

For internal use in Indian Audit and Accounts Department only

**MANUAL FOR
AUDIT OF AUTONOMOUS BODIES
(First Edition, 2009)**

**ISSUED BY :
THE PRINCIPAL ACCOUNTANT GENERAL (C&CA), KERALA.**

PREFACE

This is the first edition of the Manual for the Special Audit parties, after the formation of the office of the Principal Accountant General (Audit).

The instructions in this Manual supplement those contained in various codes and manuals issued by the Government of India and the Comptroller and Auditor General of India.

This Manual prepared in tune with the Manual of Instructions of Audit of Autonomous Bodies published by the CAG in 1983 and 2007, is intended to guide the Special Audit wing in the audit of autonomous bodies in the state. Apart from incorporating guidelines for certifying the accounts of autonomous bodies and audit of autonomous bodies in a computerized environment, this manual contains audit practices consistent with auditing standards of SAI and INTOSAI.

Suggestions for the improvement of the Manual are welcome and will receive careful consideration.

Special Cell (HQrs) section will be responsible for keeping this Manual up to date.

Thiruvananthapuram.
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Sd/-
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CHAPTER – I

Constitution, Strength and functions of Special Audit Wing

INTRODUCTION

1.1 The instructions in the Manual are applicable to Special Cell (HQ) Sections and Special Audit Parties and also where the audit of accounts of autonomous bodies is conducted under Sections 14, 15, 19(2), 19(3) and 20 of the Comptroller and Auditor General's (Duties, powers and conditions of Service) Act, 1971.

1.2 Constitution, Strength and functions.

The Special Cell Audit Branch with three headquarters Sections and 12. Special Audit Parties, controlled by a Group Officer at Main Office, has been constituted mainly for the purpose of conducting local audit and review under section 14 and 15 of the CAG's (DPC) Act, 1971. Special Cell headquarters section is responsible for co-ordinating the work relating to the audit of autonomous bodies in the State such as identification and selection of institutions attracting audit under Sections 14 and 15, initiation of correspondence with Government/ CAG's Office in connection with entrustment of audit under Sections 19(2) & (3) and 20, collection of material required for periodical statement to be sent to C&AG. Audit of Central Autonomous Bodies is entrusted with the Group Officer, O.A (Central). Audit under sections 19 (except section 19(1) relating to Government companies which is attended to by commercial Audit Section) and 20 is carried out by O.A (HQ)I Section in Branch office at Thrissur.

The details of work of the three HQs Section of the Special Cell wing are as follows:-

1.3 Special Cell (HQ) I

This is the co-ordinating section for audit of grant-in-aid/loanee institutions in the state. The following are the main functions.

- (i) All general correspondence with CAG, Government of India/State with regard to Sections 14, 15, 19(2) and (3) and 20 of CAG's Act.
- (ii) Correspondence relating to Audit under Section 19(2) & (3) and 20 and maintenance of concerned registers.

- (iii) Preparation of consolidation of master copy of all important orders of Government of India and Instruction from CAG of India in regard to audit of autonomous bodies.
- (iv) Review of Audit reports received from Examiner of Local fund Accounts and Registrar of Co-operative Societies and preparation of brief note of important irregularities, if any, for selection of schemes for review.
- (v) Half Yearly report of Inspection Reports.
- (vi) Maintenance of Audit report from other AG.
- (vii) Review of Gazette.
- (viii) Any work of general nature.
- (ix) Calling for accounts from bodies/authorities.
- (x) Calling for Identification of Audit from Government.
- (xi) Review of budget documents and identification of schemes for Audit under Section 14/15.
- (xii) Preparation of local Audit/Review programmes of all Special Audit Parties and Supervising Officers.
- (xiii) Sending general Circulars, orders etc to field parties.
- (xiv) Maintenance of Tour Diary and Leave Account of field parties.
- (xv) Maintenance of section Library with up to date statutes and Audit Reports from other Audit Officer.

Special Cell (HQ) II

This section deals with audit and Inspection Reports, Review Reports, DPs, correspondence and allied matters relating to offices of the Assistant Educational Officer/District Educational Officer, Higher Secondary School and Vocational Higher Secondary School under section 14/15 of CAG's Act including clearance of old Inspection Reports in respect of 14 districts of Kerala State.

Other duties include compilation of copies of

- (i) Government orders relating to KSR/pay fixation
- (ii) Sanctions and orders related to Kerala Education Act and Rules.
- (iii) Amendments to KERs and Executive orders there under.
- (iv) Government orders, Circulars etc. related to General Education

Department.

Special Cell (HQ) III

This section deals with Audit, issue of inspection Reports/ Review Reports/DPs under section 14 and 15 (other than DEO/AEO) including clearance of outstanding Inspection Reports in respect of the following bodies and authorities.

Bodies/Authorities under Section 14

1. Cochin University
2. Kerala University
3. Sanskrit University
4. Matsyafed
5. Kerala State Housing Board
6. Centre for Earth Science Studies
7. Centre for Water Resources Development and Management, Kozhikode.
8. IHRD
9. Kerala Sports Council
10. Kerala Library council
11. Society for Medical Assistance to poor
12. C-DIT
13. Kerala State Pollution Control Board.
14. Kerala State Literacy Mission authority
15. Kerala State Social Welfare Advisory Board
16. Malabar Cancer Centre
17. TechnoPark
18. Kerala Kalamandalam
19. Kerala Chalachithra Academy
20. Primary Education Development Society
21. SCERT
22. STIC, Ernakulam
23. Rajiv Gandhi Centre
24. Kerala Sahithya Academy
25. Cashew Workers Relief and Welfare Fund Board
26. Kerala Fishermen's Welfare Fund Board
27. Kerala Coir Workers Welfare Fund Board
28. Kottakkal Ayurvedic College Studies and Research Centre.

29. Lalitha Kala Academy
30. Kerala Press Academy
31. Sangeetha Nataka Academy
32. Aided Colleges including 5 poly technics & 3 Homoeo Medical Colleges
33. Kerala Agricultural University
34. Calicut University
35. MG University
36. Kannur University
37. CAPEX
39. GCDA
39. Centre for Development Studies
40. IMG
41. Kerala forest Research Institute
42. NATPAC
43. State Institute of Languages
44. State Institute of Encyclopedia
45. Regional Cancer Centre
46. ANERT
47. Science and Technology Museum
48. TBGRI
49. KILA
50. Audiovisual and Reprographic Centre
51. TRIDA
52. Calicut Development Authority
53. Kerala State Rural Development Board
54. Food Craft Institute
55. State Institute of Children's Literature
56. KHRWS
57. SERIFED
58. Goshsree Development Authority
59. Kerala Information Technology Service Society
60. Attappady Hill Area Development Society
61. Sugandhagiri Cardamon project
62. Thenmala Eco Tourism Promotion Society

63. Sabarimala Sanitation Society
64. New Institutions if any under section 14

Bodies/Authorities under Section 15

1. Aided Training Colleges.
2. Kerala State Homoeo Pharmacy Ltd, Alappuzha (Health and family Welfare (J) Department)
3. Centre for Taxation Studies Thiruvananthapuram (Taxes (C) Department)
4. Institute of Land Management Thiruvananthapuram (Revenue Department)
5. International School of Dravidian Linguistics (Higher Education (K) Department)
6. Jawahar Balabhavan, Thiruvananthapuram (Cultural Affairs (A) Department).
7. Kerala Folklore Academy, Chirakkal PO, Kannur-670011 (Cultural Affairs (D) Department)
8. Vasthuvidya Gurukulam, Aranmula (Cultural Affairs (B) Department).
9. Kerala State Veterinary Council Thiruvananthapuram -5 (Animal Husbandry Department)
10. Kerala Toddy Workers Welfare Fund Board, Thiruvananthapuram – 11 (Labour Department)
11. Kerala Beedi and Cigar Workers Welfare Fund Board, Kannur (Labour Department)
12. Kerala Bamboo Kattuvally and Pandanus Leaf Workers Welfare Fund Board, Angamali South PO-683573 (Labour Department)
13. Attappady Co-op Farming Society (S.T Development Department)
14. Kerala Book Marketing Society, Fort PO, Thiruvananthapuram (General Education Department)
15. Kerala Federation of the Blind (General Education (M) Department)
16. Kerala Council for Historical Research (KCHR) Nalanda, Thiruvananthapuram (General Education Department)
17. Vaikam Satyagraha Cultural Research Centre (Construction) (Cultural Affairs (A) Department)
18. Society for Rehabilitation of Cognitive and communicative Disorders, Ulloor, Thiruvananthapuram (Health and Family Welfare (P) Department)

19. Kerala Children Film Society, Sruthi, Killippalam General Education Department (P) Thiruvananthapuram
20. Bharat Bhavan Society of Kerala , Nalanda, Thiruvananthapuram (Cultural Affairs (A) Department)
21. GuruGopinath Natana Gramom Society, Vattiyoorkavu, Thiruvananthapuram (Cultural Affairs (A) Department)
22. Sree Narayana International Study and Pilgrimage Centre, Chempazhanthi (Cultural Affairs (A) Department)
23. Pappinisseri Visha Chikilsa Society (Health and Family Welfare Department)
24. Institute for Mental health and Neuro Science (Health and Family Welfare Department)
25. Kerala State Social Welfare Advisory Board (Social Welfare (C) Department).
26. Sree Chithra Home (Social Welfare (C) Department)
27. Kollam Development Authority (Local Self Government (G) Department)
28. Trichur Urban Development Authority (Local Self Government (D) Department)
29. Idukki Development authority (Local Self Government Department)
30. State Committee on Science and Technology (Science, Technology and Environment Department)
31. Kerala Tailoring WWFB, Thycaud Thiruvananthapuram (Labour Department)
32. Kerala Autorikshaw WWFB, Thycaud, Thiruvananthapuram (Labour Department)
33. Ambedkar Memorial Rural Institute for Development, Kalpetta, Wayanad (AMRID) (S.T Development Department)
34. People's Action for Development Kerala, LMS Compound, Thiruvananthapuram (Rural Development Department)
35. Indian Institute of Diabetics, Pulayanarkotta, Thiruvananthapuram (Health and Family Welfare Department)
36. Jawahar Balabhavan Sasthri Jn., Kollam 691001 (Cultural Affairs (A) Department)
37. Jawahar Balabhavan, Alappuzha 688011 (Cultural Affairs (A) Department)

38. Jawahar Balabhavan, Kottayam (Cultural Affairs (A) Department)
39. Thunchan Memorial Trust, Thunchan Parambu, Tirur, Malappuram (Cultural Affairs (A) Department)
40. Gandhi Seva Sadan Kathakali and Classic Arts Academy, Pathiripala, Palakkad – 679302 (Cultural Affairs (A) Department)
41. Kalabharathi Guru Chengannor, Kathakali Academy, Pakalkuri Thiruvananthapuram 695604 (Cultural affairs (A) Department)
42. Sahodaran Ayyappan Smarakam Cherai – 683574 Emakulam District (Cultural Affairs (A) Department).
43. Kumaranasan National Cultural Institute. Thonnakkal (Cultural Affairs (A) Department).
44. Unnai Warriar Smaraka Kala Nilayam, Iringalakuda – 680 121, Trichur District (Cultural Affairs (A) Department).
45. Appan Thampuran Smarakam PB No.501-Town Hall road Trichur-680 020 (along with Audit of Kerala Sahithya Academy) (Cultural Affairs (A) Department).
46. Margi, Fort, Thiruvananthapuram (Near Fort High School) (Cultural Affairs (A) Department).
47. Mahakavi Ulloor Smaraka Library and Research Institute, Jagathy, Thiruvananthapuram (Cultural Affairs (A) Department).
48. Mahakavi Moyinkutty Vaidyar Smaraka Committee, Kondotty (Cultural Affairs (A) Department).
49. Assan Memorial Association, Kaikkara, Nedunganda, Thiruvananthapuram (Cultural Affairs (A) Department).
50. Noopura Institute of Mohiniyattam Poojappura, Thiruvananthapuram (Cultural Affairs (A) Department).
51. Kottarathil Sankunni Smaraka Trust, Kodimatha, Kottayam (Cultural Affairs (A) Department).
53. Kunchan Nambiar Smarakam, Ambalapuzha, Alappuzha (Cultural Affairs (A) Department).
54. Shatkala Govinda Marar Smaraka Kalasamithi, Ramamangalam PO Muvattupuzha – 686663 (Cultural Affairs (A) Department).
55. Mohammed Abdul Rehiman Sahib Smarakam, Azhikode Village, Kodungalloor (Cultural Affairs (A) Department).

56. Attappadi Tea Growers Co-Operative Society (ST Development Department)
57. New Institution if any under Section 15.

General Instructions to Special Audit Parties

1.4 Duties of AAOs

Special Audit Party consists of two AAOs and the senior will be in charge of the party. They are generally guided by the Supervising Officer and the audit should be conducted in accordance with the instructions of the supervising officer. The duties and responsibilities as specified in the Manual of Standing Orders (Audit) are to be performed and discharged by the members of the party. In addition the senior AAO in charge of the party should see that:

1. the allocation of work among the members of the party has been carried out in such a way as to complete the work within the time allowed in the approved programme. If for extraneous reasons, the work could not be completed within the time allowed, the senior officer should apply for extension of time sufficiently early with justification to enable Special Cell (HQ) I to obtain the sanction of the Group officer.
2. specified items of work should be carried out by members of the party if asked for by the Principal Accountant General (C&CA) and the fact indicated in the Title Sheet.
3. the points marked for local verification should be verified and put up to the supervising officer.
4. files containing instructions for the conduct of audit of Autonomous Bodies are kept up to date for reference in the course of audit.
5. T.A.N are drafted and issued to the head of the institution/office after approval by the Supervising Officer.
6. the work diaries are written up daily and work diaries of all personnel of the party are put up to the supervising officer on the dates of supervision and the diaries are promptly despatched to head quarters at the end of the week so as to reach HQs Section on the first working day of the following week.
7. an account of the postage stamps is kept as per rules.

When no supervision by a supervising officer has been provided, all the responsibility mentioned above will devolve on the senior AAO.

8. Absence of members of the party is to be reported to Special Cell HQs section on the third day of absence itself to avoid delay in posting substitutes.
9. Any delay in receipt of records/possibility of non-receipt of records should be reported to HQ section.
10. A monthly absentee statement in respect of the members of the party is to be sent to HQ section on the last working day of every month.

Duties of the Supervising Officer

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

1.5 Instruction to be followed by field parties in general

1. On the first day of audit itself party members should have an “Entry meeting” with the Head of Office and inform the audit plan and records and

documents required and request the head of office and other officers and staff to be available in the office through out the period of audit. Minutes of the entry meeting should be documented and for part of Inspection Report papers

2. On concluding audit, an “Exit meeting” should be conducted. The Draft Inspection Report/deficiencies noted in respect of units audited should be discussed in such meetings. If the Head of Office is not available, the meetings should be conducted with the next higher authority.

3. Tour diaries should be written up daily for each item of work done by him. After obtaining counter signature of the supervising officer (if any) diaries should be forwarded positively on the last working day of every week.

4. Where party members on camp stay at places 8 kms away from the place of duty individual request with reasons should be sent to headquarters section for obtaining permission of the PAG (C&CA) for such stay.

5. Leave application and handing over/taking over charge reports with full particulars of the work completed / pending completion and list of records handed over/received should be directly sent to Special Cell HQ then and there.

6. Except in unforeseen and emergent cases, leave should be sanctioned in advance and in cases of emergencies there should be an intimation to HQrs followed by a proper application. The details of leave should be marked in the Attendance Register by the senior most member of the party immediately on receipt of the application or intimation regarding absence.

7. In the course of audit, if a day is declared holiday the loss of party day should be made up in the same camp if three or more days are left for the course of audit. No extension will be allowed in such cases. If less than three days are left, the audit can be extended, however it should be adjusted in the next camp.

8. The draft reports on local audit should be sent to the HQs so that it may be received in HQs section within five days of completion of audit.

9. The draft LAR should contain the following documents also.

- (a) Title Sheets fully filled up in all respects.
- (b) List of service books checked (with percentage of check exercised)
- (c) List of records checked in respect of schools, colleges or sub offices etc.

- (d) In the case of Section 14 institution, questionnaire duly filled in
- (e) Dated Audit Enquiries, dated acknowledgement, replies with copies of Government orders, circulars, Letters, departmental instruction relevant to the audit enquiries.
- (f) Potential Draft paras should be supported by relevant key documents.

10. Previous LARs received from HQs should be verified and paras that can be dropped should be indicated. Outstanding paras in the previous LARs should be incorporated in the current Inspection Report. If previous IRs have not been received for verification the fact may be stated in the Title sheet.

Requisition of data, information, documents

Refer Circular Lr. No. 84-Audit(AP)/10-2009 dated 20 April 2009 of CAG.

CHAPTER – II

Introduction

Basic authority for audit of autonomous bodies

The functions of the Comptroller and Auditor General of India are derived from the provisions of Articles 149 to 151 of the constitution of India. Article 149 provides that the comptroller and Auditor General of India shall perform such duties and exercise such powers in relation to the accounts of the Union and of the States and of any other authority or body as may be prescribed by or under any law made by parliament. The parliament pursuant to the provisions of the said Article of the Constitution of India has passed the Comptroller and Auditor Generals (Duties, Powers and Conditions of Service) Act, 1971, as amended in 1976, 1984, and 1987. Sections 14, 15, 19 and 20 of the Act empower the CAG of India to conduct audit of bodies/authorities and perform such duties and exercise such powers in relation to them as prescribed under the Act.

(Para 1.01 of CAG's Manual 2007)

2.2 Meaning of body or authority

The word authority has been interpreted by the Attorney General of India to mean a person or body exercising power or command vested in it by virtue of provisions in the constitution or Acts passed by the Parliament or the State Legislatures.

Eg:- 1. Vice Chancellor of a University (person exercising power)

2. Corporation (A body exercising power)

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

(Para 1.02 of CAG's Manual 2007)

Examples of aggregate of persons incorporated are as follow.

Co-operative Society.

Municipality

Village Panchayat.

A sports club affiliated to Kerala Sports Council, Society registered under the Travancore- Cochin Literary, Scientific and Cultural Societies Act, 1955.

Institution registered under the Indian Societies Registration Act 1860 etc.

Example of aggregate of persons unincorporated

Committee formed for celebration of festivals in temples and churches.

2.3 Coverage

This manual is intended to assist in the conduct of audit of all bodies and authorities (generally speaking Autonomous Bodies) Except Government companies and commercial undertakings.

2.4 Applicability of various sections of the CAG's Act

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

(Para 1.04 of CAG's Manual 2007)

2.5 Audit Objective and Scope

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

(Para 1.05 of CAG's Manual 2007 and Para 2.6.11 of MSO(Audit))

CHAPTER III

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

3.1 Legal Provisions

Section 14 of the Comptroller and Auditor Generals (Duties, Powers and conditions of Service) Act, 1971 deals with the audit of receipts and expenditure of bodies or authorities substantially financed from Union or State Revenue.

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

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

Section 14(2): Notwithstanding any thing contained in Sub Section (1) the CAG may with the previous approval of the President or the Governor of State etc. audit all receipts and expenditure of any body or authority of the amounts of such grants and/ or loans from the consolidated fund etc. in a financial year is not less than rupees one crore.

Section 14(3): Where the receipts and expenditure of any body or authority are, by virtue of the fulfillment of the conditions specified in sub section (1) or sub Section (2), audited by the CAG in a financial year, he shall continue to audit the receipts and expenditure of that body or authority for a further period of two years notwithstanding that the conditions specified in Subsection (1) or Sub Section (2) are not fulfilled during any of the two subsequent years.

(Para 2.01 of CAG's Manual 2007)

3.2 Essential Ingredients

The essential ingredients for any institution to attract audit under the above Section are:

- (i) The grant and/or loan must be to a body or authority.
- (ii) The terms ‘body’ and ‘authority’ used in the Act include a Company or Corporation. Thus if a company or corporation is not covered by Section 19(1), 19(2) or 19(3) of the Act, it is open to take up audit under Section 14(1), 14(2) or 20(2), as the case may be, subject to the conditions specified in each section being satisfied.
- (iii) The grant or loan must have been paid out of the Consolidated Fund of India.
- (iv) The autonomous body must be “substantially financed” by grant or loan in accordance with the explanation given in the Section.
- (v) An institution which receives grant or loan of rupees one crore and above and such grant or loan forms more than seventy five *per cent* of its total expenditure will continue to be audited under Section 14(1). Only when the latter condition is not satisfied it will come under section 14(2)
- (vi) Audit will be ‘subject to the provisions of any law for the time being in force’ applicable to the autonomous body or authority concerned.

(Para 2.02 of CAG’s Manual 2007)

3.3 Assignment of Government Revenue

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

(Para 2.04 of CAG’s Manual 2007)

Unspent grants/loans of previous years

If the aggregate of grant or loan in any financial year together with the carried over unutilized portion of grant/loan given to that body/authority in the preceding financial year is not less than Rs 25 lakh then that body or authority will be covered under Section 14 (1) if the other condition i.e., the assistance not being less than 75 *per cent* of the total expenditure of that body/authority in that year is also fulfilled.

(Para 2.05 of CAG’s Manual 2007)

3.4 Total Expenditure

The terms ‘total expenditure’ used in the Explanation under Section 14 (1) of the Act, is to be interpreted to mean both revenue and capital expenditure. In respect of institutions running business (eg. sale of khadi by State Khadi Boards, disbursement of loans by financing institutions as an activity etc.) the expenditure incurred on purchase of raw material, finished good, disbursement of loans, etc. should also be treated as expenditure. However, payments, purely of deposit nature (eg. deposits for works done, income tax recoveries, advance to staff, investment of cash between office and bank etc) should not be regarded as expenditure for the purpose of Section 14.

(Para 2.06 of CAG’s Manual 2007)

3.5 Governing laws of the autonomous bodies

Audit under Section 14 is “subject to the provisions of any law for the time being in force applicable” to the autonomous body. The intention behind this provision is that audit under Section 14 should take into account all provisions in the law governing the autonomous body and in particular, it is not intended to replace any audit arrangement envisaged in the relevant law governing the autonomous body. Audit under Section 14 is in addition to audit envisaged in the relevant law and one is not intended to replace the other but both are complementary and have to co-exist.

(Para 2.07 of CAG’s Manual 2007)

3.6 Procedure for taking up Audit

Collection of data

The first step necessary before any audit is taken up under Section 14 is to identify every year the autonomous bodies that attract audit under Section 14. For this purpose, a list of autonomous bodies in receipt of grants and loans from the Consolidated fund has to be compiled. The sanctioning authorities, both in Central Government and State Government, endorse copies of sanctions of grant and loans to the audit office and suitable procedure for the receipt, scrutiny and action necessary should be evolved. It is necessary that a record be kept in respect of grants and loans sanctioned for payment to various autonomous bodies. This record, compiled for each sanctioning authority, should be reconciled periodically with the records of the sanctioning authorities (eg. Register of Grants in GFR Form 39 maintained by sanctioning authority) either by personal contact or by

obtaining periodical returns. For this purpose, the following working schedule has to be drawn up where by data of grants and loans disbursed in every financial year to various autonomous bodies can be obtained/collected. Secretaries of various Government Departments and Heads of Departments are to be addressed during the month of April every year, to furnish before 30th of June, a list of autonomous bodies in receipt of grants and loans during the financial year. The data so collected must be posted in a register kept for that purpose and therefrom a list of institutions that are in receipt of grant or loan or both of not less than Rs 25 lakh should be prepared and the register should be submitted to the Branch Officer on the 15th of every month. In respect of all such bodies/institutions which received Rs 25 lakh and above, the sanctioning authorities of grants and loans should be addressed to make available the accounts of the respective bodies for the concerned year before 30th September.

(Para 2.09 of CAG's Manual 2007 and Rule 29 of GFR 2005)

3.7 Working arrangement

Since the work of collecting data on grants and loans and annual accounts of the bodies may involve a series of correspondence with the sanctioning authorities, which can result in inordinate delay in determining the bodies that should be audited, a suitable working arrangement may be evolved in consultation with the Government/Departments and compliance thereof strictly watched. Further, for expediting the identification of bodies attracting audit under section 14, officials may be assigned to scrutinize the records of grants and loans kept by the sanctioning authorities to initiate timely action. A system should be streamlined so that no autonomous body is left out inadvertently.

(Para 2.11 of CAG's Manual 2007)

3.8 List of autonomous bodies to be audited

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

Gazette Notification Register which should be submitted to the branch Officer on 15th of every month. Similarly a Register of such autonomous bodies, the audit of accounts of which is to be undertaken, should be maintained. Programme for audit of the autonomous bodies under Section 14 should be chalked out, keeping in view of the periodicity and duration prescribed for audit of the institution.

(Para 2.12 of CAG's Manual 2007)

3.9 Taking up audit under Section 14(2)

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

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

- (i) Control by the sanctioning agency is inadequate.
- (ii) the state of accounts is known to be unsatisfactory.
- (iii) there are chronic delays in the finalization/submission/audit of accounts,
- (iv) there are no arrangements for audit by an agency outside the control of the institution,
- (v) there are persistent losses in respect of institutions undertaking manufacturing or trading activities, and
- (vi) Government stands guarantee for large amounts even though the amount of grant, loan or investment, as the case may be, is small.

(Para 2.14 of CAG's Manual 2007 and Para 2 of Circular Lr. No. 824-AuII-86 KW dt. 17.6.1987)

3.10 Auditors appointed for audit of autonomous body

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

CHAPTER – IV
Audit under Section 15

4.1 Provisions of Section 15

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

(Para 3.01 of CAG's Manual 2007)

4.2 Audit under Section 15

Audit under Section 15 has two parts. The first part relates to the statutory responsibility of the CAG to scrutinize the procedures by which the sanctioning authorities satisfy themselves about the utilization of grants and loans given for specific purpose. The second part gives the CAG the right to access to the books and accounts of the autonomous body, subject to certain restrictions. The restrictions are :

- (i) the autonomous body is not a foreign State or an international organization.
- (ii) The President/Governor/Administrator concerned can, if he is of the opinion in public interest, by order, relieve the CAG after consultation with him, from making any such scrutiny in respect of any autonomous body, and
- (iii) Except with the authority of the President/Governor/Administrator concerned, the right of access to the books and accounts of any corporation is not available, if the law, by order under which the corporation established, provides for audit by some one other than the CAG.

(Para 3.02 of CAG's Manual 2007)

4.3 Scrutiny of procedure

Since the emphasis of audit under this section is on scrutiny of the procedure, the approach of audit should be system-based, as distinct from scrutiny of individual transactions. The scrutiny of individual transactions is, however, unavoidable to formulate opinion on the system as a whole. Here the first step would be to find out whether adequate rules and regulations have been framed by the sanctioning authority or Government for ensuring that the objective of giving the assistance is achieved, avoiding the risk of misuse or sub-optimal use.

(Para 3.06 of CAG's Manual 2007)

4.4 Scrutiny of accounts of the assisted body

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

(Para 3.07 of CAG's Manual 2007)

4.5 Access to records

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

*(Para 3.08 of CAG's Manual 2007 and Para 1.15 of Circular dated 29.4.1985
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4.6 Procedure for collection of information

As observed earlier the audit under Section 15 has two parts. The first part relates to the statutory responsibility of the Comptroller and Auditor General to scrutinize the procedures by which the sanctioning authorities satisfy themselves

about the utilization of grants for specific purpose. For performance of this responsibility, it is necessary for every audit office to maintain a record of authorities who have been authorized to sanction/disburse grants and loans. The working arrangement adopted for collection of data for Section 14 should itself enable the audit office to obtain adequate data on grants and loans disbursed by each sanctioning authority. The audit offices should then compile a list of sanctioning authorities whose records would be required to be audited annually under Section 15.

(Para 3.09 of CAG's Manual 2007)

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

(Para 3.10 of CAG's Manual 2007)

4.7 Intimation of audit programme

In so far as the scrutiny of books of accounts of assisted entity under section 15 is concerned, before the audit is taken up, the sanctioning authority should be advised to give due intimation of the audit programmes to the institution to be locally audited with instructions to keep relevant documents ready for audit and to render necessary facilities.

(Para 3.11 of CAG's Manual 2007)

4.8 Reporting results of audit

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

(Para 3.12 of CAG's Manual 2007)

4.9 Pursuance of findings of audit

Audit under Section 15 being primarily of the records of the sanctioning authorities, results of audit of the books and accounts of the autonomous bodies receiving specific purpose grants/loans should be pursued with the sanctioning

authorities/Government. The objection should not be conveyed to the autonomous bodies direct.

(Para 3.13 of CAG's Manual 2007)

CHAPTER - V

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

5.1 Legal Provisions

Section 19 of the CAG's Act, 1971 deals with the audit of the accounts of Government companies and corporations and has three sub sections. Section 19(1) deals with the duties and powers of the CAG in relation to the audit of the accounts of Government companies in accordance with the provisions of the Companies Act, 1956. Section 19(2) deals with audit of the accounts of corporations (not being companies) established by or under law made by parliament and section 19(3) deals with audit of accounts of corporations established by the Act of State Legislature. Section 19 A (1) provides that the reports of the CAG, in relation to the accounts of a Government company or a corporation referred to in Section 19 shall be submitted to the Government or Governments concerned.

5.2 Government companies

Section 19 (1) provides that duties and powers of the CAG in relation to the audit of the accounts of Government Companies (both Central and State) shall be performed and exercised by him in accordance with the provisions of the Companies Act 1956. As the audit of Government Companies and Commercial Corporations is undertaken by Commercial Audit wing in the main office, Commercial Audit Manual may be referred for information thereon.

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

Section 19(2) envisages that the duties and powers of the CAG in relation to the audit of the accounts of corporation established by or under any law made by the Parliament shall be performed and exercised by him in accordance with the provisions of the respective legislations. The word 'legislation' used in the section refers not only to provisions of the parent Acts relating to the corporations but also to rules and regulations framed by competent authorities by virtue of the powers vested in them under the relevant Acts of parliament.

(Para 4.02 of CAG's Manual 2007)

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

Section 19(3) provides that if the Governor of a State or the Administrator of Union Territory having a Legislative Assembly finds that it is necessary in the

public interest to entrust the audit of any corporation to the CAG may do so after giving reasonable opportunity to the corporation for making representation with regard to such audit.

(Para 2.62 of MSO(Audit and Para 4.03 of CAG's Manual 2007)

5.5 Conditions for taking up audit. [Under Section 19(2)-General Condition

- (i) The body must be a corporation established by or under any law made by the Parliament.
- (ii) The relevant legislation of the corporation should provide for audit by the CAG.

Under Section 19(2), the duty is cast on the CAG by specific provisions in Parliamentary enactment. However, it has been decided by the Ministry of Finance, Government of India that no enactment by Government would provide for duties to be discharged and powers to be exercised by the CAG without prior consultation with him in the matter by the Ministry concerned through Finance Ministry.

Where there is no provision in the relevant legislation for audit by CAG, its audit can be entrusted to the CAG under section 20.

If the legislation provides for audit by other agencies and Government proposes to have a second audit by the CAG as well, the matter may be referred to HQ office for further examination.

The audit is taken up essentially for purposes of certification of annual accounts but there is no objection to take up such audit for certain specified purpose as well.

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

1. The Corporation should be one established by law made by the legislature.
2. The Governor or the Administrator should be of opinion that such audit is to be done in the public interest.
3. The Governor or the Administrator formally requests the CAG for the proposed audit.

4. Before the request for the audit is made, the Governor/Administrator should consult the CAG on the proposal.

5. The Corporation might have been given reasonable opportunity to make representations with regard to the proposal for the audit.

6. As the audit is in the interest of both the Government and the autonomous body, it is undertaken on the terms and conditions as agreed upon between the CAG and the Government concerned.

When the Government inform their intention to the Principal Accountant General for entrusting the audit to the CAG by a specific Communication, there is no objection for corresponding with the Government in the matter. But it is necessary that in every case prior and specific clearance from the CAG is obtained by the Principal Accountant General before a decision to accept or reject a proposal is conveyed to Government.

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

5.7 Procedure for taking up audit

In respect of audit under section 19(2) the proposals are received through the concerned Director of Audit. After noting the details in the “Section 19(2)/19(3) Register” copies of the documents connected with the audit under section 19(2) are transferred to the DAG (Central) for arranging the audit.

The proposals for taking up audit under Section 19(3) are received in Special Cell (HQ)I. In every case the proposal is to be examined and recommendations sent to HQ office. On receipt of the approval of CAG, it is necessary to convey to the Government, the terms and conditions under which audit can be undertaken.

The audit arrangement is complete on receipt of a formal request in the name of the Governor addressed to the CAG. The letter of request must indicate compliance of the mandatory requirement of the sections of Act, so as to avoid possible legal complications at a later date.

Immediately on receipt of the formal request, after noting the details in the ‘Section 19(2)/19(3) Register’ copies of all relevant papers are handed over to

DAG (Inspection I/OA(HQ)I for taking up the audit of the Autonomous Body. Arrangement should be made by him for the conduct of audit of the body.

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

5.8 Control over audit

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

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

(Para 3.04 of CAG's Manual 1983)

CHAPTER - VI

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

6.1 General provisions

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

6.2. Entrust of audit by President or Governor or Administrator

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

(Para 5.03 of CAG's Manual 2007)

6.3 Proposal by CAG

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

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

(Para 5.04 of CAG's Manual 2007)

6.4 Terms and conditions for entrustment of audit

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

(Para 5.05 of CAG's Manual 2007)

6.5 Formal request for audit by CAG

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

(Para 5.07 of CAG's Manual 2007)

6.6 Audit in public Interest

One of the essential requirements of Section 20(1) is that audit can be entrusted to the CAG only in public interest. The satisfaction in the case has to be of the Government concerned and it will not normally be necessary for Audit to scrutinize or examine the correctness of the said satisfaction or to hold a contrary view in the matter.

(Para 5.08 of CAG's Manual 2007)

6.7 Opportunity to make representation by Autonomous Bodies

Another requirement of the two sub section is that audit can be entrusted to the CAG only after giving a reasonable opportunity to the autonomous body to make representation with regard to the proposal for such audit. Such an opportunity may not be given by Government where the statute setting up or governing the autonomous body itself provides for or permits audit being entrusted to the CAG. While the decision to entrust the audit will be of Government, it is not obligatory that autonomous body should concur with that decision as the requirement is only for a 'consultation'. While considering the proposal of Government in the matter, it should be seen in audit that a reasonable opportunity had been given by Government to the autonomous body as it is mandatory to do so and omission to do so can vitiate the order of Government entrusting audit to the CAG.

(Para 4.05 and Para 5.09 of CAG's Manual 2007)

6.8 Consultation with CAG

The request for entrustment of audit under Section 20(1) is made only after consultation with CAG. Government may inform its intention to the concerned audit office for entrusting the audit to the CAG by a specific communication. But it is necessary that, prior and specific clearance from CAG is obtained by the PAG before a decision to accept or reject a proposal is conveyed to the Government.

(Para 5.10 of CAG's Manual 2007)

6.9 Settlement of terms and conditions

Section 20(1) of the CAG's Act provides for the settlement of any terms and conditions for acceptance of audit by the CAG. Thus at the time of forwarding acceptance of proposals, it is necessary to convey to the Government

the terms and conditions under which audit can be undertaken by CAG. The standard terms and conditions are given in Annexure 1.

(Para 5.11 of CAG's Manual 2007)

6.10 Period of entrustment of Audit

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

(Para 5.12 of CAG's Manual 2007, CAG's Circular No. 403/TAI(RGL 19-84-11 dt. 25.3.1985 and CAG's Circular No. 657/AuII/9-84 dt. 22.5.1985)

6.11 Formal request

Having complied with the requirements, it is necessary that a formal request is sent to Government in the name of President/Governor/Administrator for entrusting audit to the CAG.

(Para 5.13 of CAG's Manual 2007)

Entrustment procedure

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

(Para 5.14 of CAG's Manual 2007)

6.12 Proposals of audit of State Autonomous Bodies

The proposals for taking up audit under Section 20(1) of the Act in the case of State Autonomous Bodies are to be directly received in the field audit office concerned from the respective State Governments. The field offices may also decide these entrustment cases and accept the proposals without reference to Head quarters.

(Para 5.15 of CAG's Manual 2007 and Circular No. 649-AuII/143-85 dt. 29.4.1985)

6.13 Special cases of entrustment of Audit

In some special cases the audit under Section 20(1) may be accepted, in addition to the audit conducted by the primary auditors who conduct the audit in the manner prescribed in the law governing the corporations/societies/bodies/authorities. In this arrangement the audit by IA & AD will be in addition (superimposed audit) to the audit conducted by the primary auditors.

(Para 4.12 to 4.14 of CAG's Manual 2007 and CAG's Circular No. 33-AuII/143-85 dt. 20.1.1987)

6.14 Certification of Accounts in cases of super imposed audit

The certification of accounts need not be done by CAG in cases where CAG is not the sole auditor, but it is doing a superimposed audit under Section 20(1) irrespective of the fact whether the primary auditors are appointed on CAG's advice/recommendation or not. All proposals for the superimposed audit may be referred to Head quarters office.

6.15 Examination of proposals of audit of autonomous bodies

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

(Para 5.18 of CAG's Manual 2007)

6.16 Other instructions

Certification of Accounts

Audit under Section 20(1) is taken up essentially for purposes of certification of annual accounts but certification of accounts also includes

performance audit. The separate Audit Report issued under this section should, however, contain only 'Comments on accounts'.

(Para 5.20 of CAG's Manual 2007 and CAG's Circular No.364-AuditII/72-90 dt. 17.3.1992)

6.17 Independent audit certificate/SAR for each accounting period

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

(Para 5.21 of CAG's Manual 2007 and CAG's Circular No. 165-Rep(AB)91-2003 dt. 23.5.2003)

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

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

(Para 5.22 of CAG's Manual 2007 and CAG's Circular No. 33/AuditII/143-85 dt. 20.1.1987)

CHAPTER VII

Certification of accounts of autonomous bodies

7.1 Introductory

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

7.2 Meaning of certification of accounts

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

(Para 6.02 of CAG’s Manual 2007)

7.3 Essential features of audit of financial statement

The essential features of the audit of accounts are

- a) to make critical review of the system of book keeping, accounting and internal control procedures,
- b) to make such tests and enquiries as the auditors consider necessary to form an opinion as to the reliability of the records as a basis for preparation of accounts.
- c) To verify accounts with reference to the books of accounts ie., ledgers, journals and other subsidiary and supporting records to see that the accounts are in agreement with the books of accounts, and
- d) To make a critical review of the Income and Expenditure Account/ Profit & Loss Account and the Balance Sheet in order to make a report stating whether, in the opinion of the auditors, the financial statements are presented in conformity with the generally accepted accounting

principles and the items therein are described in such a way to give a true and fair view of the financial position and results of operations of the entity.

(Para 6.03 of CAG's Manual 2007)

7.4 Format of Accounts

The autonomous bodies under Government of India are required to compile their accounts from the accounting year 2001-02 in a Uniform Format of accounts as prescribed by Government of India, Ministry of Finance. In case of autonomous bodies governed by separate Acts, where CAG is the sole auditor, this format has been made applicable which were exempted earlier.

Non-Compilation of annual accounts in the uniform Format may be commented upon in the SAR after ascertaining the Status of switch over from the autonomous body concerned.

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

(Rule 209(6)xiii of GFR 2005, Para 7.01, 7.02, 7.04 of CAG's Manual 2007, CAG's Circulars No. 103-AuII/88-2000 dt. 27.3.2002, 201-Rep(AB)/67-99 dt. 8.7.2002, 131-Rep(AB) 71-2004 dt. 14.8.2006)

7.5 Components of Financial Statements

The Annual Financial Statements of the Central autonomous bodies consist of the following statements, prepared and presented in the formats and in the manner as provided in the Uniform format of accounts.

- i) Balance Sheet.
- ii) Income and Expenditure Account.
- iii) Schedules to the above Financial Statements.
- iv) Disclosure of 'Significant Accounting Policies'.
- v) Disclosure of other information through 'Notes to Account's.
- vi) Statement of Receipts and Payments.

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

(Para 7.05, 7.06 of CAG's Manual 2007)

7.6 Fundamental Accounting Assumption

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

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

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

* **Accrual Basis:** It is the method of recording transactions by which revenue, costs, assets and liabilities are recognized in the accounts in the period in which they accrue, i.e. when they occur rather than when cash or cash equivalent is received or paid.

(Para 7.07 of CAG's Manual 2007)

7.7 Accounting Standards

The common format of accounts has been prepared keeping in view of the Accounting Standards issued by Institute of Chartered Accountants of India (ICAI), relating to various requirements of recognition, measurement, presentation and disclosure of accounting transactions and events. (Annexure 2). The purpose of accounting standards is to ensure that financial statements are prepared in accordance with generally accepted accounting principles and practices and to ensure, to the extent possible, comparability of information contained in the financial statements of various entities. It is, therefore, necessary for the auditors of autonomous bodies to have the knowledge of these Accounting Standards.

(Para 7.10 of CAG's Manual 2007)

7.8 Treatment of accounts not submitted in prescribed format

In case the statement of accounts submitted to audit is not satisfactory and/or the body is not submitting the accounts in complete form in spite of the deficiencies being pointed out to it, this matter may be brought to the notice of the Government and a suitable comment included in the Audit Report. Where the accounts submitted are not in the prescribed form or the forms to be prescribed are under consideration, it would be preferable to finalize the certification of accounts

and issue of audit report without insisting on the accounts being recast in the forms prescribed or to be prescribed provided there are no practical or other difficulties in doing so, but appropriate qualifications would have to be made in the audit report.

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

(Para 7.11 of CAG's Manual 2007 and CAG's Circular DO letter No. 1418 Rep(C)167-77 dt. 30.10.1978)

CHAPTER - VIII

Audit Planning and Procedures

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

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

- (i) Planning
- (ii) Executing
- (iii) Reporting

(Para 8.01, 8.02 of CAG's Manual 2007)

8.2 Planning

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

(Para 8.03 of CAG's Manual 2007)

8.3 Knowledge of the entity's business

Knowledge of the entity's business provides a basis for many components of the audit, including the following.

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

- Evaluating management’s overall financial statement presentation.
- Recognizing unusual circumstances.

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

(Para 8.04 of CAG’s Manual 2007)

8.4 Establishing audit Objectives and Scope

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

(Para 8.05 of CAG’s Manual 2007)

8.5 Audit objective

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

(Para 8.06 of CAG’s Manual 2007)

8.6 Scope

Determining audit scope at the planning stage is primarily for the auditor to estimate the extent and requirements of audit work in the subsequent execution phase.

Factors affecting scope of Audit.

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

- Internal risk in the accounting system of the auditee.
- Nature and type of audit evidences acceptable to the SAI and the users of the audit report.

(Para 8.07 of CAG's Manual 2007)

8.7 Determining Materiality

A matter is regarded as material if its inclusion or omission or non disclosure is likely to distort the overall view of the accounts and influence economic decision of its intended user; Materiality relates to the maximum possible misstatements and not to the most likely or known misstatements. The maximum possible misstatements include all types of errors, frauds or irregularities and “inappropriate determination of accounting estimates” that may affect the financial statements, regardless of their nature or cause.

(Para 8.08 of CAG's Manual 2007)

8.8 Materiality and Audit Risk

Materiality and risk are distinct concepts and the auditor must consider each separately to ensure that the assessment of one does not unduly influence the assessment of the other. Risk is concerned with the likelihood of error; materiality with the extent to which we can tolerate error.

(Para 8.09 of CAG's Manual 2007)

8.9 Planning and reporting materiality

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

At the planning stage the auditor sets the materiality level for the account and thus determines the maximum amount of error (the technical terms in the Upper Error Limit) which can be tolerated in the account.

(Para 8.11 of CAG's Manual 2007)

8.10 Assessing Risk

Materiality and risk are the key parameters of an audit. While materiality is determined from the users point of view, the determination of audit risk is solely the auditors responsibility.

Purposes of assessing risk.

The purposes of assessing risk are to:

- determine risk levels as input to the audit plan,
- determine which areas are high risk and to help develop an effective audit approach.

Types of Risk

- ***Internal Risk:*** The susceptibility of the component to error that could be material. A shorter definition is that the risk of material error accruing in the first place.
- ***Internal control Risk:*** Internal control risk is the risk that an error that has occurred in the component and that could be material, which will not be detected or prevented on a timely basis by the internal controls in place.
- ***Detection Risk:*** Detection risk is the risk that the auditors procedures will not detect an error that exists in the component.
- ***Overall Risk:*** Overall audit risk is the risk that the auditor's conclusion may be wrong and that the audit may have allowed material error to remain conducted in the account. Overall audit risk inherent risk and internal control risk differ from detection risk in that they exist independently of the audit. They are beyond the control of the auditor. Detection risk, however, relates to the nature, extent and timing of auditor's procedures.

(Para 8.12 of CAG's Manual 2007)

8.11 Preparing Audit Plan

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

(Para 8.16 of CAG's Manual 2007)

Objectives of an Audit Plan

The following are the objectives of an audit plan:

- (a) Ensure an appropriate level of audit coverage.
- (b) Provide a logical and effective program for carrying out the work

- (c) Use resources efficiently and effectively
- (d) Meet reporting deadlines.

(Para 8.17 of CAG's Manual 2007)

8.12 Identification of significant audit Areas

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

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

(Para 8.18 of CAG's Manual 2007)

8.13 Determination of audit approach

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

Whether analytical review can be used as a substantive test.

(Para 8.19 of CAG's Manual 2007)

8.14 Execution phase

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

8.15 Statistical sampling for control procedure

Sampling is well established as an audit procedure. Audit sampling is defined as application of audit procedures to less than 100 *per cent* of items within a class of transactions to enable auditors to obtain and evaluate audit evidence about some characteristics of the items selected in order to form a conclusion

concerning the population which makes up the class of transactions. Sampling may be statistical or non-statistical. In Statistical sampling probability thereof is used to determine sample and to interpret the results. In non-statistical sampling, the auditors make judgment to determine the sample size in the light of planned level of direction risk and of testing materiality, and to interpret the results against the audit objective. Judgment sampling, convenient sampling, haphazard sampling are examples of non statistical sampling.

Various statistical sampling methods

- Simple Random Sampling: This technique consists of Selecting the sample unit by unit (or item by item), ensuring equal probability of selection for every unit at each draw.
- In Simple Random Sampling with Replacement (SRSWR), a unit is selected from the sampling frame (list of units in the population) and an appropriate sample is obtained. Then the unit is placed back in the sampling frame. As a result it is possible for a unit to be included in the sample more than once.
- In Simple Random Sampling without Replacement (SRSWOR) once a unit is selected for inclusion in the sample, it is removed from the sampling frame and, therefore, cannot be selected again.
- Probability Proportional to size (PPS):- Sampling assigns higher inclusion probability of selection units with higher sizes (size may be total expenditure, value total population etc). In other words, the entities with higher sizes, based on some characteristics, will have higher chances of selection. If repetition is allowed it is called Probability Proportional to Size with Replacement (PPWR) Sampling.

(Para 8.28, 8.29 of CAG's Manual 2007)

8.16 Performing Control Procedures and Compliance Testing Identifying key internal controls

An internal control system is the whole system of controls, financial and otherwise established by management to carry out the activities of the organization in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and

accuracy of records. Auditors rely on the portion of the system that gives assurance in relation to financial information. Key controls are those that the auditor intends to rely on. The auditor will usually test only the strongest control related to a particular assertion. An auditor has to identify the key controls after setting the objectives and scope. For the purpose of evaluation of internal controls INTOSAI Guidelines for Internal Control Standards for the Public Sector and internal control questionnaire issued by the institute of Chartered Accountants of India may be referred to. (Annexure 3)

(Para 8.23 of CAG's Manual 2007)

8.17 Testing procedures

The auditor cannot place any reliance on internal control based solely on his preliminary systems evaluation. He should carry compliance tests to obtain reasonable assurance that the controls on which he wishes to rely were functioning properly through out the period It should be noted that it is the control that is being tested by a compliance test, and not the transaction that may be the medium used for the test. For this reason, the auditor should record and investigate all exceptions revealed by his compliance testing, regardless of the amount involved in the particular transaction. For this reason the auditor should record and investigate all exceptions revealed by his compliance testing, regardless of the amount involved in the particular transaction. An exception is an occurrence where a control has not been operated properly whether or not a quantitative error has accrued of compliance tests disclose no exceptions the auditor may reasonably place reliance on the effective functioning of the internal controls tested. He can therefore limit his substantive tests to the relevant information in the accounting records.

If the compliance tests have disclosed exceptions that indicate that the control being tested was not operating properly in practice, the auditor should determine the reasons for this. He needs to assess whether each exception is only an isolated departure or is representative of others, and whether it indicates the possible existence of errors in the accounting records.

(Para 8.34 of CAG's Manual 2007)

8.18 Performing substantive tests of details substantive Audit procedure

Substantive tests are those tests of transaction and balances, and other procedures such as a analytical review, which seek to provide evidence as to the

completeness, accuracy and validity of information in the accounting or in the financial statement. Analytical review is a recognized substantive procedure used to reduce the overall audit risk.

(Para 8.35 of CAG's Manual 2007)

8.19 Audit Evidence

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

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

(Para 8.36 of CAG's Manual 2007)

8.20 Review of Working papers

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

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

(Para 8.40 of CAG's Manual 2007)

8.23 Determining opinion to be rendered after due consideration

Having independently considered the impact of (1) quantifiable errors and omissions, (ii) non-compliance with laws, rules and regulations (iii) deviation from disclosure requirements, the auditor has to finally decide which type of opinion is appropriate.

(Para 8.46 of CAG's Manual 2007)

CHAPTER – IX

Financial audit findings and conclusions

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

(Para 9.01 of CAG's Manual 2007)

9.2. Separate Audit Reports

The separate audit Reports (SAR) of Autonomous Bodies should contain.

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

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

(Para 9.02 of CAG's Manual 2007 and CAG's Circular Ir. No. 191-197 Rep(AB)20-86(iii) dt. 11.10.2000, 40-Rep(AB)91-2003 dt. 25.2.2004, 44-Rep(AB)91-2003 dt. 25.4.2006)

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

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

The Statement of fact are:

(i) Whether the auditors have obtained all the information and explanation which to the best of their knowledge and belief were necessary for the purpose of their audit.

(ii) Whether the report on the accounts of any branch office audited by a person other than Pr. Auditor has been forwarded to them and they have dealt with the same in preparing the auditor's report.

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

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

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

(ii) Whether the accounts give the information as required under the prescribed form of accounts.

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

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

(AAS 28 and Para 11.4 of CAG's Auditing Standards, Para .03, 9.04 of CAG's Manual 2007)

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

- The financial Statements have been prepared using acceptable accounting principles and policies.
- The statements comply with statutory requirements and relevant regulations.

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

(Para 9.05 of CAG's Manual 2007, AAS 28 & Para 11.4 of Auditing Standards)

9.3 Qualified opinion

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

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

(b) there is disagreement with management regarding the acceptability of accounting policies selected, the method of their application or the adequacy of financial statement disclosures.

The circumstances described in (a) could lead to qualified opinion or a disclaimer opinion. The circumstances described in (b) could lead to a qualified opinion or an adverse opinion. A disclaimer opinion should be expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and is accordingly, unable to express an opinion on the financial statements. An adverse opinion should be expressed when the effect of disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of financial Statements.

(AAS 28 and Para 11.4 of Auditing Standards, Para 9.06 f CAG's Manual 2007)

9.6 Aspects to be considered while qualifying Reports

While qualifying a report, it is important to appreciate.

(i) as to which of the various items (the statement of fact and opinion) require a qualification.

(ii) Whether the auditors are in active disagreement with something which has been done by the entity or are merely unable to form an opinion in regard to items for which there is lack of adequate information.

(iii) Whether the matters in question are so material so to affect the presentation of a true and fair view of the whole of the affairs of the entity or are of such a nature as to affect only a particular item disclosed in the accounts, and.

(iv) Whether the matters constituting qualification involve a material contravention of any requirements of prescribed format of accounts, which have a bearing on the accounts.

In most of the cases, items which are the subject matter of qualification are not so material as to affect the true and fair state of the whole of the accounts. In such cases, it is appropriate for the auditors to report in their opinion subject to specific qualification mentioned, the accounts present a true and fair view.

(Para 9.07 of CAG's Manual 2007, AAS 28 & Para 11.4 of Auditing Standards)

9.7 Drafting of Separate Audit Reports

In case the state of accounts submitted to Audit is not satisfactory and/or the body is not submitting the accounts in complete form in spite of the deficiencies being pointed out to it, the matter may be brought to the notice of the Government and suitable comment included in the Audit Report. Where the accounts submitted are not in the prescribed form, it would be preferable to finalize the certification of accounts and issue of the audit report without insisting on the accounts being recast in forms prescribed. It may be ensured that there is no delay in certification of accounts and issue of audit reports only on the ground that the accounts have not been compiled in the prescribed forms.

(Para 9.08 of CAG's Manual 2007)

As the SARs are required to contain only "Comments on Accounts", it should be ensured that the comments to be included in SARs are concise and brief with a clear statement of the impact of each comment on accounts. The resultant under/over statement of the concerned account head and the impact of comment on surplus/deficit/assets/ liabilities must be clearly stated. To improve and bring about uniformity in drafting the SAR, contents of the "Style Guide – 2nd Edition, issued by C & AG" may be referred to.

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

(Para 9.09 to 9.11 of CAG's Manual 2007, CAG's Circular letter Nos. 111-Rep(AB)49-99 dt. 31.5.1999, 113-Audit(AP)/6-2003 dt. 27.8.2003, 165-Rep(AB)91-2003 dt. 23.5.2003)

9.8 Reporting Standards

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

(Para 1.1 – Ch.IV Auditing Standards, Para 9.13 of CAG's Manual 2007)

9.9 Contents of Separate Audit Reports

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

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

Comments in SAR should be arranged in order of the financial statement as they appear in Uniform Format of Accounts. Comments included in the SAR should be linked with the respective account heads shown in the financial statements/schedules that are affected by the comment.

(Para 9.15 of CAG's Manual 2007, CAG's Circular Lr. 40-Rep(AB)91-2003 dt. 25.2.2004, 58/Rep(AB)91-2003 dt. 23.5.2006, 39-Rep(AB)/91-2003 dt. 3.4.2006)

9.10 Revision of accounts

Where the accounts are revised by the autonomous body, as a result of audit, there should be a disclosure to this effect either in the audit report or in the accounts by way of a 'note' in the notes of accounts.

(Para 9.16 of CAG's Manual 2007, CAG's Circular letter 111-Rep(AB)/49-99 dt. 30.5.1999)

9.11 Effect of Comments on Accounts

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

(Para 9.18 of CAG's Manual 2007, CAG's Circular letter No. 40 Rep(AB)/91-2003 dt. 25.2.2004)

Lack of response

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

(Para 9.19 of CAG's Manual 2007, CAG's Circular letter 40-Rep(AB)91-2003 dt. 25.2.2004)

9.12 Audit Certificate

In order to establish standards on the form and contents of auditors report, the Institute of Chartered Accountants of India has issued Auditing and Assurance Standards 28 (AAS-28). The form of audit certificate, modified and revised in line with AAS-28 (Annexure - 5) should be adopted in respect of audit of annual financial statements of autonomous bodies.

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

(Para 9.20 of CAG's Manual 2007, CAG's Circular letter 44-Rep(AB)91-2003 dt. 25.4.2006)

9.13 Issue of Management Letter

The comments on accounts in SARs proposed by the field offices do not always bring out the impact on accounts i.e. the comments are not linkable with the annual accounts. To overcome this situation, a 'management letter' in addition to the SAR/audit certificate should also be issued. In such cases, the auditor

submits a detailed report termed management letter, to the management regarding the procedures systems, weaknesses in the internal control etc. which would enable the management to exercise a greater degree of control over the operations of the autonomous body. The 'management letter' must be addressed to the Chief Executive Officer of the autonomous body. In the SAR, mention may be made invariably about the issue of a separate management letter. It may be ensured that the 'management letter' is issued only at the time of issue of final SAR to the autonomous body. The 'management letter' will not require head quarters approval but a copy should be sent to head quarters along with draft SAR.

(Para 9.21 of CAG's Manual 2007, CAG's Circular letter 39-Rep(AB)91-2003 dt. 3.4.2006)

CHAPTER – X

Finalisation of Separate Audit Reports

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

Replies received must be taken into account and incorporated if necessary in the SAR proposed to be issued. If no replies are received within the stipulated period SAR should be finalized and the fact of non-furnishing of replies should be indicated in the SAR.

Separate Audit Reports on all legal service authorities (Central, State and District levels) will be finalized by the respective Pr. AG/AG (Au) SARs on the Central and State autonomous bodies as detailed in the lists, which fall within the following criteria would also be finalized by the respective field audit officers.

Central Autonomous Bodies	State Autonomous Bodies
1. Grants up to Rs 2 crore <i>per annum</i>	Grants up to Rs 1 crore <i>per annum</i>
2. If no grants are received expenditure up to Rs 5 crore and below.	If no grants are received expenditure up to Rs 1 crore and below.
3. If certification of accounts is in arrears up to 2 years	If certification is in arrears up to 3 years
4. All SARS on new audit may be sent to HQs for approval for two years and thereafter, if directed by Head quarters	-do-

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

(CAG's Circular Ir. 173-Rep(AB)27-84(1) dt. 10.9.1999, 3-rep(AB)360-2000 dt. 8.1.2001, Para 10.01 to 10.04 of CAG's Manual 2007)

10.1 Submission of draft Separate Audit Reports to HQs

In all cases, except as regards the cases as indicated in Para 10.4, where SARs are to be placed before Parliament or State Legislatures the reports and accounts as audited must be submitted to Head quarters office for prior approval before they are sent to Government concerned for being placed before Parliament/State legislature.

While forwarding draft/final SAR to HQs the following information/documents should invariably be furnished.

1. Two copies of draft SAR along with key documents.
2. Two copies of draft audit certificates.
3. One copy of authenticated annual accounts to be certified by the audit office.
4. Information in the preference given at Annexure 6.
5. In case of the autonomous bodies having branch/units, information on such units.
6. A brief note on the evaluation of internal control system in the autonomous body.
7. Management letter, if any
8. Check list as at Annexure 7

(Para 10.5, 10.6 of CAG's Manual 2007, CAG's Circular Ir. Dt 10.9.2009, 301-Rep(AB)17-2004 dt. 21.9.2004, 249-Rep(AB)91-2003 dt. 1.8.2004)

10.3 Time Schedule

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

Sl. No.	Task	Date
1.	Approval and authenticated annual accounts to be	30 th June

	made available by the autonomous body to the concerned audit office and commencement of audit of annual accounts	
2.	Issue of SAR to the Chief Executive of the autonomous body	31 st August
3.	Receipt of reply to draft SAR from the Management (two weeks from the date of issue of draft SAR)	14 th September
4.	Submission of draft SAR to HQs for approval	21 st September
5.	Sending approved SAR by HQs to field office	21 st October
6.	Issue of the final SAR in English version with audit certificate to Government	31 st October
7.	Issue of Hindi version	15 th November

(Para 10.08 of CAG's Manual 2007, CAG's Circular Letter No. 173 Rep(AB)27-84(1) dt. 10.9.2009)

10.4 Status Report

In order to enable the Headquarters office to monitor the progress of audits and certification of annual accounts of all autonomous bodies whose audited accounts/SARs are placed before Parliament/State Legislature, Progress reports in form as Annexure 8 should be sent by 10th of every quarter (July, October, January, April) Requirement of furnishing quarterly reports should be noted in the Calendar of Returns to keep a watch on timely action.

(Para 10.09 of CAG's Manual 2007, CAG's Circular No. 3-Rep(AB)360-2000 dt. 8.1.2001)

10.5 Delay in Submission of accounts

If the accounts of an autonomous body are not received within the stipulated time, Head of the department concerned should specifically bring out the matter of delay to the notice of the Chief Executive of the autonomous body demi-officially. If however, the accounts are received belatedly, every effort should be made by the audit office to take up the audit expeditiously. The time frame prescribed in para 10.3 should be adhered to.

In case of arrears in regard to finalization of accounts of State autonomous bodies, the matter may be taken up with the Chief Secretary. In the state Civil Audit Reports, draft para about delays in submission of annual accounts of State autonomous bodies should invariably be included.

(Para 10.10 of CAG's Manal 2007, CAG's Circular dt. 10.9.1999)

10.6 Placing of report before Parliament/Legislature

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

In view of the above it is essential that statutory provision of Rules/Byelaws etc. governing respective organizations, standard terms and conditions under which audit is undertaken and recommendations of the Committee on Papers providing for adoption of audited accounts are kept in view.

The responsibility for placing the certified accounts with audit report on the Table of Parliament/Legislature vests in the concerned Ministry/Department of Government. Audit should satisfy itself that the audited accounts, audit certificate and audit Report as placed before the Parliament/Legislature are complete in all respects and are the same as issued to Government by Audit.

(Para 10.12 to 10.14 of CAG's Manual 2007, CAG's Circular 125-Rep(AB)/5-2000 dt. 30.6.2000, Circular 26-Rep(AB)23-2000 dt. 2.2.2000)

CHAPTER – XI

Audit of Grants-in-aid

11.1 General

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

11.2 Processes in Grants-in-aid

Pre-payment system

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

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

Post-payment system

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

11.3 Audit of Utilization

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

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

grants to local bodies or private institutions, Utilisation Certificates have to be obtained from the State Government.

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

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

11.4 Financial control over grantees

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

(i) Grants are made available as far as possible on the basis of specific schemes drawn up in sufficient details and duly approved.

(ii) Periodical reports indicating the expenditure on each of the objects as detailed in the scheme are called for and scrutinized to check whether there have been any variations or unauthorized diversion of funds.

(iii) The provisions of Rule 149 (3) of the General Financial Rules, 1963 regarding submission of an audited statement of accounts should be insisted upon. There should also be a provision for the maintenance of an audited records of all assets acquired wholly or substantially out of Government grants. In the case of small institutions, however, the sanctioning authority may exercise its discretion of exempting such institutions from the submission of accounts under Rules 149 (3) of the said rules.

(iv) In respect of grants to non-Government or autonomous bodies, a condition may be laid down that the assets referred to in sub para (iii) above should not, without the prior sanction of the Government, be disposed of, encumbered or utilized for purposes other than those for which the grants were sanctioned.

(v) An undertaking should be obtained by the sanctioning authorities from the grantee institutions that they (the institutions) agree to be governed by

the conditions of grants which result in creation of or acquisition of permanent or semi-permanent assets.

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

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

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

11.5 Issue of Utilization certificate to autonomous bodies

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

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

In cases where breaches in the conditions attached to the grants have been noticed, or the grant has been utilized for the purposes other than those for which it was granted, details of such breaches should be given in lieu of Utilization certificate. The certificate should be furnished to the authorities of the institutions with copies to the authorities who have sanctioned the grants-in-aid. The sanctioning authority will furnish Utilization certificate in Form G.F.R 19 to the Accounts Officer concerned on the basis of the U.C furnished by us as auditors and such other checks as may have been prescribed by it to satisfy itself that the conditions on which the grant was sanctioned have been or are being fulfilled.

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

CHAPTER – XII

Compliance Audit

12.1 Introduction

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

12.2 Mandate

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

12.3 Objectives of Compliance Audit

The main objectives of Compliance audit are to ensure:

- (1) That there is provision of funds for the expenditure duly authorized by a competent authority.
- (2) That the expenditure is in accordance with a sanction properly accorded and is incurred by an officer competent to incur it.
- (3) That payment has, as a fact, been made and has been made to the proper person, and that it has been so acknowledged and recorded that a second claim on the same account is impossible.
- (4) That the charge is correctly classified, and that if a charge is debit to the personal account of a contractor, employee or other individual, or is recoverable from him under any rule order, it is recorded as such in prescribed account.
- (5) That in the case of audit of receipts (a) sums due are regularly recovered and checked against demand and (b) sums received are duly brought to credit in the accounts.
- (6) That expenditure conforms to the following general principles, which have, for long, been recognized as standards of financial propriety, namely :-
 - (a) That the expenditure is not prima-facie more than the occasion demands, and that every employee of the entity exercises the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

- (b) That no authority exercises its powers of sanctioning expenditure to pass an order, which will be directly or indirectly to its own advantage.
- (c) That public monies are not utilized for the benefit of a particular person or section of the community unless.
 - (i) the amount of expenditure involved is insignificant, or
 - (ii) A claim for the amount could be enforced in a court of law, or
 - (iii) The expenditure is in pursuance of a recognized policy of custom.
- (d) That the amount of allowances such as traveling allowance granted to meet expenditure of a particular type is so regulated that the allowances are not on the whole a source of profit to the recipients.

12.4 Important points for scrutiny

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

- (a) violation of contractual obligations, undue favours to contractors.
- (b) avoidable/excess expenditure.
- (c) wasteful/infructuous expenditure.
- (d) regularity issues.
- (e) Idle investments/idle establishment/blockade of funds.
- (f) Delay in commissioning equipments,
- (g) Non-achievement of objectives etc.
- (h) Non-compliance to laws, rules etc.
- (i) Lacuna in law/procedure, policy.
- (j) Control weaknesses.

The audit of transactions will vary from organization to organization depending upon the nature of organization, the system of accounting and the documents maintained. For facility, the points to be looked into at the time of audit of various documents or records are detailed in Annexure - 9.

12.5 Measuring Audit Effectiveness

Measurement of effectiveness of audit serves two purposes.

- (a) For external dissemination of contribution made by the department

towards the larger end of improved governance and to meet public expectations.

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

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

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

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

12.6 Periodicity of audit

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

12.7 Risk-based approach to audit

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

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

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

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

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

12.9 Drafting of Audit Report

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

*(Para 1.0.38 No. 39 Chapter 1 of INTOSAI Auditing Standard, Para 12.01 to 12.09 of CAG’s Manual 2007, CAG’s Circular 96-Audit(AP)4-2003 dt. 14.7.2003
113-Audit(AP)6-2003 dt. 27.8.2003
61-84.Rep(C)/30-2003 dt. 6.4.2004*

*62-Au(AP)4-2003 dt. 21.3.2005 and
117 Audit(AP)4-2003 dt. 8.6.2005)*

CHAPTER – XIII

Other Matters

13.1 Records of autonomous bodies to be kept

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

1. A copy of the enactment applicable to the autonomous body, if any.
2. Copy of the constitution of the autonomous body, consisting of its memorandum of Association, Articles of Association, Rules and Regulations, and such other basic orders relating to the autonomous body.
3. Copies of orders relating to delegation of powers issued by the top managing body and powers and duties of various committees.
4. Annual Report from year to year.
5. Audited accounts and reports thereon as placed before parliament/legislature/Managing committee together with replies, if any, furnished to the reports.
6. Report of review and such other Committees relating to the functioning of the body.

13.2 Programme Book

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

Section I of the Programme Book will deal with general out lines of the organization, the various wings functioning, powers and duties allocated to various office and wings extent of internal check available etc. It will also incorporate all orders of importance noticed during course of audit.

Section II will specify the various basic records that are kept in the accounts and other branches and are to be checked in audit.

Section III will record important points in previous audits that need pursuance in later audit, until finalization and also points that the organization has agreed to comply in future and report compliance in next audit.

13.3 Data sheet on autonomous bodies

In respect of every autonomous body under audit, it is necessary to maintain a data sheet of particulars as mentioned in Annexure - 10. This data sheet must be updated periodically.

(CAG's 1r. Rep(AB)/37-2007 dt. 26.2.2008, Para 15.07 of CAG's Manual 2007, Circular 65-93 Rep(AB)/193-2004 dt. 8.6.2006)

Database on autonomous bodies and NGOs.

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

13.4 Annual Returns

The following annual returns in regard to audit of autonomous bodies are required to be sent by the field offices to Headquarters office.

(a) Annual Returns on completion of audit of bodies/authorities under section 14(1), 14(2), 15(1) and 15 (2) of the CAG's Act, for the preceding financial year ending 31st March-required to be submitted by 20th April in proforma as at Annexure - 11.

(b) Annual Return on audit of Bodies and Authorities coming under section 20(2) of the Act for the period ending 31 December required to be submitted by 20th April in the proforma as at Annexure - 12.

(c) Annual Return on completion of audit of Non-commercial Autonomous Bodies/Authorities under Section 19 and 20 of the Act, for the period ending 31st December required to be submitted by 20th January of the following year, in proforma in Annexure - 13.

(Para 15.09 of CAG's Manual 2007, 1748 Au-II/18-85 dt. 27.11.85, 1931 Au-II/7-86 dt. 11.12.1986)

13.5 Audit fees

Where the CAG of India is the sole auditor of a body/institution, auditing charges will be payable by the auditee institution in full unless specifically waived by Government. No audit fee is however, recoverable for super imposed audit. No cost of audit of ECPA reviews of autonomous bodies be recovered even where cost of audit of accounts of these bodies is being recovered.

(Para 15.10 of CAG's Manual 2007, Rule 211(4) GFR and CAG's Circular 156-Audit AB 62-97 dated 19.7.2005)

13.6 Audit of branch units

Organizations like Central School Administration, Council of Scientific and Industrial Research, Employees Provident Fund Organization etc. have several branch units spread all over the country and the branch units are also dealing with collection of receipts and disbursements. In addition, the accounts and other records are locally kept and are subjected to audit by the Principal Audit Officer himself or by the Accountants General/Directors of Audit. In all such cases, it is the responsibility of the Principal Audit Officer to examine the arrangements in detail and chalk out the detailed programme for audit of the headquarters and branch units in such a way that he is in a position to verify the accounts by the prescribed period. For this purpose, the Principal Audit officer should invariably keep in view the following points.

- (i) To prescribe periodicity of each branch unit.
- (ii) Issue of detailed instruction to sub officers.
- (iii) To prescribe a time-limit for completing the audit and furnishing of report.

(CAG's Circular letter 301-Rep(AB)17-004 dt. 21.9.2004, Para 15.03 of CAG's Manual 2007)

13.7 Audit of accounts of provident fund of statutory corporation

In respect of provident funds/granting funds or similar other funds established by the statutory corporation where CAG is the sole auditor in term of CAG's (DPC) Act, 1971, and the funds are managed by trusts having separate legal status independent of the corporation, the audit can be conducted only if the same is entrusted to CAG under Section 20 of the Act and in other cases the audit would be part of the statutory duty of audit of the corporation itself.

(Para 15.12 of CAG's Manual 2007)

13.8 Inspection Reports

The Inspection Reports are expected to contain all points including comparatively minor points of objections that are not considered fit enough to mention in the audit reports. These reports must also be drafted by the audit party and sent to HQs section under approval of the Supervising Officer.

13.9 Registration of objection

All objections raised during audit and not settled on the spot should be incorporated in the IR. When the amount involved is considerable and

accumulating over years, with due regard to the merit and period of objection, a specific paragraph can also be prepared in addition.

13.10 Objection Book

All money value objections relating to recovery of grant, loan or any other payment made by Government should be recorded in the Objection Book maintained in the HQrs section. Other money value objections need not be recorded in the objection Book. In respect of all cases of money value objections a note should be kept in Section III of the Programme Book and watched.

13.11 Clearance of Objections

The adjustment/settlement of each objection should be watched through prescribed records until it is finally cleared or withdrawn, as the case may be.

13.12 The Accountant General should ensure that the Group Officer and the Audit Officer responsible for the settlement/adjustment and clearance of objection devote their personal attention to this task.

13.13 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 forth with so that he can keep a note of the withdrawal of the objection.

CHAPTER – XIV

Aided Schools

14.1 Authority for audit of Aided schools

Authority for audit of aided schools is derived from Sections 14, 15 of the Comptroller and Auditor Generals (Duties, Powers and Conditions of Service) Act, 1971.

14.2 Definition

Kerala Education Act defines “aided school” as a private school which is recognized by and is receiving aid from the Government, but shall not include educational institutions entitled to receive grants under Article 337 of the constitution of India, except in so far as they are receiving aid in excess of the grants to which they are so entitled.

“School” includes the land, buildings, play grounds and hostels of the school and the movable properties such as furniture, books, apparatus, maps and equipments pertaining to school.

14.3 Kerala Education Rules

Management of aided schools, appointment of teachers, service conditions, etc., are governed by Kerala Education Rules formulated by the State Government in exercise of the powers conferred by Section 36 of the Kerala Education Act, 1958.

14.4 Aspects to be examined during local audit

During the local audit of the accounts and registers of the aided schools, the following aspects, *inter alia*, may be examined.

(a) ***Staff fixation, approval for appointments, etc.***

- (1) The correctness of the effective strength.
- (2) Correctness of the number of divisions sanctioned.
- (3) Number of fresh appointment of teachers on reckoning re-admitted pupils.
- (4) Sanction for division on reckoning excess detained pupils
- (5) No bogus admissions (eg. Transfer certificates issued immediately after the strength verification to a batch of pupils who were admitted to the school just before the 6th working day and on account of whom sanction for a division was obtained).

- (6) No fresh appointment on abolition of shift system in LP schools.
- (7) Sanction for no additional division which did not exist in the previous year after revisit under Government direction.
- (8) Sanction for only the number of divisions that are found admissible on revisit under Government direction (even if more number of divisions were found admissible at the original visit)
- (9) Sanction for the posts of language teachers only on the basis of the number of periods available calculated on the basis of the number of pupils studying the language.
- (10) Sanction for no post of Specialist Teacher in LP schools in violation of rule 2(3), Chapter XXII, KER.
- (11) Sanction for no post of Specialist Teacher in UP Schools in Violation of Rule 6B(2), chapter XXIII, KER.
- (12) Sanction for no post of Specialist Teacher in High Schools in violation of Rule 6(4), chapter XXIII, KER.
- (13) Retention of no uneconomic school without orders of exemption from the Director of public Instruction.
- (14) Retention of no protected teacher who is not eligible for same school protection.
- (15) Sanction for no additional division without providing extra space in pre-KER schools.
- (16) No retention of Last Grade Language Teacher appointed after 30.03.1982 in UP Section if the number of periods do not justify such retention.
- (17) No protection to any teacher without eligibility.
- (18) No full time benefit to a part time Language Teacher without 5 years of service and 8 periods of work per week.
- (19) No fresh appointment of a teacher (including Specialist Teacher) in HS Section when protected teacher is available (and who is qualified for appointment in HS) in the UP Section.
- (20) Correctness of the payment of Maintenance Grant.
- (21) Approvals for appointments only from the correct date when additional divisions are sanctioned with effect from a date after 15th July (on appeals, revisions etc).

- (22) Payment of salary to the fresh appointees from the correct date when additional divisions sanctioned start operating on a later date (as verified from the Attendance Register of pupils or the staff fixation orders).
- (23) No revisit by the AEO/DEO/Higher Level Officer on the request of the Manager without Government direction.
- (24) No appointment in the uneconomic schools in the vacancies except as specified by Government.
- (25) No approval for continuous appointment in vacancies which are not permanent, if a period of eight months cannot be completed before the commencement of vacation.
- (26) Maintenance grant is paid correctly.
- (27) Approvals are not accorded to appointees with bogus qualifications.

b) Pay fixation

- (1) Probation is declared correctly reckoning only the broken periods falling within a continuous period of two years.
- (2) Maternity leave was reckoned as duty for probation with effect from 15.2.1988.
- (3) Leave without allowance availed by teachers for completing TTC, B.Ed., etc. are reckoned for probation with effect from 17.6.80.
- (4) Increments are granted correctly in cases of broken spells of service, omitting the spells before pay revision.
- (5) Leave without allowance not on Medical certificate is excluded for increment.
- (6) Leave without allowance not on Medical Certificate is excluded for purposes of higher grades sanctioned as per the orders of pay revisions.
- (7) Broken spells of service in Government schools as a candidate from Employment Exchange (Provisional service) are excluded while granting higher grades.
- (8) Untrained service and training period are reckoned only in cases where the service commenced before 31.3.67 and where the total

break before and after training (taken together) does not exceed eight months.

- (9) Pre-registration service is reckoned only when the break does not exceed one month.
- (10) When fixation of pay is made in the case of Head Masters in the Notional Selection Grade (of PD Teacher/HSA pay is revised in the Senior Grade Scale.
- (11) When a part-time Teacher is appointed as a full time teacher fixation of pay is made under rule 30, KSR, Part I.
- (12) Head Masters are granted the scale of pay of HM only on completion of continuous service as Teacher amounting to 15 years in Primary Schools and 16 years in High Schools as the case may be.
- (13) Higher Grade for Head Master is granted only on completion of the required number of years of service after getting the scale of pay of HM.
- (14) Fixation of pay under Rule 30, KSR, Part I only is made in cases of intermanagement transfer (except in the case of Head Master).
- (15) No vacation salary is paid if the continuous service is less than eight months (except in the case of appointment in permanent posts).
- (16) Increment is granted only with effect from the date of declaration of probation.
- (17) Personal pay for protection of increment (1992 pay revision) is granted only where the increment drawn was higher. (Obsolete)
- (18) A trained graduate UPSA on promotion as the HM of a UP School is not granted the scale of pay of an HSA.

CHAPTER XV

Audit of autonomous bodies in a computerized environment

15.1 Definition of IT Audit

IT audit may be defined as “the process of collecting and evaluating evidence to determine whether a computer system safeguards assets, maintains data integrity, allows organizational goals to be achieved effectively and uses resources efficiently” (Ron Weber).

15.2 IT Audit is a broad term that includes both financial audits and VFM audit in an IT environment or performance audit of IT systems, depending on the pre-defined audit objective. In the former case, “IT audit” is also called “Auditing in an IT environment” in order to distinguish it from audit of an IT system. However, a common factor is the formation of an opinion regarding the degree of reliance that can be placed on the IT systems in the audited organization. Audit of Information Technology systems under development and IT enabled audits (using CAATs) also fall under this broad Grouping.

Objectives of IT Audit

15.3 The objectives of IT audit include assessment and evaluation of processes that

- (a) Ensure asset safeguarding – ‘assets’ which include the following five types of assets :
 - **Data**
Data objects in their widest sense, i.e., external and internal, structured and non-structured, graphics, sound, system documentation etc.
 - **Application Systems**
Application system is understood to be the sum of manual and programmed procedures.
 - **Technology**
Technology covers hardware, operating systems, database management systems, networking, multimedia, etc.
 - **Facilities**
Resources to house and support information systems, supplies, etc.

- **People**
Staff skills, awareness and productivity to plan, organize, acquire, deliver, support and monitor information systems and services.
- (b) Ensures that the following seven attributes (7A) of data or information are maintained.
 - **Effectiveness** – deals with information being relevant and pertinent to the business process as well as being delivered in a timely, correct, consistent and usable manner. Deals with System effectiveness – evaluating whether the IT system meets the overall objectives of top management and users.
 - **Efficiency** – concerns the provision of information through the optimal (most productive and economical) usage of resources. Deals with system efficiency – efficient systems use optimum resources to achieve the required objectives.
 - **Confidentiality** – concerns protection of sensitive information from unauthorized disclosure.
 - **Integrity** – relates to the accuracy and completeness of information as well as to its validity in accordance with the business set of values and expectations.
 - **Availability** – relates to information being available when required by the business process, and hence also concerns the safeguarding of resources.
 - **Compliance** – deals with complying with those laws, regulations and contractual arrangements to which the business process is subject; i.e. externally imposed business criteria. This essentially means that systems need to operate within the ambit of rules, regulations and/or conditions of the organization. For example, an FIR to be filed normally requires signature of the complainant as per rules, and needs to be reengineered by changing the rules to permit web based complaints. Similarly, banking operations will have to conform to the banking regulations and legislation. It is also the duty of the IT Auditor to see that the work practices are in

tune with the laws of the land such as the IT Act promulgated by the Government of India.

- **Reliability of information** – relates to systems providing management with appropriate information for it to use in operating the entity, in providing financial reporting to users of the financial information, and in providing information for reporting to the regulatory bodies regarding compliance with laws and regulations.

Thus, IT Audit is all about examining whether the IT processes and IT Resources combine together to fulfill the intended objectives of the organization to ensure Effectiveness, Efficiency and Economy in its operations while complying with the extent rules.

15.4 Mandate for IT Audit

The mandate of SAI India for IT audit is derived from the Constitution of India and established under the Comptroller and Auditor General's (Duties, powers and conditions of Service), Act 1971. The mandate of CAG of India for Systems Audit is governed under Sections 13, 14, 16, 17, 18, 19 and 20, as the case may be, read with Section 23 of this Act.

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

Annexure 1

(Referred to in Para 6.9)

Standard Terms and Conditions for entrustment of audit to the C & AG under Section 19(3)/20(1) of CAG's (DPC) Act, 1971.

1) The C & AG of India may suggest the appointment of a primary auditor to conduct the audit on his behalf and on the basis of directions/guidelines issued by him. Where such an auditor is appointed, the fees will be payable by the Institution to that auditor, where such an auditor is not appointed expenditure incurred by C & AG of India in connection with the audit will be payable to him by the Institution.

2) In addition to audit to be conducted by the primary Auditor, where so appointed, C & AG of India will have the right to conduct test check of the accounts and to comment on and supplement the report of the Primary Auditor.

3) The C & AG of India or any person appointed by him in connection with the audit, shall have the same rights, privileges and authority as the C & AG has in connection with the audit of Government accounts.

4) The results of audit will be communicated by C & AG or any person appointed by him to the governing body who shall submit a copy of the report along with its observation to the Government. The C & AG will also forward a copy of the report direct to Government.

5) The audit entrusted to the C & AG in public interest will be for a period of 5 years in the first instance, subject to review of the arrangement after that period.

6) The scope, extent and manner of conducting audit shall be as decided by the C & AG

7) The C & AG will have the right to report to Parliament/State Legislature, the results of audit at his discretion.

Annexure 2

(Referred to in Para 7.7)

List of Accounting Standards issued by ICAI

Sl. No.	Accounting Standard (AS)No.	Title of Accounting Standard
1.	AS 1	Disclosure of Accounting Policies
2.	AS 2	Valuation of Inventories
3.	AS 3	Cash Flow Statements
4.	AS 4	Contingencies and Events occurring after the Balance Sheet date
5.	AS 5	Net Profit or Loss for the period, prior period items and changes in Accounting Policies
6.	AS 6	Depreciation Accounting
7.	AS 7	Construction Contracts (revised 2002 is applicable in respect of construction contracts entered on or after 1.04.2003).
8.	AS 8	Accounting for Research & Development
9.	AS 9	Revenue Recognition
10.	AS 10	Accounting for Fixed Assets
11.	AS 11 Revised 2003	The effects of changes in Foreign Exchange Rates. (Revised 2003 is applicable in respect of Foreign Currencies transactions entered on or after 1.4.04)
12.	AS 12	Accounting for Government Grants
13.	AS 13	Accounting for Investments
14.	AS 14	Accounting for Amalgamations
15.	AS 15	Accounting for retirement benefits in the financial statements of employers.
16.	AS 16	Borrowing Costs
17.	AS 17	Segment Reporting
18.	AS 18	Related Party Disclosures
19.	AS 19	Leases
20.	AS 20	Earnings per share
21.	AS 21	Consolidated Financial Statements
22.	AS 22	Accounting for taxes on Income.
23.	AS 23	Accounting for investments in associates in consolidated financial statements.
24.	AS 24	Discontinuing Operations
25.	AS 25	Interim Financial Reporting
26.	AS 26	Intangible Assets
27.	AS 27	Financial Reporting of Interests in Joint Venture
28.	AS 28	Impairment of Assets
29.	AS 29	Provisions, Contingent Liabilities and Contingent Assets.

Annexure 3

(Referred to in para 8.16)

Refer Internal Control Evaluation Manual of CAG dt. 22.5.2009

Special Audit Party No.

Name of Institution/Office:

Period of audit:

Dates of audit:

Questionnaire on Internal Control Mechanism and Internal Audit relating to Autonomous Bodies and Panchayat Raj institution

Note: This form is to be filled by the Supervisory Officer if present. Otherwise it should be filled up by the senior most member of the party. Give specific reply to each question. Don't leave any question unanswered or answered with dashes/dots. If any question is not relevant for an auditee institution answer it as NOT APPLICABLE. On the basis of the questionnaire an evaluation of the internal control mechanism should be included as a paragraph in the Draft Inspection Report.

A. Budgetary Control	
Whether	
1.	The budget of the Organisation is prepared with due diligence and care?
2	Expenditure conforms to the budget?
3	Proper registers are maintained to record the details of distribution of appropriation/allotment?
4	The progress of expenditure is monitored periodically?
3	There was excess/savings
4	Excess/savings is persistent?
5	Allotment is as per requirement?
6	Allotment is received in time to enable fruitful expenditure?
7	There was rush of expenditure in March?
B Expenditure Control	
Whether	
1	The cashbook is standard one with machine numbered pages?
2	Transactions are recorded in the cashbook as and when they occur?

3	There is a system of daily closing of Cash book?
4	The head of office verify cash balance periodically?
5	The custodian of money is the writer of cash book?
6	System of reconciliation is effective?
7	Recoveries remittable to other heads are remitted in time?
8	Advances are adjusted in time?
9	More than one advances for the same purpose is pending adjustment against same officer?
10	Money kept in office is found more than what is required?
11	Money is kept in the office in any forms for long period?
12	Steps were taken to avoid duplication of advance?
13	There is unnecessary drawals of funds?
14	The following registers are maintained? a. stock register of cheque books b. stock register of receipt books c. cheque issue register
15	Any cases of theft/loss/defalcation has been located/detected during If so, details and action taken thereon.
16	The expenditure statement has been submitted to the controlling office in time?
17	Assets/records are safeguarded from unauthorized access/use?
18	Is ensured that abstract contingent bills are encashed only by Government servants?
19	Steps were taken to avoid delay in submission of detailed bills?
C Operational control	
Whether	
1	There is delegation of powers and division of responsibilities and they are documented and followed?
2	Any procedure adopted for reviewing and reporting the performance of each executive?
3	The institution evolved an information system at the managerial level for providing a. right personnel for the right job? b. For planning and execution c. Adequate safeguards against evasion of taxes and non tax revenue?
4	The institution has made arrangements to make use of the professional expertise of the officials (implementing officers) working in different sectoral areas?
5	It has been ensured that the work/project is supported by administrative sanction, technical sanction, detailed estimates and allotment of funds?

6	There is a monitoring cell/project implementation committee attached to the central office for conducting ongoing evaluation of the schemes particularly of the infrastructure sector
7	Apart from the departmental control what arrangements are made to fix the accountability of the implementing officers on the implementation of the projects initiated by the local body?
8	Financial and physical achievements have been evaluation against the target set and reasons analyzed for the shortfall, if any?
9	A review of the objectives of the autonomous body has been done at any time?
10	The government's assistance has been utilized for the specified purpose?
11	The assistance was necessary, adequate and in time?
12	Various registers/records are kept up to date?
13	Returns/reports due from lower formation are received in time?
14	They are compiled and analyzed and used s a monitoring tools?
15	Returns due to controlling officers are sent in time?
16	Such returns conform to the actual performance of the Organisation?
D. Inspections/conferences	
Whether	
1	The office is inspected at prescribed intervals by the controlling officers?
2	The lapses pointed out are rectified in time?
3	Lower formations are inspected by the office as prescribe?
4	The lapses pointed out are followed up to the logical conclusions?
5	Decisions of conferences/meetings are minuted?
6	The decisions are implemented in time?
E. Computerisation	
Whether	
1	The organization has a policy of computerization?
2	The policy conforms to the objectives of the Organisations?
3	The requirement of hardware/software are properly assessed and documented?
4	Purchases of hardware/software are as per requirement?
5	Trained personnel are available?
6	The systems are installed and put to use?
7	The systems are properly safeguarded against fraud/error?
8	proper controls have been defined and put in place?
9	There was any improvement in quality of service/expenditure as a result of computerization?

F.	Stores Management
	Whether
1	A separate purchase procedure in accordance with the provisions in KFC Vol. I and stores purchase rules, is followed to safeguard the interest of the institutions?
2	Attempts for splitting up of purchase orders to avoid sanction of higher authorities/government were made?
3	Purchases were effected during March to utilize the budget allotment, as a policy?
4	A stores ledger in the prescribed form is being maintained and the entries made as and when the receipt and issue occur?
5	Issue price of stores have been fixed?
6	The institution has locked store rooms with access restricted only to authorized person and dual custody of valuable negotiable assets ensured?
7	Periodical physical verification of stores is conducted by the competent authority and recorded in the register. The result of verification and departmental action taken to make good the shortage/pilferages?
8	Action taken to dispose of the old, unserviceable, surplus and damaged stores in time and the results?
	G Internal Audit
	Whether
1	There is an internal audit organization in the department
2	There are codes/manuals etc., defining and supporting audit function?
3	Such manuals are reviewed and updated?
4	Any standards set by the top management?
5	The duties and responsibilities are clearly defined?
6	The audit staff is properly trained?
7	Any separate cadre of auditing staff exist? Or deployed from line staff for a specific period?
8	Any audit plan is prepared and approved by the top executive?
9	There are any criteria for selecting field units for audit?
10	The periodicity of audit is uniformly followed?
11	The extent of coverage is satisfactory?
12	There is any abnormal delay in issuing Audit Report?
13	The volume of pendency of audit is justifiable?
14	The quality of checks is satisfactory?

15	Replies to audit reports are received in time?
16	Reports and objection are pending settlement for long?
17	Any persistent irregularities reported?
18	Any departmental action for non-compliance to audit observation?
19	The cost effect analysis justify the system?
20	Internal audit makes contribution for the speedy settlement of objections raised by Accountant General through his reports
H Response to audit	
Whether	
1	All the required files/documents made available to audit?
2	From the files/documents made available a reasonable opinion as to the functioning of the organization is possible?
3	The audit enquiries were properly accepted and answered?
4	Replies were furnished to all previous Inspection Reports
I Grant in aid	
Refer Internal Control Evaluation Manual of CAG dt. 22.5.2009	

Evaluation:

Place

DATE

Signature

NAME

Designation

**Questionnaire on Internal Control Mechanism and Internal Audit Relating
to Aided Educational Institutions
(Additional Checks)**

A. Internal Control Mechanism

Whether

1. the date required for checking and counter signing the salary bills of aided educational institutions are available by maintaining the records such as register of sanctioned strength of schools, register of approval of appointments, register of appointment orders received from the manager of the schools, etc.

2. the Internal Audit Wing of the Department of Education has conducted 100% check of the annual staff fixation order for respective years and defects pointed out rectified by the AEO/DEO

3. a. the records of the Aided school were subjected to periodic inspection by the educational authorities as required under Chapter XV of the KERs and Reports issued

b. prompt remedial action on such reports taken by school authorities?
Details of liability fixed and recoveries effected/pending to be specified

4. the AEO/DEO has conducted annual inspection as well as surprise checks as required under Rule 13 of Chapter XV and Rule 12 of Chapter XXIII of KERs and reports issued to higher authorities

2. Results of inspection conducted by the Super check cell of the Director of Public Instructions

B. Internal Audit

i. the internal audit wing of the Deputy Director of Education concerned has conducted the internal inspection of the Office of the AEO/DEO covering the records relating to Aided schools, up to date and reports issued. (if in arrears, position to be commented). Whether follow up action taken out promptly and correctly?

ii. The quality of such reports is good. If not what are the weaknesses?

**Place
DATE**

**Signature
NAME
Designation**

Annexure 4

(Referred to in para 9.2 and 9.12)

Format of Separate Audit Report

(Autonomous Bodies other than Port Trusts)

1. Introduction

Following matters may be included in this paragraph.

i) Setting up of Autonomous Body

Reference to the Act, Rules, notification etc. under which the entity was set up, date of commencement of operations and main objectives of the entity, subsidiary rules under which the entity is functioning etc.

ii) Audit mandate

Relevant section of CAG's (DPC) Act under which audit is conducted and section of the particular Act governing the entity's audit function may be included.

iii) Grants/Loans received during the year from Government and Government agencies

The grants/loans received from Government and/or from authorized Government agencies during the year may be stated in this paragraph.

2. Comments on Accounts

2.1 Balance Sheet

2.1.1 Liabilities : Misstatements, omissions and other deficiencies in accounting various liabilities – ie. Corpus Fund, grants received, borrowings, current liabilities and provisions may be commented in short sub-paras.

2.1.2 Assets: Misstatements, omissions and other deficiencies in accounting various asset accounts- ie. Fixed assets, cash and bank accounts, other current assets, loans and advances, investments etc. may be commented in short sub-paras.

2.2 Income & Expenditure Account.

2.2.1 Expenditure: Errors, omissions and other deficiencies noticed in accounting various heads under expenditure ie. Purchases, manufacturing and trading expenses, salaries and wages, finance charges, depreciation etc. may be commented in short sub-paras.

2.2.2 Income : Misstatements, omissions and deficiencies noticed in accounting various revenue heads – ie. Sales, income from services rendered, other income, interest earned, etc. may be commented in short sub-paras.

2.2.3 Excess of Income/Expenditure over expenditure/Income.

Specific comments on overstatement/understatement of the above item may be included.

2.3. Receipts and Payments Account.

2.3.1 Receipts : Errors, omissions and other deficiencies in accounting receipts may be commented against specific heads.

2.3.2 Payments : Errors, omissions in various payment accounts may be commented. Errors and omissions and other deficiencies in opening and closing balances of cash and bank accounts may be commented.

3. General

All comments of general nature may be included in this paragraph. Brief comments about deficiencies noticed in adoption of accounting principles and policies, matters in notes to accounts, non-disclosure/inadequate disclosure of significant matters concerning accounts etc. may be included in this para.

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

4. Effect of audit comments on accounts

The net impact of the comments given in preceding paras is that the assets as on.....were understated/overstated by Rs..... lakh, the liabilities understated/over stated by Rs..... lakh, and the Excess of Income over Expenditure/Expenditure over income for the year was understated/overstated by Rs..... lakh.

5. Lack of response

If reply to draft SAR are not received within the stipulated period, the matter may be included in the para.

**Director General of Audit/Principal Director of Audit
Principal Accountant General/Accountant General**

Place :

Date:

Notes

1. Comments to be included should be concise and brief with a clear statement about impact of each comment on the accounts as a result of deficient procedure/wrong accounting practice followed. Comments should be pointed and indicate the resultant under/overstatement of head concerned and the impact on income/expenditure, Excess of Income over expenditure/excess of Expenditure over Income and on assets/liabilities.
2. Comments on accounts may be arranged suitably in order of the Form of Annual Accounts being certified under the heads in Balance Sheet (Liabilities, Assets), Income & Expenditure Account, Receipts & Payments Account as illustrated under comments on accounts.
3. It should be ensured that comments included in SARs are linkable with the respective account heads shown in the annual accounts/schedules. Comments framed should be specific and impact of comments on the accounts should be clearly indicated along with a key to working.
4. The audit certificate and the Separate audit Report containing the comments on accounts are separate documents and signed separately by the Head of Department. As a result, significant audit comments may not attract necessary attention of the Executive/Parliament/Legislature. To overcome this shortcoming, significant audit comments must invariably be included in the body of the Audit certificate.

Annexure 5

(Referred to in Para 9.12)

Format of Audit Certificate

I have audited the attached Balance sheet of (Please indicate the name of AB) as at 31 March (year) and the Income and Expenditure Account, Profit and Loss Account/Receipts and Payments Account (strike out which is not applicable) for the year ended on that date. These financial statements include the accounts of units/branches (strike out if not applicable). Preparation of these financial statements is the responsibility of the AB's management. My responsibility is to express an opinion on these financial statements based on my audit.

I have conducted my audit in accordance with applicable rules and the auditing standards generally accepted in India. These standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. As audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, I believe that my audit provides a reasonable basis for my opinion.

Based on our audit, I report that :

1. I have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
2. Subject to the major observations given below and detailed observations in the Separate Audit Report annexed herewith, I report that the Balance Sheet payment Account/ (strikeout which is not applicable) dealt with by this report are properly drawn up and are in agreement with the books of accounts.

(Significant comments)

-
-
-

3. In my opinion and to the best of my information and according to the explanations given to me:

- (i) the accounts give the information required under the prescribed format of accounts:

- (ii) the said Balance sheet, Profit and Loss account/Income and Expenditure Account/Receipts and Payments Account (strike out which is not applicable) read together with the Accounting Policies and Notes thereon, and subject/due to the significant matters stated above and other matters mentioned in the Separate Audit Report annexed herewith, give/do not give (Strike out which is not applicable) a true and fair view.
 - a. In so far as it relates to the Balance sheet of the state of affairs of the AB (Name of AB) as at 31 March (Year); and
 - b. In so far as it relates to the Profit and Loss Account/Income and Expenditure Account (Strike out which is not applicable) of the profit/loss/surplus/deficit for the year ended on that date.

**Director General of Audit/Principal Director of Audit/
Principal Accountant General/Accountant General (Audit)**

Place:
Date:

Annexure – 6

(Referred to in Para 10.2)

PROFORMA SHOWING THE PROGRESS OF AUDIT

Name of the Autonomous Body:

Year of accounts :

1. Date of submission of the accounts to the Audit by the autonomous body.
2. Where applicable, reasons for returning the accounts for revision indicating why the accounts could not be certified with qualifications.
3. Date of submission of revised accounts to Audit where revision was considered essential.
4. Dates on which audit was taken up and completed.
5. Date of issue of draft SAR to Autonomous Body for replies/comments.
6. Date of receipt of replies/comments from Autonomous Body (if received).
7. Date of issue of draft SAR including replies/comments of Autonomous Body alongwith an Aide-Memoir to CAG's office for approval.
8. (a) Date of CAG's office letter communicating approved SAR.
(b) Date of receipt of letter and approval at 8(a).
9. Date of issue of final Audit Report to Government of India/State Govt./CAG's office.
English version –
Hindi version (if required) –
10. Reasons for delay, if any, at various stages
11. Dates of presentation of the previous Audit Reports before Parliament/Legislature
(where the Audit Reports for previous years have not been placed, years to which these pertain, may also be indicated.)

Year Date:

Director General of Audit /
Pr. Accountant General /
Accountant General /
Pr. Director of Audit.

Annexure – 7
(Referred to in para 10.2)

CHECK LIST

(To be sent along with the draft/final SAR submitted to O/o CAG of India)

Item No.	Name of Item	Whether enclosed with Draft SAR
1.	Proforma showing year, submission of accounts, dates of audit and status of presentation of previous audit reports before parliament/legislature duly filled in all respects.	
2.	Copy of resolution/minutes of the authority approving the accounts/revised accounts.	
3.	Two copies of draft SAR with (a) Key-linking of figures with accounts. (b) Statements showing key-working of the effect of audit comments on the accounts.	
4.	Aide-Memoir	
5.	Two copies of draft audit certificate.	
6.	One copy of authenticated annual accounts accepted in audit for certification.	
7.	A brief note on the evaluation of internal control (Circular letter No.77-Rep (AB)/63-2004 dated 5.4.2004)	
8.	(a) Total No. of Units of the autonomous body (b) Number/Name/Location of units selected for audit, and (c) Name of units whose comments have been considered while finalizing comments in SAR.	
9.	Statement regarding ranking of functions/activities as per circular letter No.101-Rep (AB)/79-2005 dated 20.4.2005 (in case of Central Autonomous Body only).	

Director/Sr.DAG

Annexure 8

(Referred to in para 10.8)

Quarterly progress Report on SARs sent to headquarters for approval/being finalized by A.Gs/P.A.Gs/PDAs without approval of Headquarters for being placed before parliament/Legislature for the Quarter ending

1. ACCOUNTS NOT RECEIVED BY FIELD AUDIT OFFICES

Sl. No	Name of autonomous Body	Year of Accounts	Action taken by AG/PDA

2. ACCOUNTS RECEIVED BY FIELD AUDIT OFFICES

Sl.No.	Name of Autonomous Body	Year of Accounts	Date of Receipt of Accounts from A.B	Present Status

3. SARs FINALY ISSUED TO GOVT OF INDIA/STATE GOVTS.

Sl. No.	Name of Autonomous Body	Year of Accounts	Date of Sub mission of accounts by AB	Duration of Audit (Date of commencement and completion of audit)	Date of Issue of draft SAR to Organisation	Date of Receipt of reply from AB	Date of Issue of final SAR to G.O.I / State Govt.	Date on which audited accounts were placed before parliament / State Legislature	Remarks (Reasons for delay)

Note : The Quarterly Progress report is to be sent on separate sheets for Central and State autonomous bodies. This list should contain names of only those bodies whose audited annual accounts/SARs are to be placed before the Parliament/State Legislature.

Annexure - 9

(Referred to in para 12.4)

Compliance Audit checks

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

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

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

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

(x) Loss of revenue is duly examined and under sanction of appropriate authority.

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

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

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

- (i) Cash receipts are credited to bank at the earliest possible date and counterfoils of paying-in slips are on record;
- (ii) realizations by cheques are duly remitted to the bank and credits appear in bank account;
- (iii) a system exists for a periodical bank reconciliation and one such reconciliation has actually been carried out as on the date of closure of annual accounts and the statement is a properly agreed one between the two sets of figures;
- (iv) for the differences between balances as per bank pass book and cash book, action has been initiated for clearance of old items;
- (v) the reconciliation does not reveal old items of credits in cash book but not in pass book and if there is any, it has to be ensured that remittance slips for actual remittance in bank are there on record;
- (vi) there are no payments in bank pass book without corresponding entries in cash book and if there is any, it has been duly investigated and does not indicate possible items of misappropriation; and
- (vii) the cheque books are kept in safe custody and the procedure for issue of cheques as laid down is duly observed.

5. Payment to Staff - The points that need specific attention, apart from check of acquittances are as under.

- (i) Are all posts created by the authorities competent to create these posts and are in the prescribed scales ?
- (ii) Are appointments made as per the prescribed procedure?
- (iii) Are the initial pay fixation and subsequent pay fixation correctly regulated according to the rules applicable to the autonomous body?
- (iv) Have contributions to provident funds and other funds been collected from time to time and remitted to the respective accounts?
- (v) Are proper leave accounts and other service records kept?

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

- (i) a proper record of employment on specified jobs is available;
- (ii) a proper record of performance of the specified jobs is available.
- (iii) there exists an assessment of work done vis-à-vis, the expenditure incurred.

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

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

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

7. Medical Reimbursement - Government have instructed vide GO(P) No. 60/2007/Fin. Dated 15.2.2007 that all Public Sector Undertakings, Autonomous bodies and Statutory Undertakings should follow the Kerala Government Servant Medical Attendance Rules, 1960, except in cases covered by ESI Scheme.

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

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

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

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

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

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

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

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

(i) there exists necessity in effecting the purchase;

(ii) the item is utilized for the specified purpose;

(iii) the purchases, issue and consumption are authorized and are according to the prescribed procedure.

10. Research and Development Activities -

System Checks

- i. What is the procedure adopted for selection of subjects for research? Is it adequate? Is adequate data available before a subject is chosen for research?
- ii. Are concerned experts in the line consulted before a subject is chosen?
- iii. Is there any assessment of utility of the research and possibility of profitable utilization?
- iv. Is the financial abilities of the project adequately assessed?
- v. Does the organization possess adequate manpower and other resources to undertake the research? If not, has adequate planning been done to acquire the manpower and resources before the project is undertaken?
- vi. Are there cases of overlapping research projects within the organization and outside and if so, how far is such a situation resolved to the best of interests of the organization.
- vii. Has the organization indexed the research work/projects properly giving details like topic, when it was undertaken, date of completion, total funds spent, name of the organization on whose behalf it was undertaken etc.?

Monitoring mechanism checks

- viii. Are adequate funds allocated from year to year for accepted research projects and do the funds so allocated compare with the estimated cost of the project? If funds are not adequate, what is the rationale of such allocation?
- ix. Is staggering of accepted research projects resorted to for want of either manpower, finance or other resources?
- x. Is each research project time bound? Examine whether extensions were applied for and given where projects could not be completed in time?
- xi. Is intermediary assessment of continuing research projects done to ensure that the research is progressing as planned or is not handicapped for various reasons or needs to be given up for certain valid reasons ? If so, what is the follow up action taken on such intermediary assessment reports?

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

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

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

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

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

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

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

Commercialization of research

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

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

11. Expenditure on works – The expenditure on works can relate to execution of a project as a whole or execution of individual works or works relating to maintenance and repairs, both regular and special. The works are, in certain autonomous bodies, conducted by themselves with the help of their own wing of engineers and in others, either through the State or Central Public Works Departments or through services of architects. The prescribed accounting procedure will have to be examined; by and large, they are similar to those adopted by Government Public Works Divisions. Instructions given in the Manual

of Standing Orders (Audit) relating to such audits may be applied mutatis mutandis for audit of works transactions of autonomous bodies as well. In addition, the general points on which audit can divert its attention, can comprise the following:-

- (i) Whether the project as a whole has been approved by the competent authority of the autonomous body and the financing authority, like the State or Central Government, University Grants Commission etc. ?
- (ii) Whether a time schedule for implementation has been drawn up, indicating the physical and financial target from time to time duly agreed to by the financing authorities as well?
- (iii) Whether for the several components of the projects required detailed plans and estimates have been drawn up in time, duly approved by the competent technically qualified authority specified for the purpose?
- (iv) Whether the execution of the works was taken up as planned and whether flow of funds was as anticipated; if not, how far the works suffered may be looked into ?
- (v) Whether the detailed drawings and designs, where required, were duly drawn up in time and furnished to the executing authorities and if not, what are the causes of delay?
- (vi) Whether a proper procedure for award of contract is laid down and is duly observed?
- (vii) Whether tenders are invited and properly scrutinized in time before decision is taken?
- (viii) Whether the delays, if any, in preparation of plans and estimates, supply of detailed drawings and designs, invitation and acceptance of tenders, supervision of works in execution etc. have resulted in any loss, not only for the work as such, but also to the development of the organization itself or in execution of schemes taken up by the organization?
- (ix) Whether payments to contractors were in time in accordance with the agreed procedure and an unauthorized aid is involved ?
- (x) Whether proper records of measurement exist and the records are compiled in time by qualified/competent persons and are subject to adequate supervisory check?

- (xi) Whether quantities of work executed compare favourably with the estimates and variations are examined and are justified?
- (xii) Whether the extra items executed are such that they could not be anticipated and not those initially omitted from plans and estimates for tendering and whether the rate paid for them has been correctly assessed in accordance with the contract?
- (xiii) Whether a proper record of completion exists and quality of work is subjected to adequate test, according to prescribed procedure and terms of contract?
- (xiv) Whether for reported poor quality of work at the time of completion on inspection, the matter was not noticed by the authority supervising the work and recording the measurements?
- (xv) In respect of contracts on “cost plus percentage” basis the control on quantity of work is quite adequate and there are no avoidable increases in quantity and there are no instances of use of costly items of work as substitution, resulting in avoidable increase in cost and consequent increased commission;
- (xvi) In cases of contracts with architects whether the terms are properly drawn up to protect the organization against wasteful expenditure, lack of timely supervision on the works by the architect, compensation for losses attributable to failures by architect etc;
- (xvii) Whether funds are not obtained for works from Government far in advance of needs and deposited back with Government for carrying out work and delayed thereafter, for one reason or other, such as non-availability of land, plans and estimates, non-invitation of tenders, etc. ?
- (xviii) In respect of expenditure on maintenance and repairs, whether they are reasonable, are called for and are not in remedy of patent defects in initial execution on which timely action had not been taken?
- (xix) Whether proper materials-at-site account are kept, all receipts and issues noted, whether surplus material is not procured without a plan on utilization, just to indicate utilization of budget provision, whether control on stock is kept and unused materials at the end of work are duly transferred to stock/other works, etc. or other wise disposed of ? and.

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

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

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

- (i) the advance was for meeting immediate disbursement and was limited to the anticipated expenditure;
- (ii) the advance was duly authorized by the competent authority;
- (iii) the date by which expenditure was to be incurred was known and an account had been rendered immediately on return of the official to the headquarters;

- (iv) a proper record of such advances is kept and recovery/adjustment is watched through it;
- (v) amount remaining unutilized had been promptly refunded and was not allowed to remain with the official for long, particularly if the amount is a substantial one;
- (vi) a proper account was received and recovery had been made in all cases before the officials concerned proceeded on leave, transfer, retirement etc. and
- (vii) the materials, if any, purchased out of such advances, were duly authorized by the competent authority and taken to stock.

13. Advances to suppliers and contractors – In the same way as advances to employees, it is necessary to book advances to suppliers and contractors as advances only in accounts, and final adjustment made on receipt of accounts/materials/or after work are executed. No advances to suppliers and contractors should be made unless payment of such advances has been permitted under the term of contract or it has been authorized under the trade practice in vogue for the supply or the contract conceived payment of advances. In all such cases it has to be seen in audit whether.

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

14. Loans raised by the autonomous bodies - Loans may be raised by the autonomous bodies either for general purposes or for certain specified activities.

In such cases, it may be seen in audit whether:

- (i) the financial position of the autonomous body was such that it had to raise the loan up to the level raised;
- (ii) the purposes for which loan is to be raised is determined and loan is utilized for that purpose;
- (iii) the loan is not raised far ahead of the schedule or in excess of needs, resulting in diversion of loan for other purchases or in investment;
- (iv) the capacity to repay has been duly assessed with reference to source of income from which repayment is to be made and the source becomes actually available for the purpose;
- (v) the repayment of loan and interest is not met by obtaining grants for the purpose, unless it is specifically authorized by the grant sanctioning authority.
- (vi) the terms and conditions of the loan are clearly determined and a copy to document is available with the loanee;
- (vii) the interest payable is correctly worked out and is duly indicated in accounts whether actually paid or not;
- (viii) the loan is utilized for the specified purpose and any excess is duly refunded, if it is permissible;
- (ix) a proper record of the loan is kept for watching timely repayment and the record is duly reviewed;
- (x) all matters relating to raising of loan, utilization, finalization of terms and conditions, position of repayment etc. are duly brought to notice of the main governing body and other connected committees from time to time.

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

- (i) the scheme for grant of loan has been authorized by the management (and Government where necessary)
- (ii) the source for financing has been duly determined;
- (iii) the terms and conditions are duly determined and a proper agreement is carried out with the loanee;

- (iv) the loan agreements are duly registered, where necessary, and kept in proper safe custody;
- (v) loans are paid only to those who are eligible under the scheme after fulfillment of the required conditions;
- (vi) the capacity to realize the loan instalments had been assessed before loan is paid;
- (vii) demand notices are issued well in time for recovery of principal and interest and matter pursued according to terms of loan till recovery;
- (viii) prescribed reports on utilization of loan for specific purposes are obtained and recovery of excess release of loan is made in time;
- (ix) the acceptance of balances is obtained annually from each loanee;
- (x) the loan records are properly kept, reviewed periodically at an appropriate level and action taken; and
- (xi) accounts clearly taken into account the position of over due instalments of loan and interest.

16. Grants received by the autonomous body - Grants may be received by the autonomous body either for its recurring maintenance expenditure or for execution of schemes or for acquisition of certain capital assets of a non-recurring nature. In all cases the accounts must be so drawn up as to facilitate not only identification of the source and object of grant but also to indicate the purposes for which these grants have been utilised. For this purpose, normally the sanctions issued for payment of grants provide for maintenance of separate accounts. It may be noted that the intention under such directive is to maintain separately identifiable heads of accounts for transactions of the respective grants within the annual accounts and not the maintenance of multiplicity of annual accounts for each grant, to be separately certified. It may be noted that the multiplication of number of accounts has the inherent danger of certain accounts not being made available for audit for a considerable period due to ignorance of audit regarding existence of such accounts. In the circumstances, one of the basic points to be seen in the format of accounts of any autonomous body, is to ensure that the format is so drawn as to indicate source of each grant and its utilization for specified purposes separately in the accounts. Scrutiny of transactions relating to payment of grants and its utilization is one of the most important points of audit of

autonomous bodies and in this audit, it is necessary to look into the following points.

- (i) The amount of grant payable to the autonomous body for each of the purposes has been correctly assessed, after taking into account all income adjustable towards limiting of the grant, in accordance with the guidelines, rules and prescribed procedures for assessment of the grant.
- (ii) In respect of maintenance grants it is limited to the net deficit and the expenditure on several items has been incurred in accordance with the scales laid down therefore.
- (iii) Grants remaining unutilized at the end of each year had been duly taken into account before determining the grant payable in the subsequent years and amount paid was not far in excess or in advance of the requirements.
- (iv) The conditions attached to the grant, before and after release are duly fulfilled.
- (v) The prescribed periodical returns are correctly compiled and supplied and a review thereof either with reference to the returns or other records does not indicate any deviation from purpose of grant or irregularities in utilization of the grant.
- (vi) The assets acquired out of grants, either then or in the past are continued to be utilized for the intended purpose and in respect of obsolete assets, they are duly disposed of and realizations credited to Government or adjusted against future grants.
- (vii) The objectives of schemes for which grants are paid, are being achieved and a periodical review is being conducted, with the knowledge of the grant sanctioning authority for assessing the progress, future needs and changes and due approval is taken for modifications, increase in cost, etc.
- (viii) The income, expected to be realized by assets acquired and schemes executed in past with assistance from Government, is actually being realized and to that extent, if so anticipated, the dependence on Government for maintenance has been reduced without increase in liability of Government.

17. Assistance given by the autonomous body – There are certain autonomous bodies like the University Grants Commission, Indian Council of Agricultural Research, Khadi Boards, etc., which like Government, disburse assistance to several organizations and individuals for specified purposes. The instruction given in the Manual of Standing Order (Audit) on audit of assistance rendered by Government, apply mutatis mutandis for audit of such assistance rendered by the autonomous bodies and they may be applied with such changes and modifications, as may be called for.

18. Records relating to sundry debtors - Certain autonomous bodies, like Khadi Boards, Commodity Boards and Housing Boards undertake credit sale of their products/properties and realize their income later in accordance with the prescribed procedure thereof. In all such cases, it is necessary to see that a proper accounting procedure is established and is scrupulously followed and the credit sales are duly adjusted in accounts immediately after the transactions take place. The maintenance of a proper ledger for such party with whom the autonomous body has dealings is very essential and it has to be seen that at the end of the year, the balances as per the individual ledgers, are duly drawn and agreed with the account balances, as reflected in the Balance Sheet through the omnibus head of account, sundry debtor. Further it should be seen in audit that :

- (i) the credit sales are authorized to be carried out and the credit worthiness of the debtor was taken note of before credit sales were effected;
- (ii) the prescribed terms for credit sales were duly observed both by the autonomous body and the purchaser;
- (iii) amount due had been correctly assessed and adjusted in account;
- (iv) the prescribed instalments are duly received with interest and the interest realized is duly taken note of separately without mixing the same with the principal.
- (v) Periodical demand notices are issued for recovery in time and recovery proceedings adequately pursued;
- (vi) Proper mortgages are executed, where called for and registered;
- (vii) A system of annual acceptance of balance is in vogue and is being observed ; and

(viii) A periodical review of old cases is being conducted and action taken.

19. Records relating to sundry creditors - In the same way as for credit sales, certain organizations will be obtaining their materials on credit basis and settling the accounts periodically. While the creditor concerned can be expected to take adequate action for timely recovery of his due, it is also necessary to see that the autonomous body had undertaken procurement on credit according to specific directive therefore and no irregularity had been committed by taking recourse to credit purposes. Further, as in the case of sales, it is necessary to ensure that all credit purchases are promptly taken into account, a proper record of creditors is kept, the register reviewed periodically and balances in the ledgers duly agreed with the balance as reflected in the omnibus head of account "Sundry Creditors".

20. Fund and investment thereof by the autonomous body- Where certain autonomous bodies like the Port Trust create, certain funds as required under the law, rules, regulations, etc, and invest them in securities, it has to be seen in audit that;

- (i) the amount allocated to the fund concerned is in accordance with the rules governing the fund and is permitted even in cases where not surplus is left;
 - (ii) the funds is being accumulated in accordance with the prescribed scales and is not in excess of the prescribed ceilings;
 - (iii) the investment of the fund is resorted to according to rules only out of allocated surplus fund and not out of loan raised, unless it is authorized;
 - (iv) the investment is in accordance with the prescribed pattern, procedure for investment is duly authorized and it does not result in avoidable loss to the autonomous body;
 - (v) the interest realized on investment is not appropriated to revenue, unless it is out of general income for general purpose, but is allowed to swell the fund balance only;
 - (vi) the accumulations in investments are duly matched periodically with fund balances and where required, the shortfall in fund is duly made good;
- and

(vii) excess receipt of Government grant/loan or receipt far in advance of needs is not diverted towards investment but is, instead, paid back to Government for drawal when the demand arises.

21. Scholarships, stipends and such other payments - Several autonomous bodies obtain funds from Governments and other autonomous bodies like the University Grants Commission, Council of Scientific and Industrial Research, Indian Council of Agricultural Research, etc. for payment of scholarship, stipend, etc. for conducting higher studies by selected personnel or for conducting specified research schemes.

In respect of all such payments, it is necessary to examine in audit that :

- (i) the period for which the scheme is to run is clearly laid down;
- (ii) the selection of personnel is done in accordance with the prescribed rules and regulations governing the schemes;
- (iii) adequate precautions are provided for to protect against mid way drop outs, resulting in infructuous expenditure;
- (iv) a system of periodical check up on progress of execution of the scheme is provided for and is duly observed without any avoidable delay;
- (v) the completion of the course of training or scheme is followed by an assessment of the results achieved by the beneficiaries;
- (vi) extensions for schemes are applied for in time, are examined by prescribed authorities, and are sanctioned, after due evaluation of the progress according to the prescribed lines and the necessity for continuance.
- (vii) Results achieved by the scheme are duly utilised in the prescribed lines and the general utility is assessed periodically, before they are continued.

22. Provident Fund accounts of the employees - Most of the autonomous bodies under audit of the Comptroller and Auditor-General maintain the provident fund accounts of their employees themselves. In all such cases, it is essential to ensure that the autonomous body has framed proper rules and regulations for maintaining the account and the scheme is duly recognized by the competent authority, as otherwise the contributions to the funds by the employees may not qualify for rebate under the income Tax Act. It is also necessary to ensure that the terms and conditions governing the recognition are duly observed from time to

time. In particular, following points are to be borne in mind in audit of transactions relating to provident fund accounts:

- (i) The contributions to the fund both by the employer (in the case of contributory scheme) and the employees are in accordance with the prescribed rates, the increase or decrease in rates of contributions being regulated strictly in accordance with the rules and are recovered regularly, and credited to the subscribers accounts.
- (ii) The withdrawal, whether refundable or non-refundable are duly authorized for the specified purposes according to prescribed scales and refund of withdrawals also made as per rules;
- (iii) The interest due to each account is correctly assessed at the rate prescribed under the rules and credited at the end of each year;
- (iv) The interest on investments is realized in time and is correctly accounted for on accrual basis in the annual accounts.
- (v) The balances in each subscriber's account at the end of each year are duly worked out, communicated to the subscriber and acceptance obtained.
- (vi) The balances in all subscribers' accounts are duly drawn up in a prescribed schedule and the total outstanding balance as shown in the schedules is duly reconciled with the balance as shown in the annual accounts.

23. Audit against provision of Funds - Apart from sanction for incurring any expenditure, it is also essential that every autonomous body compiles an annual budget indicating various sources of income, anticipated income from the several sources, the expenditure planned against several heads of account, both revenue and capital. The budget so compiled must be approved by the apex body of the autonomous body in the annual meeting, including where necessary, a revised estimate for the year in progress when the meeting is held. Where so provided, copies of budget would need to be sent to Government also and approval taken, if so required. In audit, it has to be seen whether these requirements are complied with and in addition it should be seen that:

- (i) a proper control record is kept by the autonomous body to watch progress of income and expenditure against fund estimated for the purpose;

- (ii) the variations between actuals and budget provisions are examined at appropriate levels, remedial action taken, where called for and reappropriations approved by specified authorities;
- (iii) the final receipts and expenditure under several heads of account at the end of the year are duly examined with reference to final appropriations and variations are brought to the notice of the apex body for information and regularization where necessary; and
- (iv) It has been ensured that the transactions are correctly classified in accounts under appropriate heads of account in accordance with the budget provision and also general rules and regulations relating to classification of transactions.

Annexure – 10

(Referred to in para 13.3

DATA SHEET FOR AUTONOMOUS BODIES

1. Name of the organization.
2. When constituted.
3. Legal status.
4. Ministry/department mainly concerned.
5. Organizational set up.
6. Area of operation (territorial jurisdiction) and details of head Office, Branch office etc.
7. Audit Officer.
8. When audit entrusted first to CAG.
9. Objectives and major activities.
10. Sources of financing.
11. Details of grants or other assistance received during the last 5 years.
12. Nature of assistance (Grants/Loans etc)
13. Last annual accounts compiled for.
14. a) Value of assets)
b) Income/Deficit } As per last audited accounts.
15. Particulars of audit completion.

Date of receipt of Annual accounts	Date of certification	Date of presentation to Parliament/ Legislature
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16. Important findings of audit:

Nature	Year of audit report
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17. Persistent irregularities/deficiencies and the periodicity of persistence

Nature	First pointed out in Audit Report
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18. Important paragraphs included in the conventional Audit Report:

Brief Particulars	Reference to Audit Report
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19. When review was last done.
20. Important Recommendations of PAC:

Brief Particulars	Reference to PAC Report.
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Annexure –11

(Referred to in para 13.4(a))

ANNUAL RETURN ON COMPLETION OF AUDIT OF BODIES/AUTHORITIES UNDER SECTION 14(1), 14(2), 15(1) AND 15(2) OF THE CAG’S ACT 1971 FOR THE PRECEDING FINANCIAL YEAR ENDING 31ST MARCH

A. AUDIT UNDER SECTION 14(1)

INSTITUTIONS WHICH RECEIVED GRANTS/LOANS FOR Rs 25 LAKH OR MORE AND ATTRACTED SECTION 14(1) OF THE CAG’S ACT 1971 DURING THE YEAR.

Sl. No.	Name of Institution/NGO	Period of accounts to be audited	Period of accounts audited during the year	Arrears if audit, if any	Reasons for arrears	Action taken to clear arrears	Remarks

B. AUDIT UNDER SECTION 14(2)

INSTITUTIONS WHICH RECEIVED GRANTS/LOANS FOR Rs 1CRORE AND MORE DURING THE YEAR BUT DID NOT ATTRACT SECTION 14(1)

Sl. No.	Name of Institution NGO	Authority for taking up audit		Period of A/cs to be audited	Period of A/cs audited during the year	Arrears of audit, if any	Reasons for arrears	Action taken to clear the arrears	Remarks
		Ref. of this Office	Ref. from govt.						

C. AUDIT UNDER SECTION 15 (1)

(a) Stage-1(Scrutiny of records of sanctioning authorities)

Sl. No.	Name of sanctioning authority	Period of A/cs for which scrutiny is to be done.	Period of A/cs for which scrutiny is to be done during the year	Arrears of audit, if any	Reasons for arrears	Action taken to clear the arrears	Remarks

(b) Stage II (Scrutiny of accounts of Grantee Institutions)

Sl.No.	Name of Grantee Institutions for scrutiny of A/cs	Period of A/cs for which scrutiny is to be done during the year	Period of A/cs for which scrutiny has been done during the year	Arrears of audit, if any	Reasons for arrears	Action taken to clear the arrears	Remarks.

D. AUDIT UNDER SECTION 15(2).

Sl. No.	Name of corporation	Authority for undertaking such scrutiny		Period of A/cs for which authorization made	Period of A/cs for which audit done	Arrears of audit, If any	Reasons for arrears	Action taken to clear the arrears	Remarks
		Ref. of this Office	Ref. from govt.						

Annexure – 12

(Referred to in para 13.4(b))

**ANNUAL RETURN ON AUDIT OF BODIES AND AUTHORITIES
COMING UNDER SECTION 20(2) OF THE CAG'S ACT 1971 FOR THE
PERIOD ENDING 31ST DECEMBER.**

Name and Address of Institution to be audited under section 20(2) during the year	Authority to take up audit under section 20(2)		Period of entrustment of audit by Govt under section 30(2)	Year up to which A/cs have so far been audited and certified and reports sent to Govt/Organisation	Letter No. & date with which Reports issued.	In the case of delay in certifying the A/cs and issue of SAR indicate the date of receipt of A/cs and date of completion of audit.	Period of A/cs for which certification of A/cs and issue of SARs are in arrears	Reasons for arrears and action taken to clear the same	Extent to which normal expenditure audit is in arrears reasons and action taken to clear the arrears.	Remarks if any
	Ref. of Head Qrs. Office giving account	Ref of govt. entrusting audit.								
1	2		3	4	5	6	7	8	9	10

Annexure 13

(Referred to in para 13.4(c))

Annual Return on completion of audit of accounts of Autonomous Bodies and Authorities entrusted to CAG under section 19(2)/19(3)/20(1) of the CAG,s (DPC) Act, 1971 for the period ending 31st December

Sl. No.	Name and Address of the body/institution to be audited	Authority for taking up audit (please indicate Section of Parliamentary enactment for Sec 19(2) cases and letter No. & date of Govt. request for Sec. 19(3)/20(1) cases.	Period of entrustment of audit U/S 19(3) 20(1)	Year up to which A/cs have so far been certified & Audit Report sent to Govt/ organization	Letter No. & date with which audited a/cs/separate audit Report were issued.
1	2	3	4	5	6

In case of delay in the certification of accounts and issue of SAR indicate the reasons for delay including (i) date of receipt of a/cs and (ii) date of completion of audit.	Period for which certification of accounts and issue of SAR is in arrears.	Reasons for the arrears	Action taken for clearance of arrears	Extent to which normal expenditure audit is in arrears and the reasons there of. Steps taken to clear the arrears may also be indicated.	Remarks if any
7	8	9	10	11	12