reply alone. Inspection Reports should be properly vetted to avoid the inclusion therein of “wrong objections” taken by field parties.

14.5 Objection Book

1. Each Auditor in IAU should keep an objection book in Form-9 of MSO(Audit) and an adjustment register in Form -11 of MSO (Audit) and deal with correspondence in connection with his items and be responsible for their adjustment. The objection book should be maintained in accordance with the instructions contained in paragraphs 7.2.24 to 7.2.28 of MSO (Audit).

2. Rules regarding adjustment of objections are laid down in Paragraphs 7.2.29 to 7.2.31 of MSO (Audit). This may be kept in view.

3. A separate half-margin register in Form Sy.808 should be maintained in each audit unit for the issue of the audit memoranda, objection slips and half-margin.

4. A register of objections outstanding for over six months should be maintained as prescribed in paragraph 7.2.34 of MSO (Audit) and monthly review conducted by the Audit Officer. Special efforts should be taken for the expeditious settlement of outstanding objections. An abstract should be furnished in the six monthly-registers when the registers are closed every month. The closing balance should be analysed under the several categories.

5. For the effective clearance of the outstanding objections, all old items should be reviewed and analysed periodically. The items which could be waived by Principal Accountant General/Deputy Accountant General under Paragraphs 7.1.13 to 7.1.16 of MSO (Audit) should be put up for waiver and the remaining items reported to Government for taking effective steps towards their settlement. Details of all outstanding objections for more than a year may be prepared office wise and transmitted to OAD Hqrs. Section for onward transmission to the Audit Parties for settlement during local verification. Abstracts of six monthly outstanding objections are to be sent to Administrative department of Government and Heads of departments once in six months.

6. IAU section will prepare a half yearly digest of really important and interesting cases which are likely to assist other offices in India for submission to the Comptroller and Auditor General.

14.6 Objections relating to irregular sanctions

A class of important objections cannot be omitted from collective reports or statistics. These are objections relating to insufficient or otherwise irregular sanctions accorded by any authority above the disbursing officer. A record of these objections should be kept in a special register in Form MSO (Audit)-7. A separate register should ordinarily be maintained for the record of objections relating to irregular sanctions of the administrative departments or ministries of Government. The Principal Accountant General (C&CA) should periodically review this register. He shall, at his discretion, determine the number of registers to be maintained for similar objections relating to sanctions accorded by other authorities and prescribe the manner in which these registers should be reviewed periodically. Correspondence relating to these objections should be addressed to the sanctioning authority. The disbursing officer(s) should, however, be informed simultaneously that the sanction has been held under objection. If it is considered necessary, at any time before the removal of the objection, to retrench the amount disbursed, the sanctioning authority should be addressed to issue the necessary retrenchment order to the disbursing officer(s).

[Para 7.2.3 of MSO (Audit)]

14.7 Clearance of objections

1. All records of audit objections maintained in the Audit Office should be written up with care and watched closely by the Assistant Audit Officer and the Audit Officer. Even where the Objection Statements have not actually been despatched, an objection once raised can be removed from the records of objections only after an Audit Officer or Assistant Audit Officer has examined that due authority exists for its removal and initialled the item concerned in token of his having done so.

2. As far as possible, the entry of an objection, whether in the Objection Book or in the Objection Statement or the Audit Note, should be fully descriptive so that there should ordinarily be no necessity to refer again to the connected voucher or account.

3. When it is decided to withdraw an objection once raised, either on reconsideration or in the light of information made available subsequently, the

disbursing officer or any other authority to whom the objection was originally addressed should be informed forthwith so that he can keep a note of the withdrawal of the objection.

4. The Principal Accountant General should ensure that the Group Officer and the Assistant Audit Officer responsible for the settlement/ adjustment and clearance of objections devote their unremitting personal attention to this task.

[Paras 7.2.9, 7.2.10, 7.2.13 & 7.2.14 of MSO (Audit)]

5. In most cases, audit objections should be communicated directly to the disbursing or other responsible authority in specially printed audit memoranda and other half margin forms. The Treasury Officers should be addressed only in respect of objections for the removal of which they are directly responsible. These intimations, together with important treasury irregularities and directions or enquiries arising out of the audit of treasury vouchers, should be sent to them through Objection Statements in Form MSO (Audit)-8. At the time of dealing with the vouchers, the Assistant Audit Officer, Senior Auditor and Auditor should have before them the requisite objection statements, specially printed audit memoranda and other half margin forms, and should write these up as each point to which attention is required to be drawn becomes evident in the course of audit of the vouchers. All objections, whether communicated directly to the responsible authorities or to the Treasury Officers, should be entered in the Objection Book. A Register of Objection Statement and Half Margins should be maintained in each Central Audit Support Section (renamed as Integrated Audit Units) containing details of the issue, return and disposal of the Objection Statements, audit memoranda and half margins.

[Para 7.2.18 of MSO (Audit)]

6. Before despatch (which must not be delayed), the objection must be neatly posted in the Objection Book (Form MSO (Audit)-9) by the Auditor in the Central Audit Support Section (IAU). Each Assistant Audit Officer should maintain a memorandum book for keeping a note of the Objection Statements passed by him, and should ascertain daily that all the Objection Statements have been despatched. He should also ensure that all items in the passed Statements

have been entered in the Objection Book, irrespective of whether or not their money value has been quantified and recorded in any money column.

[Para 7.2.21 of MSO (Audit)]

14.8 Money Value of Objections

1. Money Value of the objections should be quantified and recorded in respect of the categories enumerated below or similar objections:

- (i) Non availability of vouchers, sub-vouchers and payee's receipts
- (ii) Absence of sanctions to advances, losses etc.
- (iii) Non-availability of sanction to special charges.
- (iv) Non-availability of any other specific sanction required in terms of the relevant rule.
- (v) Objections relating to over payments and short recoveries
- (vi) Expenditure placed under objection on grounds of financial propriety.

2. Objections of the following types need not be quantified in monetary terms in the records of objections:

- (i) An objection that is in the form of a simple direction for future guidance, or of a cause for a document, the absence of which is not likely to affect the amount admissible.
- (ii) Failure to affix revenue stamp on a voucher otherwise complete.
- (iii) Objections pointing out deviations from rules that are indicative of disregard or negligence, but which do not represent charges incurred without proper sanction.
- (iv) Errors in accounts, vouchers etc. which do not result in any deficit or surplus.
- (v) Instructions and other observations relating to the form of accounts
- (vi) Observations calling for information not received
- (vii) Enquiries about and observations on doubtful points.

[Paras 7.2.16 to 7.2.17 of MSO (Audit)]

14.9 Review of Objections

It is the duty of the Audit Officer concerned to watch carefully all outstanding objections. Items left unsettled for six months should be entered in a register. A summary of all relevant correspondence should be recorded against each item in the register and all subsequent correspondence should also be recorded. This register should be submitted at least once in each month to the Audit Officer who should review carefully all items therein.

[Para 7.2.34 of MSO(Audit)]