

Government of Jammu and Kashmir  
Finance Department, Civil Secretariat Srinagar

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Subject :- Jammu and Kashmir Audit Manual, 2020.

Ref:- No. DAI/Audit/AM/80 dated 11-9-2020 and No. DAI/Audit/AM/85 dated 18-9-2020  
from Director General, Audit and Inspections, J&K, Srinagar.

Government order No. 286-FD of 2020  
Dated:- 29 -10- 2020

In supersession of all previous orders/ circular instructions issued in this behalf, sanction is hereby accorded to the issuance of guidelines / instructions annexed with this order as "**Jammu and Kashmir Audit Manual, 2020**" describing therein audit functioning, role, responsibility, mode and method of the Audit and Inspections Organization.

The Audit Manual, 2020 will come in to force with immediate effect.

By order of the Government of Jammu and Kashmir.

Sd/-

(Dr. Arun Kumar Mehta) IAS  
Financial Commissioner,  
Finance Department.

No: FD/Audit/03/2020

Dated: 29 - 10 - 2020

Copy to the :

1. All Financial Commissioners.
2. Principal Secretary to the Hon'ble Lieutenant Governor.
3. All Principal Secretaries to the Government.
4. Principal Resident Commissioner, J&K Government, New Delhi.
5. All Commissioners /Secretaries to the Government.
6. Joint Secretary (J&K), Ministry of Home Affairs, Government of India.
7. Divisional Commissioner, Kashmir/Jammu.
8. Secretary to the Government, Department of Law, Justice & Parliamentary Affairs.
9. Chairman, J&K Special Tribunal.
10. All HODs under the control of Finance Department.
11. All Deputy Commissioners.
12. Secretary, J&K Public Service Commission.
13. Director, Archives, Archeology and Museums J&K.
14. Secretary, J&K Services Selection Board.
15. General Manager, Government Press, Jammu/Srinagar for publication in next Government Gazette.
16. Private Secretary to the Chief Secretary, J&K.
17. Private Secretary to the Financial Commissioner, Finance.
18. Incharge Website, Finance Department.
19. Government Order File/Stock File.

  
(Mohammad Amin)  
Under Secretary to the Government  
Finance Department

**Government of Jammu & Kashmir**

# **Audit Manual 2020**

**(For Official Use)**

**Finance Department**

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## PREFACE

Directorate of Audit and Inspections has been conducting internal audit Of Government Departments of Jammu and Kashmir since 1996. However, absence of a Manual to lay down a structured framework for the Audit was being felt over a period of time. An attempt has been made to fill the gap.

This Manual, besides delineating role and responsibility of the Audit Organization, contains detailed guidelines and procedures to be followed in conduct of Audit and drafting of Audit Reports. The Manual also outlines professional standards to be maintained by the Audit Personnel. It also prescribes a mechanism for Audit Follow up and Review at various levels so that Audit exercise is taken to some result oriented conclusion.

It is expected that the Manual shall serve as a guide to the Audit Officers and at the same time Auditee entities can benefit from it. The Audit Organization shall be grateful if errors and omissions detected in the Manual are pointed out for rectification; suggestions are also solicited to improve the Manual.

It has been a privilege to have guidance of Dr. Arun Kumar Mehta (IAS), Financial Commissioner, Finance Department to draft the Manual.

I also wish to put on record appreciation for the efforts made by the officers of the Audit Organization for preparing the Manual. Mr. Haroon, Mr. Arshad, Ms Sonica- Dy. Directors, Mr. Dalawar (AO), Mr. G.M.Wani, (AAO) and Mr. Imtiyaz (Steno.) deserve special mention.



F. A. Lone,  
D.G. Audit & Inspections

## GLOSSARY

The definitions/descriptions/meanings of the various terms used in this manual are as follows:

- **Accountant General** means the head of the office of audit and accounts subordinate to the Comptroller and Auditor General of India who keeps the accounts of the Union Territory and exercises audit functions on behalf of the Comptroller and Auditor-General of India.
  - **Administrative Approval** means the formal approval or acceptance of the Administrative Department to a scheme, proposal or work for the purpose of incurring expenditure thereon. For every work (excluding petty works and repairs) it is obligatory to obtain, in the first instance, the concurrence of the competent authority / concerned Administrative Department requiring the work.
  - **Auditee** means an organization (or part of an organization) that is being audited.
  - **Audit Party** means the Composition of audit personnel as framed and approved in the audit programme.
  - **Audit Programme** means a detailed plan of the auditing work to be performed, the procedures to be followed in verification, audit personnel involved and estimated time required to complete the audit.
  - **Audit Sampling** means the application of audit procedures to less than 100% of the items to enable the auditor to obtain and evaluate audit evidence about some characteristic of the items selected, in order to form or assist in forming a conclusion.
  - **Bank** means any branch of the Jammu and Kashmir Bank Ltd acting as the agent of the Reserve Bank of India.
  - **Competent Authority** means the Government or any other authority to which the relevant powers may be delegated by Government.
  - **Constitution** means the Constitution of India.
- Consolidated Fund Account** means the Account of the Union Territory into which the revenues received by the Government, loans or ways and means advances taken by the Government, moneys received by the Government in repayment of previous loans

and receipts by issue of treasury bills, are credited and from which the expenditure of the Government, when so authorized by the UT Legislature, is met.

- **Drawing and Disbursing Officer** means a Departmental officer who is entrusted with the responsibility of drawing and disbursing funds of the Government.
- **Finance Department** means the Finance Department of the Government of Jammu and Kashmir.
- **Financial Year** means the year beginning on the 1<sup>st</sup> of April and ending on the 31<sup>st</sup> of March following.
- **Grant** means the amount voted by the Legislative Assembly in respect of a Demand for grant.
- **Government** means the Government of Jammu and Kashmir.
- **Half Margin Memo** means a letter issued by the Audit Officer/Assistant Audit Officer to the Head of Office/Auditee requesting to produce relevant accounting records, registers, files and other documents required to be checked in course of audit and seeking clarifications on observations/findings made during the course of audit.
- **Head of a Department** means a Head of Department or other officer who submits Budget estimates direct to the Secretariat.
- **Head of an Office** means any authority declared to be such by the Administrative Department or Head of Department.
- **Performance Audit** means an assessment of efficiency and effectiveness of the programmes, with due regard to economy and addresses the issues of inputs, processes, outputs (products) and outcomes (impact).
- **Re-appropriation** means the transfer of funds from one unit of appropriation to another such unit within the same grant ordered by a competent authority.
- **Risk Based Assessment** means the process of (i) Identifying and analyzing potential risks posing threat on the department's financial aspects as well as achievement of its objectives and (ii) Developing response to address the identified risks and prioritizing audit focus in the risk potential areas.
- **Risk Score Chart** means a score chart for assigning scores and ranks to the offices on the basis of the risk indicators.

- **Sampling** means the process of selecting a subset of the population of the items to draw inferences that represent the entire population.
- **Treasury Rules** means the Treasury Rules, of the Government of Jammu and Kashmir embodied in the JK Treasury Code.
- **Utilization Certificate** means a certificate that the money was actually utilized for the purpose for which it was sanctioned.
- **Working Papers** means those papers which are formally referred to as (i) Audit documents or (ii) Audit file. The documents serve as proof of audit procedures performed, evidence obtained and the conclusion or opinion of the auditor.

# 1. Introduction

## 1.1. Overview

An effective Audit function strengthens the functioning of the Departments and helps in achievement of the objective of service delivery. Finance Department has devised this manual, comprising a set of guidelines for directing and regulating audit function in Jammu and Kashmir, in order to ensure transparency and accountability in audit procedure.

## 1.2. Background

The Accountant General of Jammu and Kashmir is the statutory auditor for the Union Territory of J&K for conducting statutory audit. The Government of Jammu and Kashmir has established two internal audit directorates for enhanced accountability and fiscal discipline.

i. Directorate of Audit and Inspections has been created in the year 1996 under the Administrative control of Finance Department with a view to enforce financial discipline and accountability in the Government Departments. To strengthen the audit wing, the two provincial Deputy Directorates of Audit and Inspections at Jammu and Srinagar have been created vide Government Order No. 176-F of 2013 dated 16.08.2013.

ii. The Directorate of Local Fund Audit & Pensions has been created in the year 2012, vide Government Order No.70-F of 2012, dated 20.03.2012, with a view to enforce financial discipline and accountability in the Urban Local Bodies and Panchayat Raj Institutions.

## 1.3. Purpose of Manual

Audit Manual is developed to guide/assist the audit organization to provide independent, objective, value-added and advisory services in order to improve the achievement level of the auditee departments. More specifically, this manual is intended to provide audit organization of the Finance Department with tools and information for assessing risk in processes and activities, developing an appropriate internal auditing work programme and planning, performing and reporting on audit engagements.

It is intended:

- i. To act as a handbook for internal auditors,
- ii. To identify roles & responsibilities of audit teams,
- iii. To shift the focus of internal audit from detection to solution,
- iv. To standardize reporting and monitoring mechanism.
- v. To set roadmap for capacity development of internal audit teams.

#### **1.4. Applicability**

i. This manual is designed for the Audit organization of the Finance Department which is primarily responsible for carrying out the internal audit function across different departments of the Government. Since every department is involved in different departmental functions, the scope of operation of the departments differs from one to another on various aspects. This manual contains guidance of a generic nature and outlines common procedures for conduct of internal audit in the departments.

ii. These guidelines shall be applicable for audit of all Government Departments , State Public sector undertakings(PSUs), Statutory authorities, Government Corporations and other entities which are under administrative control of the government

iii. The manual is intended for internal use by the Audit and Inspections organization of the Finance Department.

## 2. Types of Audit

### 2.1 E-Audit

As an adaptive strategy to overcome the constraints for physical audit of records in an Auditee entity in situations like Covid-19 Pandemic and, more importantly, to bring an element of technological intervention in Audit exercise so as to eliminate physical visits, reduce auditor-auditee interface and ensure optimal use of time and resources, the Audit organization shall shift to e-Audit in a gradual manner.

- An e-audit platform shall be devised through NIC for this purpose and e-audit commenced on pilot basis in at least fifty offices during financial year 2020-21.
- The Audit organization shall exclusively shift to e-audit mode in a phased manner in next 3 years.
- During e-audit the auditee shall be asked to submit records, as per a devised checklist, electronically for examination by the Auditors. The auditors may ask for additional/subsidiary records as and when required.
- In case a detailed physical examination of records is felt necessary; the Auditors shall visit the concerned office for the purpose with a prior notice, after obtaining approval for such physical visit from the Deputy Director.
- Such physical visit for examination of records shall be concluded within one or two days.
- All e-audit reports shall be issued to the Auditee; concerned HOD and other offices in electronic mode and replies also obtained and processed electronically.
- Any major irregularities coming to notice of audit, especially those pertaining to current operations, shall be reported to the higher authorities in the department immediately for taking corrective measures.
- The Audit organization shall keep a repository of all e-audit records and ensure its confidentiality.

### 2.2 Snap Audit

- These audits are based on test check instances, since verifying each and every documents and records is quite time consuming,
- the auditor may use test check techniques to verify events, records, controls etc. so that the audit conclusions would apply to the entire record. The auditors have to collect evidence on the basis of which they can form their opinion.

- While conducting snap audit the auditors should utilize their professional acumen to ensure that all major activities in general and all risk prone areas in particular are covered under the audit.
- In case the head of the audit team observes that a detailed examination of records is required for meaningful conclusion of the audit activity, he may discuss with the Dy. Director, Audit and Inspections and seek extension in time for conclusion of audit.

### **2.3. Special Audits**

A special Audit is well defined audit that looks at a specific area of an organization's programmes, functions and activities. This type of audit may be initiated on the request for special audit of a project, programme or organization from any department, or suo-moto on the basis reliable inputs. Directorate of Audit and Inspections shall give due consideration to a request for special audit provided that every such request:

- is made with the approval of the competent authority.
- state the justification and reasons that necessitate special audit, including the results of any primary inquiry investigation or study that may have already been conducted and
- Specifies the period to be covered in the special audit and broad Terms of Reference.
- As far as possible, there should be a separate team of experienced officers in the audit organization for undertaking special audit assignments.

### **2.4 Concurrent Audit**

- A concurrent audit is a systematic and timely examination of transactions to ensure accuracy, authenticity, compliance with procedures and guidelines.
- The auditors while conducting snap audit of an entity for a defined period, shall invariably undertake concurrent evaluation of systems, process and procedures of the auditee to examine compliance to rules and regulations during the current fiscal, especially in respect of procurements, works or activities where irregularities have been observed during examination of previous records.
- The auditee can be given on-spot instructions/guidelines for taking necessary corrective measures.

- The concurrent audit evaluation should form a specific, significant part of the audit report.

## **2.5 Treasury Audit**

The treasuries occupy a pivotal place in the fiscal environment of the Government as guardian of state exchequer, since all payments / disbursements on behalf of Govt. (except off- treasury transactions) are made through treasury system.

- As such, the audit also should pay special focus on evaluation of treasury functioning as a part of audit plan, especially towards the closing of the financial year.
- Since the bills presented for payment at treasuries are to be submitted to the Accountant General along with monthly accounts as per fixed time lines, the audit of treasury should be planned in such a manner that the records are available for scrutiny, without disturbing treasury functioning.
- The audit teams shall examine on sampling basis that receipts and payments made at the treasury are strictly limited by the provisions of the Treasury Code and other prescribed financial rules, orders and guidelines issued in this regard from time to time.
- The Audit officer shall obtain the system generated list of payments from Treasury Net and apply his professional judgment for putting to critical examination bills passed for payment so as to ascertain that the bills passed through requisite checks at various levels.
- The audit should give focused attention to bills pertaining to high budget/risk prone DDOs like, Works Divisions and departments involving huge procurements.
- The bills passed for payment should be thoroughly checked with regard to implementation of rules/regulations pertaining to AA/ TS/ e-tendering, procurement through GEM and observance of provisions of GFR.

Besides, the auditors shall have general checks on:

- Optimal use of Treasury net Application by all officers / officials as per job profile to ensure the system is not over dependent on technical staff.
- Monthly statements of pension/family pension/DA arrears paid by the banks and its reimbursement,

- PPO halves transferred to banks to ascertain whether T.O has undertaken mandatory half yearly verification of pension fixation,
- Budget Control Register/allotment register.
- Variation between treasury and bank cash balances,
- Hundi issued and payment register.
- Double lock and single lock Register along with sale Register of Stamps, whether mandatory checks carried out by T.O.
- New Pension Scheme including maintenance of cash book and timely uploading of NPS subscription.
- Monthly plus minus statements.
- Deposit registers.
- Receipt and payment cash book

## **2.6 Audit of Schemes**

- Audit of the Schemes is the examination and the assessment of a programme/scheme conducted with an aim to report on its implementation as per schemes guidelines and resultant outcomes. It is a sort of Performance Audit and shall involve interaction with intended beneficiaries and other stakeholders.

The audit of schemes should;

- i. Verify whether the intended schemes are being implemented economically and efficiently and are producing the desired results.
- i. Verify the extent to which the implementing agency/department is effectively discharging its responsibilities (financial especially ) in relation to the scheme being implemented.
- ii. Verify whether there are instances of over payment, loss, extravagance avoidable excess or infructuous expenditure attributable to improper planning, in correct sequencing of activities or delays incompletion etc.
- iv. Verify whether adequate evaluation of the schemes/programmes being run is carried out in terms of achievements of the scheme objectives.
- v. Verify the effectiveness of the scheme by comparing outcome or impact with goals set in the policy or programme objectives.
- vi. Verify whether community assets created under the scheme are properly inventorised and distinctly visible with on site sign boards containing mandatory details.

## **3. Audit Approach**

### **3.1. Definition of Internal Audit**

Audit forms an indispensable part of financial system and is one of the important organs necessary to secure accountability and ensure fiscal discipline. As an independent management function, it involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity's strategic risk management and internal control system.

### **3.2. Position & Mission of Internal Audit**

The broad objectives of the audit are to ensure legality, regularity, economy, efficiency and effectiveness of financial management and public administration. Towards this end, the Audit teams shall work as partners with the Departments to strengthen financial management systems, build capacities of the audit/accounts personnel of the department and to guide them in achieving their objective of public service delivery in a more efficient and transparent manner.

### **3.3. Goal**

The audit is carried out with an aim to:

- i. Identify system weakness and bottlenecks in implementation of the departmental plans/ programmes;
- ii. recommend suggestions to improve the system;
- iii. Monitor the compliance on recommendations.

### **3.4 Role of Audit Organization**

The envisaged role of the Audit Organizations is broadly divided into four areas as discussed below:

#### **3.4.1. System Strengthening**

Audit should aim at strengthening of systems in the auditee. System strengthening shall include review of established systems like accounting procedures, procurement procedures/methods, internal control mechanisms

and any other system operating in the auditee. Suitable recommendations shall be given for strengthening of the existing system for better management of the office and achievement of the Departmental goals.

### 3.4.2. Financial Compliance

The Audit should also focus on financial compliance while conducting different types of audits as mentioned below:

- i. **Transaction audit** includes examination of all relevant vouchers of receipts and expenditure as per the cashbook to establish the expenditure with reference to the activities.
- ii. **Compliance audit** means examination of documents as to whether money spent was legally available for expenditure and sanctioned by the competent authority.
- iii. **Financial Reports Review** includes examination of Profit and Loss account, Balance Sheet etc. as per the prescribed rules, in case of Government Departments having commercial activities.

### 3.4.3. Performance Review

Performance review is an assessment of efficiency and effectiveness of the programmes, with due regard to economy and addresses the issues of inputs, processes, outputs (Products) and outcomes (impact). The Audit functions on the principle of 3Es:

**Economy** – means acquiring resources at the lowest cost by observing financial proprieties keeping in view the objectives of the Auditee.

**Efficiency** – refers to the relationship of inputs and outputs in terms of goods, services or other results and the resources used to produce them.

**Effectiveness** -means the extent to which an auditee has achieved the objectives and the relationship between intended impact and actual impact of any activity.

### **3.4.4 Capacity Building**

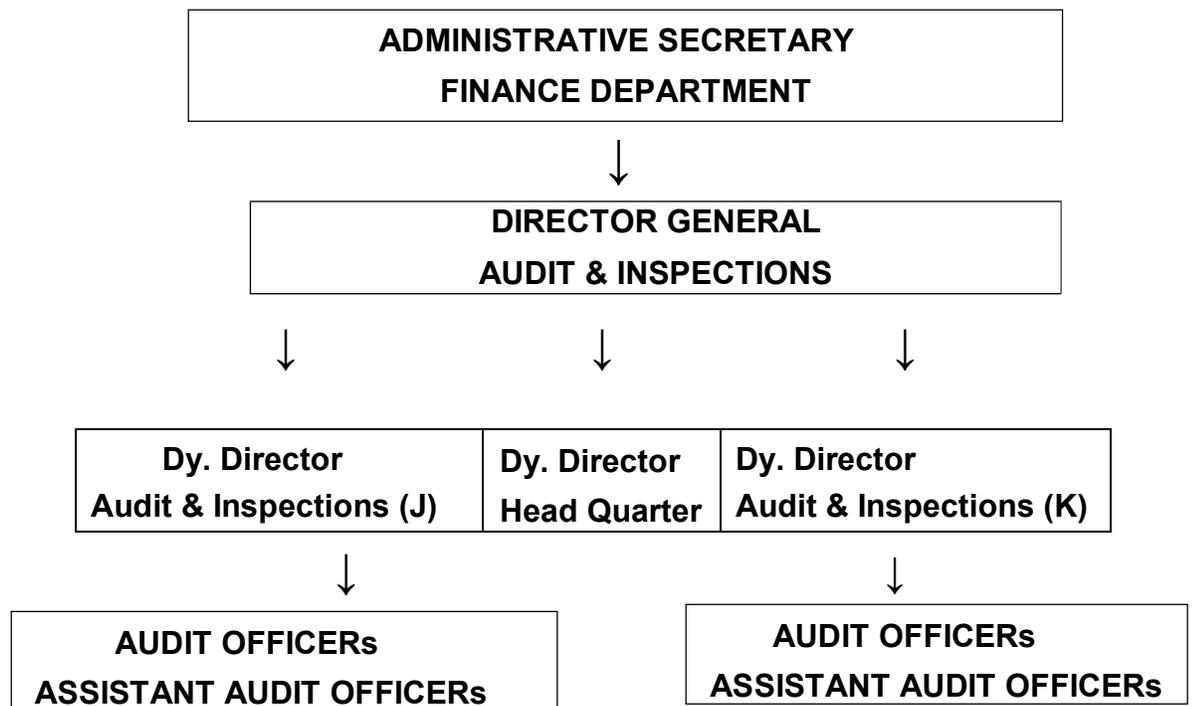
Internal Audit shall also support in building capacities of the accounts and financial management within the auditee. They should facilitate skill transfer by sharing of knowledge on better accounting practices.

## 4. Structure of Audit & Inspections Organization

### 4.1. Organization Chart

An overview of the Audit & Inspections structure in Government of J&K is given in **figure no.1**.

#### Organizational Structure of Audit & Inspections in J&K



**Figure:1**

The audit personnel of Audit and Inspections Organization are drawn from the Accounts and Treasuries, Wing of the Finance Department.

#### **4.2.1 Duties and functions of Directorate of Audit& Inspections and its subordinate offices: <sup>1</sup>**

##### **A. DIRECTORATE OF AUDIT AND INSPECTIONS J&K**

The Directorate of Audit & Inspections J&K shall

- i. Control and coordinate the activities of Audit & Inspections wing of the Finance Department;
- ii. Inspect any office / ongoing developmental project / Major revenue earning project on the basis of written complaint or take suo-moto cognizance of the financial indiscipline / mess under intimation to the Finance Department;
- iii. Obtain written or oral clarification as may be considered necessary and call for such information / record /documents from any officer / official as required for the discharge of its duties;
- iv. Take into custody against proper receipt any record which may be considered necessary for further investigation;
- v. For non-cooperation / non submission of information as may be required by Directorate of Audit & Inspections for verification of genuineness of utilization of public money as per rules laid down, the Directorate may, with the proper approval Finance Department, suspend the drawal of pay of the concerned DDO / Head of office responsible for non-submission of information as the case may be;
- vi. For refusal in spite of persistent requests in writing for submission of information required for verification of utilization of public money as per rules laid down, the Directorate may, with the proper approval Finance Department, suspend / withdraw the DDO powers in respect of that office / DDO concerned as the case may be. The concerned Administrative Department shall be making suitable substitute arrangements to cope up with the situation arising out of such withdrawal of powers;

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<sup>1</sup> Government Order No 176-F of 2013 dated 16.08.2013

- vii. In cases of excess over budget / serious financial irregularities / misappropriation / embezzlement of public money as noticed while conducting audit and inspection of a particular organization / office / department, the Director, Audit and Inspection may direct the Treasury Officer concerned to stop further payment(s) under the specific item till completion of verification / clarification in respect of irregularity / mis-utilization of the Government money as the case may be;
- viii. Hold Exit conference with Heads of Departments and the DDOs on the preliminary Annual Draft Audit Report as prepared by the provincial Deputy Directors before its issuance;
- ix. Compile final Annual Audit Report for onward submission to the Finance Department;
- x. Conduct monthly meetings with the concerned provincial Deputy Directors to review the performance with regard to the duties and functions assigned to them;
- xi. Conduct Annual Administrative Inspection / Physical verification of the stores and stocks of the offices of provincial Deputy Directors Jammu / Kashmir; and
- xii. Any other assignment that may be entrusted to the Directorate by the Finance Department from time to time.

**B. PROVINCIAL DEPUTY DIRECTORS OF AUDIT AND INSPECTIONS, JAMMU / KASHMIR.**

The Provincial Deputy Directors of Audit & Inspections, Jammu / Kashmir with the prior approval of Director, Audit and Inspections, J&K shall;

- i. Conduct routine internal audit and snap inspection on the accounts of all the Civil Departments, Public works Departments and other Departmental Chest Holders with specific reference to:
  - a. Efficiency of budgetary control.
  - b. Maintenance of accounts and control registers.

- c. Reconciliation of accounts.
  - d. Settlement of audit paras and audit objection.
  - e. Recovery of receipts and regularity of expenditure.
  - f. Efficiency cum performance audit / regularity of expenditure of Centrally
  - g. Sponsored Schemes (CSS) / Flagship programmes with or without treasury operation.
  - h. Compliance with various established canons of financial propriety.
- ii. Conduct of audit of stores, stocks, cash and other assets of all departments including random physical check of cash / stock etc.
  - iii. Conduct Audit / Inspection of all the civil departments, Public Works Departments, Departmental Chest Holders as well as Public Sector Undertakings and Government Aided Institutions with or without prior notice;
  - iv. Conduct special audit on the specific requisition of the departments or suo-moto with the approval of the Finance Department;
  - v. Conduct audit of accounts of Public Sector Undertakings and other Government aided Institutions with the prior approval of the Finance Department, separate from and independent of the statutory audit prescribed under the companies Act, 1956 or any other enactment;
  - vi. Conduct audit of the accounts of Universities on specific request from the Vice Chancellor or with the approval of Chancellor; and
  - vii. Issue audit report after due examination to the concerned DDO, with a copy to HOD / Administrative Department as well as to the Finance Department.
  - viii. Any other assignment that may be entrusted by the Director, Audit and Inspections from time to time.

**C. The Provincial Dy. Directors of Audit and Inspections, Jammu / Kashmir shall also:**

- a. Supervise /inspect the work of audit parties of their respective provinces as and when felt necessary to do so;
- b. Receive and examine replies furnished by the concerned DDOs and issue

rejoinders to the concerned offices regarding dropping of paras after its approval by the Director Audit and Inspections with detailed remarks as to what further action is required in respect of outstanding paras;

- c. Prepare a preliminary Annual Draft Audit Report at the close of financial year for discussion on the outstanding audit and inspections report paras with the respective Heads of the Departments and the DDOs. All such discussions shall be held in the presence of Director, Audit and Inspections;
- d. After completing the process of discussion with the Heads of Departments and the concerned DDOs, the Dy. Directors shall prepare the Annual Audit Report and submit it to the Direction office for further appropriate action in the matter;
- e. Monitor the serious cases of financial irregularities / misappropriations / embezzlements with special focus on recoveries thereof; and
- f. Prepare and furnish monthly progress report to the Directorate of Audit and Inspections by 10<sup>th</sup> of the following month and other information / returns on their scheduled dates.

**D. Notwithstanding anything contained above, the Finance Department shall:-**

- a) Conduct fresh audit of any department in case there are apprehensions that the audit has not been conducted in true spirit, and
- b) Initiate disciplinary action against the delinquent officers / officials engaged in conducting the audit.
- c) Order a special audit of the concerned department by a team of officers to be drawn from Accounts and Treasuries, Audit and Inspections and the Administrative Department.

**4.2.2. Brief job description of Audit officers /Assistant Audit officers:**

- i. The Audit party shall work as a team under supervision and guidance of the Audit Officer with following job profile,
- ii. To inform the auditee office well in advance to keep requisite records ready for the audit.
- iii. To collect information from Department before commencement of audit about the functioning of the Auditee and accustom him/herself with specific Acts &

Rules/ Guidelines/ Scheme operating details and Government instructions governing the activities of the office/establishment.

- iv. To introduce the team to the Head of the auditee on the first day of commencement of audit and appraise him/her the purpose, time schedule, and records to be provided by the auditee for smooth progress and completion of the audit within the time schedule.
- v. To perform risk assessment, internal controls review etc. based on assessment results, prepare a detailed audit plan for the particular office such as:
  - a. Areas of audit focus,
  - b. Sampling methods/techniques to be followed, if applicable
  - c. Emphasis to be given for detail checking on risk based areas.
- vi. To develop a systematic work plan in consultation with the team mate(s) keeping in view the time allotted, volume of the work at hand and distribute the work according to the work plan.
- vii. To conduct a general review of all accounts and records maintained by the auditee.
- viii. To make a requisition for production of records to be verified.
- ix. To record the position of opening balance and closing balance of the Cash book with details of break up and analysis of closing balance for the period covered under audit.
- x. To bring to the notice of the higher authority if any extra time or extra hand or both are required for the audit.
- xi. To review functioning and performance of different schemes implemented by the Department.
- xii. To review funds released out of the budgetary provision and utilized for the purpose for which it was sanctioned.
- xiii. To visit Banks, Treasuries or other offices if required, to examine or to refer to any material or documents in connection with audit.

- xiv. To conduct test check of stocks of selected samples if necessary, and record the findings in the corresponding stock register.
- xv. To review the position of pending audit reports and paras and expedite the compliance.
- xvi. To look to the facts that the Half Margin Memos are issued with proper facts, figures and with Legal standards, duly acknowledged and ensure compliance of the memos within stipulated time.
- xvii. To scrutinize vouchers and relevant records with reference to existing laws and different circulars and instruction of Government issued from time to time.
- xviii. To report to the Department promptly on irregularities of important nature like loss of money or stores by means of embezzlement, theft, mis-appropriation etc. detected in course of audit.
- xix. To report on progress of work daily to the Deputy Director Audit and Inspections.
- xx. To collect relevant documents and information from the auditee for drafting of audit reports before completion of audit.
- xxi. To discuss with the Head of the auditee before closure of the audit about the objections pointed out by audit.
- xxii. To draft the audit report and submit the same to the next higher authority within 3 days of the date of completion of audit or as per time line fixed by the Directorate.
- xxiii. To give views on the quality of accounts maintained by the office and suggest for improvement, if any.
- xxiv. To specify the names of the official/officials responsible for financial irregularities leading to misappropriation or loss of Government money, if noticed
- xxv. To perform any other duties assigned by the Higher Authorities.

## 5. Professional Standards

Professional Standards prescribe the norms, principles and practices, which the Auditors shall adhere to during the course of audit. These standards shall act as a guide to auditors and overall audit function, thereby ensuring efficiency in operations and professional conduct.

### 5.1. Professional Standards of Auditors

The Auditors are expected to maintain the following professional standards:

- i. **Objectivity:** Auditors should acknowledge and incorporate all information received from the Auditee without withholding any information which may distort the reporting of activities under review. Auditors shall be fair in reporting and any improper activities and transactions noticed should be reported without fear or favour.
- ii. **Competency:** Auditors should possess thorough knowledge of the audit process, applicable rules and orders and objectives of the audit. They should continually engage in improving their proficiency in audit procedures and techniques by attending training sessions, reading rules, manuals and instructions issued by the Government from time to time.
- iii. **Integrity:** Auditors should comply with ethical principles and code of conduct governing the auditor's professional behavior and responsibilities, which include; Integrity, Objectivity and fairness, Confidentiality and Technical Standards.
- iv. **Confidentiality of Audit Information.**
  - a) Auditors are required to respect the confidentiality of information acquired from the various audited departments. Auditors shall not disclose any official information without authorization or use it for personal reasons. Information collected in the course of an audit may only be used for the purpose for which it was collected and may not be disclosed other than for audit purposes.

- b) The audit has certain practices and procedures for reporting audit findings. Disclosure of such official information by auditors shall be only with the authorization of authorities. In addition, auditors must ensure the security and confidentiality of all files, whether in the offices of audit cell or on the local of the auditee department.
- c) Auditee has an interest and a right to know audit findings and conclusions. It is necessary that all audit findings and conclusions be kept confidential until they have been completely substantiated, processed through an authorized clearance procedure with the audit entity, and approved for release by the authorities. Improper or premature external disclosure of audit findings can harm the audited entity and cause embracement to the department .
- d) The principle of confidentiality also dictates that all those working in the audit wing must be cautious in discussing, with friends, relatives and colleagues outside the audit cell.

## **5.2. Audit Quality**

The services rendered by the Auditors are expected to be of high quality. The quality can be maintained by:

- i. Understanding the programme of the Auditee going to be audited,
- ii. Understanding the subject of audit,
- iii. Frequent discussions with the Auditee,
- iv. Conduct of field review by the reviewing authorities,
- v. Use of standard sampling methods.

## **5.3. Audit Quality Evaluation**

Proper evaluation of the audit reports will lead to improvement of audit quality in due course of time. The following tools may be used for the purpose of audit quality evaluation:

- Peer Review
- Use of Experts

### **5.3.1. Peer Review**

Peer Review is a mechanism to review and assess the quality of the audit conducted by audit teams. It deals with examination of systems and procedures adopted by the audit team and to identify opportunities for improvement.

### **5.3.2** For selection of audit reports for peer review some pre-determined criteria may be followed:

- i. Maximum expenditure and receipts audited and reported in one audit report,
- ii. Audit reports submitted without any major irregularities,
- iii. Audit report containing major observations of non production of records or non cooperation for audit or non-compliance of audit objection memos
- iv. Audit has taken unusual extra time than the prescribed approved audit programme,
- v. Huge volume of major irregularities reported in an audit report etc.

### **5.3.3.** The peer review methodology shall involve examination of:

- i. Audit team's approach to strategic planning,
- ii. Auditing standards and Audit guidelines followed by the audit team,
- iii. Collection of audit evidence Documentation and reporting by the audit team,
- iv. Proper review and supervision mechanism whether followed,
- v. Proper interactions held with auditee,
- vi. If any other guidelines and approaches followed by the internal audit team.

### **5.3.4. Use of Experts**

While conducting audit, auditors might come across certain specialized areas which require help of an expert, hence the Finance Department may empanel experts of specialized domains who can be engaged to impart specialized training to the auditors for conducting such audits and their capacity buildings.

#### **5.4. Recognition**

- i. To encourage and motivate Audit teams, due recognition shall be given to outstanding teams or best performing teams for their efforts. The Directorate of Audit & Inspections may select best Audit Report and present some awards or incentives to audit personnel each year.
- ii. While selecting the best report, authority shall consider systems and procedures employed by the team, any innovative solution provided by the team to handle any problem, quality of reporting or any other criteria which the Audit organization think fit to consider.

#### **5.5. Capacity Building**

The Finance Department should facilitate and provide adequate support to all the personnel of Audit Organization to help them in complying with the professional standards. Audit Personnel shall be given formal professional training.

## 6. Planning an Audit

This section deals with steps involved in selection of auditee units annually for the purpose of audit and planning the annual audit programme. The Audit & Inspections wing may not have resources to audit all the offices during the course of one year; hence, Head of the Audit organization shall select audit units for audit in each year on the basis of a systematic planning

### 6.1. Annual Audit Programme Planning through Risk Assessment

- i. As it may not be possible to audit all offices every year, a scientific method should be in place to select offices cautiously for the purpose of audit to ensure that all departments/ DDOs are covered in a cycle of two years. Since the objective of conducting internal audit is to ensure effective conduct of activities and achievement of desired goal by the Department, the offices shall be selected on the basis of degree of risk parameters, so that high risk entities are given focused attention.
- ii. The provincial Heads of the Audit organization will be responsible for selection of offices for audit in a particular year and prepare an Annual Audit Programme of the departments for each financial year, which shall be submitted to the Apex office by end of February, every year.
- iii. An approved Annual Audit Programme of the departments shall be finalized by 15th March each year keeping in view targets fixed by the Adm. Department during budget discussion or otherwise. This should be hosted on website of the Audit Directorate indicating month-wise schedule of departments to be audited.

### 6.2. Risk Score Chart

- i. A systematic framework should be in place for selection of offices as per their risk profile. A **Risk Score Chart (RSC)** shall be prepared, which assigns score and ranks to the offices on the basis of the risk indicators.
- ii. A risk profile needs to be prepared listing the risk parameters on which

scores will be assigned to the offices. The risk parameters are broadly divided into three categories, which are as follows:

- Financial Indicators
- Non-Financial Indicators
- Analytical Indicators

An overview of three broad categories of risk parameters is given in Table no.1.

**Table No.1: An overview of three broad categories of risk parameters**

S.No.	Financial Indicators (In Amount)	Non-Financial Indicators (In Nos.)	Analytical Indicators (Yes/No)
1.	Total budgeted funds received in the financial year	No. of years pending for audit	Any new scheme introduced in the office during the financial year
2.	Total funds received from other sources in the financial year (outside budgeted funds)	No. of schemes implemented in the office (including State Plan, and Centrally sponsored Plan)	Any change in accounting procedure relating to receipt or expenditure systems such as shifting to online direct payments, introducing computerized system etc.
3.	Total revenue received during the financial year	-	Whether AG Audit was conducted in last 3 financial years
4.	Total expenditure incurred from budgeted funds in the financial year	-	Any allegations reported in newspapers/media during the last years
5.	Total expenditure incurred from other sources in the financial year	-	Whether any assembly questions were raised for the office or relating to the office in the assembly
6.	Total amount of utilization certificate (UC) pending at the end of the financial year	-	-
7.	Total amount of Detail Contingency (DC) Bill pending for submission at the end of the financial year	-	-

Note: The Audit & Inspections organization can add more indicators (Financial, Non-Financial and Analytical) to chalk out the Risk Parameters).

After assignment of ranks to the offices, Directorate of Audit & Inspections will select the offices for prioritized and focused attention while conducting Audit.

### **6.3. Preparing Annual Audit Program**

Annual Audit Program contains the following details:

- Name of the Institutions/Offices selected for audit
- Name of the Audit officers/Assistant Audit Officers assigned the work of audit
- Period of Accounts to be audited
- Number of working days allotted for completion of audit

The number of working days required for conducting audit will be decided by taking to consideration the experience from the last audit, quantum of receipt and expenditure to be audited, number of new schemes to be verified etc.

Once the audit plan is finalized by the Directorate of Audit & Inspections, the same shall be communicated to the provincial heads for implementation.

### **6.4. Preparing Audit Schedule**

As per the approved Annual Audit Program, the respective Dy. Directors shall schedule the visit dates to each Office/Institution. They need to list the activities to be taken up during the course of audit.

### **6.5. Communication of Audit Programme**

The provincial Dy. Directors of Audit & Inspections will communicate the programme of audit to the concerned Head of the Office well in advance indicating name of the Audit Officer, Assistant Audit Officers, Period of accounts to be audited, date of commencement of audit and number of working days allotted for completion of audit. A copy of this communication will be provided to the Audit Teams to take up and complete the audit within the stipulated time. In view of time limit fixed, the head of Office will be requested to extend their cooperation for completion of audit in due time.

## 7. Initiating an Audit

It is the responsibility of Auditors to take necessary steps to initiate the audit as planned in annual audit programme. Before proceeding to conduct the audit they shall ensure that below mentioned steps are taken.

### 7.1. Planning Individual Audits

While planning individual audits, due considerations should be given to the information available in previous audit files of the auditee. In case of first audit, sufficient time should be given to the audit team to gain knowledge on the working of the Department. Preliminary planning involves:

- i. **Gaining an understanding of the Auditee functions:** Auditor should have fairly good knowledge of the organization and its operations. This includes understanding the rationale behind establishing the Department, structure of the Department and functions of the Department. Primary source of information about the Department can be obtained through the following documents:
  - Previous internal audit plans,
  - Previous audit reports,
  - AGs inspection reports,
  - Budget estimates, revised estimates and actual expenditure,
  - Auditee's policy and procedures manuals, if any,
  - Rules and regulations framed by the Department that significantly governs the Auditee,
  - Important circulars issued by Government from time to time,
  - Organization charts and flow charts of processes,
  - List of accounting registers and records maintained in the Department,
  - Any other document relevant to audit.

- ii. **Understanding Controls:** The Auditor, in determining the extent and scope of the audit, should study and evaluate the reliability of internal controls in place. After gaining understanding of the organization, auditor should identify key control areas in the Department. He/She may examine and evaluate the existence and operation of control systems specified in the various codes, manuals and government orders relating to the accounting procedures.
- iii. **Analyzing the earlier audit reports:** Analysis of the earlier audit reports are needed to verify the Department's compliance on the recommendations of the audit.

Following issues needs to be verified to understand the environment:

- Errors corrected at the instance of the audit,
  - Remedial recourse or penal actions taken on the recommendation of the audit,
  - Improvements in internal control systems in response to auditor's recommendations,
  - Any special audits conducted that reduces the significance of the present audit.
- iv. **Identifying legal compliances to be made:** Auditor should acquaint himself with the applicable legal provisions like adherence to Codes, Rules and various government orders.
  - v. **Sharing and finalizing the areas of the audit in discussion with the Auditee:** Based on the understanding of Auditee functions and environment, scope of audit will be discussed with the Auditee and areas of audit shall be finalized.
  - vi. **Providing an overview of the audit process to the Auditee:** Once the areas of Audit are finalized, the Auditors shall provide an overview of the audit process to be carried out. Requirements, support or any other information or disclosures required from the auditee may be obtained.

## 7.2. Risk Based Assessment

Risk assessment is the process of:

- i. Identifying and analyzing potential risks posing threat to the Department's financial aspects as well as achievement of its objectives, and
- ii. Developing response to address the identified risks and prioritizing audit focus in the risk potential areas.

For illustration, in Government Departments one of the potential risk area is tendering of contracts for procurement of goods or services, where high level of risk is involved. The activities like award of contract to the right person whether followed or not, keeping in view technical and financial aspects provided in the tender document. The auditor may identify those areas which pose risk and evaluate the effectiveness of the operations in those areas.

- lii. For identification of risk the matrix given in Table no.1 for Financial, Non-Financial and Analytical Indicators may be followed. In addition to those parameters the following may also be followed for risk based assessment:

- a. **Financial:** Auditors shall select those areas, accounts, schemes or programmes where maximum financial amount is involved and those areas shall be selected for detailed testing.
- b. **Non-Financial:** Auditors shall give high priority to the areas having high significance due to its nature of operations irrespective of the financial amounts involved. For example i.e. areas where several and persistent irregularities are reported through previous audits (AG / Internal), several grievances or complaints are registered, assembly questions raised etc.

iv. **Analytical findings:** Audit areas can also be identified by doing analytical studies between certain facts to locate any discrepancies. Unusual or abnormal observations noticed while comparing data can be a risk parameter for detailed audit.

- Budgeted provisions vs. Actual expenditure
- Fund received vs. Fund utilised
- Percentage of targets achieved (against target fixed, if any)
- Achievement on Work Development Schedule

v. **Random review / Selection:** Auditors shall select certain areas randomly based on their professional judgment or experience within the Department. In random selection, priority shall be given to the areas which are not covered in previous year audits or not yet audited. For example different months may be selected from one to another year. It is better not to set a uniform pattern of selection every year but introduce an element of surprise.

After identification of risk areas, Auditors shall finalize the audit plan and more attention is to be given to potential risk areas where deployment of internal controls systems are weak or not existing at all. In-depth checking shall be undertaken in those focus areas.

### **7.3. Assessment of Internal Controls**

i. Internal control mechanism is an integral process operated by an organization, designed to address risks and to provide a reasonable assurance in pursuit of organization's mission. Following general objectives are achieved by the process of Internal Control:

- Execution of orderly, ethical, economical, efficient and effective operations;
- Fulfilling of accountability obligations;
- Compliance with applicable laws and regulations;
- Safeguarding resources against loss, misuse and damage.

ii. Auditors shall do an assessment of Internal Controls to ensure that an adequate internal control framework is in existence and operating as designed by the Department and errors if any to be located with the operation of established internal controls. Internal Control Assessment will help Auditors to know the following:

- Reliability of records and registers maintained by the Department;
- The extent and the depth of the examination that needs to be carried out in the different areas of accounting;
- What are the areas where controls are weak and where it is unnecessarily excessive;
- Whether suggestions can be given to improve the control systems.
- Whether the internal controls are sufficient
- Whether the internal controls are followed

### 7.3.1 Types of controls

Generally there are two types of internal controls such as:

**i. Preventive Control:** This type of internal control would prevent a risk from occurring. For example:

- a. All transactions and events are initiated on proper authorizations and approvals.
- b. Segregation of functions/duties among the official as far as practicable to prevent risk.
- c. Control over access to resources and records to prevent unauthorized or improper use of resources.

**i. Detective Control:** Detective controls are measures that would point to any loss/misdeeds/misappropriation that is taking place in the organisation. Any kind of reconciliation (bank reconciliation), analytical reviews, post audit, etc. would fall under this category as they help to detect if something had gone wrong.

Some examples of control activities are:

- a. **Verifications:** Transactions or events are verified to ensure correctness and validity. Personal records / service books etc. are periodically verified to ensure their correctness.
- b. **Reconciliations:** This is one of the most commonly used and effective control measure. Reconciliation of one set of records with another are made to ascertain correctness of the transactions or facts.

### 7.3.2. Tests of Internal Controls

- Through audit procedures the effectiveness of the Auditee's internal control systems are assessed. The Auditors should make a list of internal controls which are in operation in the Auditee. Then Auditors shall perform tests of controls to assess the existence and adequacy of internal controls. However the Auditor may not be required to test all the internal controls, he may select some sample controls based on the results of the risk assessment and professional judgment.
- The Auditors may initially check the controls by conducting a compliance testing that is, testing to assess compliance with the internal control. Substantive testing is required to obtain evidence to ensure the completeness, accuracy and validity of the data produced by the accounting system. To illustrate,
  - i. Whether the Cash book is maintained in accordance with the guidelines or not?
  - ii. Whether the bank reconciliations are made with the cash book or not?
  - iii. Whether the stock and store registers are maintained or not? If maintained annual physical verification of stock is done or not ? Etc.
- The Auditor will first check whether there is compliance with the control measure. If it is seen that the control measure is not operating properly, then the auditor would have to go for a substantive testing of the transactions to examine whether non-compliance with the control has resulted in any untoward incident.

- Substantive testing includes tests of details of classes of transactions, account balances and disclosures.
- The Auditor after assessing controls shall give his recommendation on the operation of the internal controls, whether operation of internal controls is satisfactory or needs improvement or is not in existence.

#### **7.4. Sampling**

- i. Audit sampling means the application of audit procedures to less than 100% of the items to enable the auditor to obtain audit evidence and evaluate some characteristic of the items selected, in order to form a conclusion concerning the population / total items. Selection of a sample is influenced by the size of the population, objectives, complexity, type of activity, transaction frequency and level of comfort expected from the test.
- ii. Since verifying each and every transaction is quite time-taking, the Auditor may use sampling techniques to verify events, records, controls etc. so that the audit conclusions would apply to the entire population.

##### **7.4.1. Sampling Sheet**

Although there are many different methods of sampling depending upon the nature of population and degree of accuracy required, e.g. non-statistical sampling and statistical sampling methods but keeping in mind nature of operation in government departments a practical sampling procedure may be followed for conducting audit.

Sampling methods shall be applied in the cases where the controls are found existent and operating effectively and books of accounts are maintained properly.

## 8. Conducting Audit

While conducting audit, Auditors are required to examine various types of records, which involves verification of accounts, relevant records and compliance to rules, codes and various orders. However the responsibility of the Auditor is not limited to verification of accounts and procedures but also to give recommendations to improve the financial management system of the auditee.

Any discrepancies noticed while conducting audit or non-production of any record or non-cooperation by any Officer-In Charge shall be brought to the notice of the Head of office by way of issue of Half Margin Memos. In case there is non-compliance even after intervention of the Head of Office, the matter may be reported to the next higher authority.

Whenever any loss of money or stores is detected by means of any mis-appropriation or fraud, the fact shall be reported promptly through an Interim Report to the Directorate who shall sensitize the concerned Head of Department/ Administrative Department who shall consider the gravity of the case and take appropriate actions.

Auditors are expected to continually update themselves with various Departmental and other guidelines issued from time to time concerning audit.

### 8.1. Coordination with the Head of Auditee

Audit Team Head /In-Charge shall seek cooperation of the Head of Office (HoO)/ Drawing and Disbursing Officer (DDO) and Other Office personnel responsible for maintaining accounts / records for smooth conduct of audit. For that purpose an Open-meeting / Introductory meeting may be conducted with Head of Office and other staff, on the date of commencement of audit.

### 8.2. Audit Evidences and their collection

Audit evidence refers to information that an auditor collects for supporting his analysis, observation or recommendation. Following are the two important categories of audit evidence:

### **i. Internal Evidence**

Internal evidence relates to information that the auditors collect from within the departments being audited, while performing their audit steps. It is important for the auditors to properly cross-verify the authenticity and accuracy of the evidence when it is collected from within the organization ( AG Audit reports , Finance Audit reports ) .

### **ii. External Evidence:**

External Evidence relates to information that the auditors collect from outside the Government Departments and other offices being audited, while performing their audit steps. Such evidence could be in the form of financial information like bank statements from the bank.

### **8.3 Techniques for Collection of audit evidence:**

One of the most critical factors of any audit is to collect audit evidence in respect of the function/process that is being audited. Given below are some techniques to facilitate the collection of information during audits.

**i. Adopt a top down approach:** For the assessment of the control environment it is necessary that the Auditors adopt a top down approach, meeting with the functional head and going down up to the officers engaged in the function under audit at the respective locations. This approach leads to better acceptability and wider coverage.

**i. Discussion with auditee :** The auditors should ask general questions, which are open ended in nature like the following:

- What are some of the key concerns you have in respect of your function?
- What are the main objectives of the department?
- What are the main bottlenecks to these objectives?
- What are some improvements that can be made in the department's functioning?

Such questions encourage the auditee to speak about his function and provide information to the auditor. It also makes the auditee open up and speak to the auditor as he would to a consultant.

#### **8.4. Verification of Receipts**

i. The receipts of any Department mainly consists of revenue derived from taxes, fees, fines, penalties, rents of government buildings and lands, receipts of loans, advances and deposits, interest or any other receipts.

ii. In conducting the audit of receipts, the chief aim is to ascertain that adequate regulations and procedures have been framed to secure an effective check on the assessment, and collection and to see that such regulations and procedure are being followed. The Auditor shall also ascertain the adequacy of compliance with regulations and procedures for effective receipt, remittance, reconciliation and accounting of receipts.

iii. Audit shall also be diligent in detection of irregularities, leakage or loss, fraudulent and forged receipts, other types of omissions or commissions in the process of levy and collection of revenue etc.

iv. Auditor shall carefully verify any government dues left outstanding and suggest to the Departmental authorities for the recovery.

#### **8.5. Verification of Payments**

- Government payments are normally classified as revenue and capital expenditure, payment of loans and advances etc.
- The procedure for incurring expenditure from the consolidated fund of a State approved by the legislature comprises of:
- **Provision** - Competent authority should make provision of funds and fix limits for incurring expenditure
- **Sanction** – There should exist appropriate sanction accorded by a competent authority, authorizing the expenditure
- **Propriety** – Expenditure should be incurred with due regard to financial propriety
- Auditors should verify the above mentioned procedures apart from verifying accounting aspect of expenditure while auditing.
- Audit of expenditure should not merely be confined to see that the expenditure

is covered by a sanction; but should also verify that the authority according the financial sanction is empowered to do so by virtue of powers vested in it by the constitution, laws and rules framed by the executive or by delegation.

- Auditors shall verify the payments made by the Auditee with reference to the following documents:
  - The office copies of the paid vouchers
  - Counterfoils of cheques
  - Copies of bank scrolls
  - Pay bill register
  - Book of drawl
  - Supporting bills, receipts and
  - Approvals
  - Stock entries in respect of procurement of goods
  - Performance reports in respect of procurement of services.
- While checking each payment, Auditors shall also check the procedures of the payments.

#### **8.6. Verification of Contingencies**

The term "contingent charges" or "contingencies" means and includes all incidental expenses of a miscellaneous character, which are incurred for the management of an office as "an office" or for the technical working of a department, other than those, which under prescribed rules of classifications of expenditure, fall under such other heads as 'works', 'repairs', 'stock' or 'tools and plant' etc.

- i. The Auditor shall verify the expenditure as per prescribed procedure for each category of contingencies incurred by Departments.
- ii. The classification of contingent charges are defined as:
  - Scale Regulated Contingencies,
  - Contract Contingencies,
  - Special Contingencies,

- Countersigned Contingencies,
  - Fully Vouched Contingencies.
- iii. Generally the risks of error in respect of contingent expenditure are as follows:
- Excess amounts are drawn under contingent expenditure beyond budgetary provision,
  - The standards of financial propriety are not observed while incurring expenditure,
  - Forged bills are accounted and payments made,
  - Expenditure incurred without proper sanction or beyond the sanction orders,
  - Amount sanctioned and spent under permanent advance violates the prescribed Rule etc.

### **8.7. Verification of Grants-in-Aid**

- i. The main aim of audit of grants-in-aid is to ensure that the amounts sanctioned as grants for the purposes are not mis-utilized and standards of financial propriety are maintained in expending of resources.
- ii. Audit can be applied to the original grant itself or to the expenditure which is subsequently incurred out of the grant. Audit of the grant shall be conducted according to the general principles/rules laid down for the expenditure from the consolidated fund of the state and special terms and conditions specified, if any, in the sanction order of the grants in aid.
- iii. Following documents and registers to be verified during the audit of grants-in-aid:
- a) Order sanctioning the grants,
  - b) Register of grants,
  - c) Bills for the withdrawal of the grants,
  - d) Bank passbooks,
  - e) Cash book, Ledger indicating utilization of grants and
  - f) Utilization certificates.

- iv. The Auditor should verify the following while auditing grants-in-aid:
- a) The nature of grant should be verified from Grants-in-aid sanction orders specifying normal grants or special purpose grants. If it is of special in nature then auditor must see that the circumstance under which grant was sanctioned continues to exist and the expenditure was made for the said purpose only.
  - b) Whether proposals for grants-in-aid are prepared with proper estimations.
  - c) Whether grant is disbursed only when the grantee utilizes substantial amount of the grant.
  - d) Ascertain the achievement of overall objectives of the schemes for which grants-in-aid are sanctioned and there is no waste full expenditure.
  - e) Utilization certificate whether furnished for all the sanctioned grants.
  - f) Any unspent portion of grants is refunded or pending for utilization.
  - g) Whether grant-in-aid is transferred to any other purposes, without prior sanction of the competent authority.

#### **8.8. Verification of Public Works**

- I. The Public Works includes Buildings, Roads, Irrigation, their construction, maintenance and repairs, etc. Audit of Works expenditure shall examine whether the expenditure has been incurred as per the procedure prescribed under the Public Works Accounts Code.

Special emphasis should be laid on the following:

- i. The Audit should specifically bring out the instances where works have been executed without accord of AA/TS and tenders and also see that provisions relating to e-tendering have been strictly followed.

- i. In case a particular department has been given some relaxation with respect to execution works of emergent nature by way of specific Govt. orders, it should be thoroughly examined that the scope of works repairs has not been extended under this grab.
  - ii. In case of M & R it should be thoroughly examined that the Annual Repairs Distribution (ARD) has been approved by the competent authority and subsequently a transparent mechanism has been followed for allotment of works on the basis of competitive tendering.
- II. The auditor should check proper maintenance of the following registers and documents by the Public works department and should test check few entries with actuals:
- i. Cashbook
  - ii. Muster roll
  - iii. Measurement book
  - iv. Works abstract
  - v. Bin card Register
  - vi. Contractors ledger
  - vii. Register of works
  - viii. Priced stores ledger
  - ix. Transfer entry book
  - x. Register of revenue realized and refunds
  - xi. Register of rents of building and lands
  - xii. Bank accounts, cheque books and bank draft registers.
- III. The auditor should verify the following points while auditing work accounts:
- a. Whether administrative approvals and technical sanctions have been accorded by the competent authority and provision of funds have been made.

- b. The procedures of calling for tenders and allotment of the work is to be examined to verify transparency in the system.
- c. Whether the designated officer has conducted initial check as required by rules.
- d. Whether the rate paid for the work done correlate with the rates of allotment order / contract agreement.
- e. Scrutiny of Contractors Ledger maintained if any, to verify and assess the correct position of dues or advances.
- f. Recoveries from the contractors for store materials supplied by the office are made at the correct rates.
- g. Advances given to contractors are as per proper sanctions and are adjusted timely.
- h. Whether final payment is made on obtaining completion report of work or not.
- i. Fixation and timely collection of rent on buildings to be reviewed and any undue delays should be reported.
- j. Whether payments in excess or in contravention of the terms of the contract causing undue financial aid to the contractor have been made.
- k. Cases involving financial loses to Government and undue financial aid to the contractors are specially examined.
- l. Payments for deviations in the work made with due approval and rate of payment whether correct or not.
- m. Penalty levied if any for non-completion of work in time as per agreement.
- n. Extension of time and extra payments for that if any whether as per rules.

## **8.9. Audit of Procurements (Goods and Services)**

Procurement Audit conducted for purchase of both goods and services for the period of Accounts to be audited should also cover concurrent audit of procurement process of Goods & Services initiated by the department during the year.

### **8.9.1 Scope of Procurement Review**

In Procurement review the Auditors shall assess whether:

- a. All provisions relating to procurement of Goods and Services as contained in General Financial Rules, have been / are being observed strictly.
- b. The contract terms and conditions for procurement of goods and services were comprehensively drawn up, and was unambiguous, free from uncertainties, indefinite liability, misinterpretation and serve to protect Govt. Interests;
- c. The tender documents are comprehensively prepared, adequately addressed the interest of the Govt. and ensured evaluation of bids on equitable and fair basis in a transparent manner;
- d. The tender documents uploaded on the CPPP/ "jk tenders" e-portal following uniform standard terms and conditions and tender documents are in conformity with the provisions of the General Financial Rules (GFR).
- e. Equal opportunity has been given to all bidders;
- f. The system is tamper proof while receiving tenders;
- g. The system ensures complete transparency in Opening Tenders;
- h. The procurements are of specified quality and are made at competitive rates;
- i. Quantities purchased are not in excess of requirement (more than indented quantity) so as to avoid wasteful expenditure;

- j. Advance payments made if any, were un-avoidable and was done with suitable safeguards to fully protect Govt. Interest;
- k. Adequate measures were taken to avoid loss to Govt. in the event of non-performance by the supplier (performance guarantee whether provided or not in the contract);
- l. Priority was accorded to post contract follow up so as to avoid time and cost over runs, loss to Govt. and/ or un due benefit to suppliers.

**8.9.2. How to undertake a Procurement Review**

Under procurement review the Auditors shall:

**i Review the Procurement Procedures and Protocol** followed by the Auditee. This includes alignment to GFR / GEM/ any other prescribed guidelines issued by the Government. During this process, the Auditors shall also consider scheme specific cases where procurement guidelines / procedures / manuals are defined otherwise.

**i. Verify the Procurement Records and Reports** as mandated within the guidelines applicable to the Auditee. The Auditors shall also review all the relevant documents and records related to the procedure for procurement of goods and services, indents, quotations, tender papers, bid process documents, contract orders / purchase orders / work orders, in-ward receipts, quality certificates approvals, allotment letters, payment terms, etc. mandated to be maintained by the Auditee.

**ii. Prepare a Review Report:** The Auditors shall develop a checklist for Procurement Review. If there are any gaps identified in the procurement process, the Auditors shall report the same in the format given in **Table No.2**

**Table No.2: A Sample Template for Procurement Review Report**

Procurement Order Number	Date	Procurement Value	Detailed observations	Recommendations

### **8.10. Verification of Stores**

- i) The Auditee is required to carry out annual physical verification of stores and record certificate of such verifications in the stock register. If no physical verification of stock is done at all, the Auditor shall undertake random verification of stock to ascertain the actual position of stock in few cases.
- ii) The Auditor is to ascertain that the Departmental regulations governing purchase, receipt and issue, custody, condemnation, sale and stock-taking of stores are properly carried out. He/She should bring to the notice of Government any important deficiencies noticed during verification of stores or any grave defects in the system of control.
- iii) During physical verification undertaken if any, Auditors shall compare the physical stock position with reference to stock balance of the stock register.

### **8.11. Budget Review**

- i) The Auditors shall analyze the variance between budgeted and actual expenditure of the Auditee for a specific period taking to account the appropriation and re-appropriation sanctions.
- ii) The Auditors shall verify the following:
  - a. All expenditure has been captured under Treasury Net as well as BEAMS.
  - b. Expenditure booked under each head whether correctly classified or not.
  - c. Approval of expenditure obtained from competent authority or not.
  - d. The limit of expenditure prescribed for the Departments under cash management system whether followed or not
  - e. Excess expenditure under different account heads should be identified with reasons for such occurrence.
  - f. A standard template is given in Table no. 3 for recording budget vs. excess expenditure review.

**Table No. 3: A sample template for Budget to Excess Expenditure (Variance) Review**

<b>Name of the Department: Period from: To:</b>					
<b>Unit of appropriation</b>	<b>Major Head</b>	<b>Approved Budget</b>	<b>Actual Expenditure</b>	<b>Over spent</b>	<b>Reasons for deviations</b>
<b>Grand Total</b>					

**8.12. Utilization Certificate Review**

The Auditors shall verify the following documents while conducting review of Utilization Certificates(UC) position for the period of audit.

- a) Statement or Register showing the date and amount of receipt of grants / sanctions from Government or any other agency.
- b) Certificate of Utilizations submitted by the Auditee.
- c) Statement of expenditure showing unit wise details on the utilization of grants/sanctions.
- d) The release orders or advices received from the Government or any other agency in support of the receipts
- e) The statement of UC is to be supported with expenditure of the Auditee with reference to the sanctions or grants-in-aid received.
- f) The opening balances of Utilization Certificates are tallied with the Closing balances of previous Utilization Certificates for unit wise /scheme wise grants both for recurring and non-recurring nature.
- g) The amounts of grants or sanctions released by the Government are properly reflected in Utilization Certificates.
- h) Balances of unutilized grants or sanctions are properly reflected in the UC statements.
- i) The unutilized balances reflected in the UCs are tallied with the books of accounts.
- j) Any unutilized amount for which UC has been submitted.

### 8.13. Reconciliation Audit

The Auditee is required to reconcile the transactions on the following cases:

- i. Bank balances with reference to Cash book and Bank draft register
- ii. With Head Office relating to release of grants through bank drafts, if any
- iii. Outstanding Advances with reference to Advance ledger,
- iv. Any other as appropriate.

The Auditors shall report reconciliation positions of the auditee in a format given in Table no. 4.

**Table No. 4: Sample Report format of Reconciliation Audit**

S. No.	Name of the Reconciliation	Frequency of the Reconciliation (Monthly/Quarterly /Annually)	Status of Reconciliation
	Grants Reconciliation		Reconciled/Not Reconciled
	Banks Reconciliation		Reconciled/Not Reconciled
	Advance Reconciliation		Reconciled/Not Reconciled
	Any other		Reconciled/Not Reconciled

### 8.14 Audit of Establishment.

This is an important but often neglected area of the audit. The establishment audit would include:

- (i) In case of audit of Cadre Controlling Authorities-whether cadre schedule is updated and Seniority lists and Retirement Memos are being updated and issued regularly.
- (ii) Review of sanctioned strength of posts viz-a-viz those in position and reason for excess, if any,
- (iii) Employees on deputation / deployment; whether under proper orders issued by the Competent Authority.

- (iv) Whether Establishment returns are being compiled and rendered to the Competent Authority in time.
- (v) Whether any employee under transfer has been retained and reasons for such retention, if prolonged.
- (vi) Whether Service Record and Leave Record is being maintained properly.
- (vii) Test check of Service Books, Pay fixation, especially if the audit period involves Pay Revision. The Auditors should invariably check the latest Pay Bill and pay bill for the month of February, for accuracy with respect to mandatory deductions like GPF subscription / recovery, Income tax, NPS contribution etc.
- (viii) In case overpayment on account of wrong pay fixation, inadmissible allowances or some other reasons is established, the Audit Officer should order immediate stoppage of such excess / inadmissible pay / allowances and resultant recovery. The matter should be reported to the Audit Directorate for taking up with the concerned HOD/Adm. Department on priority.
- (ix) Whether there are any contractual, consolidated, DRWs, Casual Labourers on establishment and if yes, whether there are proper engagement orders issued by the Competent authority. For unauthorized engagements immediate stoppage of wages should be ensured and matter referred to Directorate of Audit and concerned Administrative Department promptly.

***Note: For guidance of Auditors a comprehensive checklist of documents / procedures to be examined is given at Annexure I. The Auditors shall use their professional acumen to decide which of the documents or which other documents are required to be examined in a particular office.***

### **8.15. Working papers**

Working Papers shall be kept in audit file for future reference and verification. Working papers shall not be attached to the report, but shall stand as proof that due diligence was done before reporting any Audit observation. The Audit file may, however, contain a list of Working papers referred to during the course of Audit. Generally working papers consists of;

- a) Audit plan,
- b) Audit Schedule,
- c) Previous Internal audit reports,
- d) Outstanding AG audit paragraphs,
- e) The financial statements of the Auditee,
- f) Physical verification reports of cash/stock and store etc.,
- g) Bank reconciliation statements,
- h) Data relating to budget provision and actual expenditure for the period of audit,
- i) Analysis of performance of specific schemes both physical and financial,
- j) Audit evidences relating to key audit findings,
- k) Half Margin Memos and compliance received from the Auditee and
- l) Draft audit reports.

## 9. Audit Reports

i) The audit is concluded once all the audit procedures and checks are completed. The Audit Officer shall finally review the working papers to see that the audit has been conducted according to plan and it has achieved its objectives. He should make note of any audit procedures that could not be completed because records were not produced by the department or due to lack of time.

ii) No objection shall be booked or reflected in draft audit report without issue of a Half Margin Memo. The Half Margin Memos issued by auditors shall be complied by the Officers-In Charge of Accounts within 2 days from the date of issue and returned to the auditors with necessary reply under the signature of the head of the office or in his absence the Officer-in- Charge of Accounts.

iii) In case the reply of the officer is found to be satisfactory, the objection need not be incorporated in the Audit Report. The original half margin memos with reply thereon shall be appended with the Audit Report for reference. The Auditor shall mark such memo as “dropped” with red ink under date and initials.

iv) If half margin memo is not returned within stipulated time or returned with unsatisfactory replies, the Auditor shall incorporate the objection in the Audit report without waiting for an indefinite period for the reply. The duplicate copy of the memo shall be attached with the Report to substantiate the Audit views.

v) The Head of the Audit Team should check the supporting evidence for each observation that is proposed to be put in the report. He/she should satisfy himself about the sufficiency and relevance of the evidence. Then He/she should prepare a Draft Audit Report.

vi) The format of the draft report shall be same as final report after approval by the concerned authority. All the applicable quality checks equally holds good for draft report also except that the title of the report shall be “Draft Audit Report”.

## 9.1. Qualities of a good report

The Auditors should exercise due professional care to ensure that the audit report, inter alia, is:

- i) Clear and unambiguous
- ii) Factual – presents all significant matters with disclosure of material facts
- iii) Specific
- iv) Concise
- v) Timely and
- vi) Complies with generally accepted audit procedures

## 9.2. Preparing the Audit Report

Auditors shall use a standard format for reporting audit observations. The Audit Report should be structured as under:

### 9.2.1 Executive Summary

The Audit Report shall mandatory be accompanied with Executive Summary under the signatures of provincial Deputy Director. The executive summary should explain and emphasize conclusions and recommendations and include only the essential or most significant information to support those conclusions. The executive summary should be organized according to the sequence of information presented in the full report and should be proportional in length to Audit Report typically 10-15% of the report.

### 9.2.2 General Information

The Auditors shall mention general information details in the prescribed format which includes following:

- **Auditee Profile:** Name, Address, Head of the Auditee Office, etc.
- **Auditors Profile:** Name and contact details (email and phone no.) of the Audit Team who conducted the audit.
- **Audit Profile:** Audit Period or cycle and Duration of Audit.

### 9.2.3 Previous Audit Compliance

The Auditors shall mention the following details regarding previous audit status:

**A Previous Audit Observations and Compliance:** In this section, the auditors shall provide the pending status of previous audit observations and compliances. (Internal and AG Audits)

**B Persistent Irregularities:** Auditors shall give details of persistent irregularities which were identified during the past audits but are still not addressed. The Auditors shall identify the cases of non-compliance and list the same under Persistent irregularities.

### 9.2.4 Scope of Audit

In this section, Auditors shall detailed out the scope of audit to be conducted. The Auditors shall mention the scope of audit conducted and coverage of audit, sampling techniques and sample size. A detailed list of accounts and documents verified shall be given as an annexure to this section.

### 9.2.5 Observations and Recommendations

This part of the audit report should be exhaustive and shall capture all major and minor irregularities noticed during audit. Each Audit Observation may be structured as described below:

**Criteria:** What should exist? The rules / regulations/procedures/expectations are the basis against which Audit evidence is compared.

**Condition:** What exists? The condition identifies the nature and extent of deviation from the criteria i.e deviation from what should exist. This should be supported by factual evidence. A statement of condition would be formed on the basis of Auditor's comparison of actual evidence against the appropriate criteria.

**Consequence / Effect / Impact:** What effect did it have ? The effect establishes the actual or potential impact which would determine the significance of the condition.

**Cause:** Why did it happen? The possible or likely reason for the difference between the expected and actual condition.

**Corrective Action / Recommendation:** What should be done ? The actions suggested or required to correct the situation and prevent future occurrences. (Wherever possible, the findings should be accompanied by graphs and charts to improve the visibility of the analysis and findings. Photographs could also be used as corroborative evidence).

### 9.2.6 Annexure

The observations given by the Auditors in report need to be supported by relevant audit evidence. These evidences act as a reference to the Audit observations reported by the Auditor(s). Audit report should ideally contain the following documents as Annexes:

- Issued Half Margin Memos
- Internal Control Assessment checklists, questionnaires
- List of books of accounting records verified
- Statements of closing stock, assets, cash and other valuables with physical verification reports
- Statement of the UCs status
- Procurement review checklists
- Performance review status
- Budget Vs Expenditure with reason for variance
- Excess /Surrender Statement
- Bank Reconciliation statements
- Non – recoupment of advances
- Statement of recovery amounts
- Annexure of supporting evidence documents (Any photo copies, photos, CDs etc.)
- Any other Audit evidence which may be considered appropriate by the Internal Auditors

### **9.3. Submission of Audit Report**

- i) After completion of audit, the Audit teams shall compile and submit the audit report to the concerned Deputy Directors within 3 days of completion of the audit.
- ii) Dy. Director Audit shall review the report over a period of 2 days and finalize the report in consultation with the Auditors.
- iii) The final audit report shall be submitted to the Directorate immediately, where approval shall be issued within 2 days.
- iv) The provincial Dy. Directors shall ensure that Audit Inspection Report after being approved for issuance are promptly issued and transmitted to the audited entity in both hard and soft copy along with copy to the concerned Head of Department / Administrative department.
- v) Report of Special Audit conducted on recommendations of the administrative department or any other department shall be forwarded to the Finance Department/concerned administrative department directly.
- vi) The Dy. Directors shall create a data base of audited entities, audit inspection reports and settlement of audit paras in electronic form.

## 10. Audit Monitoring & Follow up

### 10.1. Response of Auditee to audit findings.

- i. The Auditee shall submit a detailed para-wise reply to the Audit Inspection Report (AIR) within a period of 15 days positively.
- ii. After receipt of reply, the Deputy Director, Audit & Inspections shall examine the reply furnished by the Auditee and recommend to Director General, Audit and Inspections for settlement of such paras as have been replied satisfactory along with detailed remarks as to what further action is required in respect of outstanding paras.
- iii. The recommendations for settlement of audit paras furnished by the Deputy Director, Audit and Inspections shall be examined in the Directorate and approval for settlement of audit paras conveyed to the Deputy Director in time bound manner.
- iv. The Deputy Director shall issue a rejoinder to the Auditee about settlement of paras together with detailed remarks as to what further action is to be taken against outstanding paras.
- v. The Deputy Director shall prepare and furnish Monthly Progress Report to the Directorate of Audit & Inspections by 10<sup>th</sup> of following month giving details:-
  - a. Number of audit reports issued during the month and number of paras involved.
  - b. Total amount held under objection as per the audit reports issued during the month.
  - c. Total amount suggested for recovery as per the audit reports issued during the month.

- d. Total amount of misappropriation/losses pointed out in audit reports issued during the month.
- e. Number of compliances received during the month.
- f. Number of paras settled during the month involving amount held under objection, amounts suggested for recovery, amounts reported as misappropriation.
- g. Progressive pendency position of audit reports, paras, amounts held under objection, amounts suggested for recovery, amounts identified as misappropriation.
- h. Age wise breakup of the pending audit reports and paras.

## **10.2 Audit Monitoring and Follow up Cell:**

For effective monitoring and follow up of the Audit Reports there shall be an Audit Monitoring and Follow up Cells (AMFC) at the State and Divisional Level.

The responsibilities of AMFC shall be :

- i. Create a data base of Audited Entities, Audit Inspection Reports (AIR) and settlement of Audit paras in electronic form.
- ii. Ensure that Audit Inspection Reports, after being approved for issuance , are promptly transmitted to the audited entity in both hard and soft form.
- iii. Monitor reply of AIRs from the Audited entities and issue periodic rejoinders in case of default.
- iv. Follow-up action on the Audit Observation at various levels.
- v. Frame a periodical schedule of Exit meetings with Department Heads/DDOs.
- vi. Compile Draft Audit Reports for submission to the Finance Department.

### **10.3. Annual Audit Report.**

- i. The Deputy Director shall also prepare preliminary Draft Annual Report at the close of financial year containing department/DDO wise details of outstanding audit paras by or before 31<sup>st</sup> May every year.
- ii. The Directorate shall hold exit meeting with Head of Departments along with concerned DDOs on preliminary Annual Audit Report prepared by provincial Deputy Directors. Such exit meetings shall be attended by provincial Deputy Directors invariably. Director Finance/Financial Advisors of concerned departments shall be invited as Special Invitees in such exit meetings.
- iii. On the basis of discussion in exit meeting leading to settlement of audit observation, the Directorate shall compile final Audit Report for onward submission to the Finance Department.

### **10.4. Internal Audit Review Committee<sup>1</sup>.**

I. There shall be standing Internal Audit Review Committee (IARC), constituted vide Government order No 160-FD of 2014 dated 03.07.2014, with the following compositions<sup>1</sup>:

- |   |                  |
|---|------------------|
| 1. Principal Secretary to Govt. Finance Department  | Chairman         |
| 2. Director General, Accounts and Treasuries J&K  | Member           |
| 3. Special Secretary to Govt. Finance Department  | Member           |
| 4. HOD of the concerned department  | Member           |
| 5. A representative from the concerned administrative department (not below the rank of Additional Secretary) | Member           |
| 6. Director, Audit and Inspections J&K  | Member Secretary |

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<sup>1</sup> Government order No 160-FD of 2014 dated 03.07.2014

The terms of reference of committee shall be as under:

- i. The annual draft report containing the audit paras pertaining to various departments/Public Sector Undertakings/autonomous bodies etc. which could not be settled at the level of Director, Audit & Inspections shall be prepared by him for every financial year ending 31<sup>st</sup> of March and submit the same to the Chairman of Audit Review Committee.
- ii. The Chairman of the Committee shall call periodical meetings to review the audit paras and discuss the same with the concerned HOD and a representative of the Administrative department not below the rank of Additional Secretary.
- iii. The Committee shall be competent to call for the records from the department/organization concerned as it deems fit.
- iv. The Committee shall be competent to drop the paras where it is satisfied with the replied furnished by the concerned departments/organizations.
- v. Where the Committee is not satisfied with the replies of the department/organization, it shall be competent to recommend corrective/punitive measures which may include disciplinary action also.
- vi. The committee shall submit an annual report to the Chief Secretary indicating the number of paras dropped and the number of paras where disciplinary action has been recommended.

II. Administrative Secretary Finance Department, as Chairman of Internal Audit Review Committee (IARC), may call periodical meetings to hold discussions on outstanding audit paras as incorporated in Annual Audit Report.

III. The Committee shall drop the paras where it is satisfied with the replies forwarded by the department and recommend corrective / punitive measures which may include disciplinary action against delinquent officer.

# 11. Capacity Building

## 11.1. Induction and Departmental Orientation

- i. After joining in the Department, an induction training programme may be conducted by the Directorate of Audit & Inspections for officers posted in the Audit Organization. As part of Induction Program, officers may be oriented on existing policies, procedures, manuals, schemes, orders/circulars of the Department.
- i. Following subjects may be given focused attention:
  - a. Professional audit standards, process and basic audit techniques;
  - b. Audit Manual issued by the Finance Department;
  - c. Usage of Computer Assisted Audit Techniques (CAATs).

## 11.2. Skill Enhancement on Periodic Basis

Continuous upgrading of knowledge levels is also required for conducting effective Audit. Frequent skill development training may be conducted by the Finance Department / Audit organization in collaboration with institutes like Accountancy Training Institutes, Institute of Management & Public Administration (IMPA), Regional Training Institute of Accountant General, J&K and National Institute of Financial Management. The Skill Development Programme may include:

- i. Frequent workshops/ trainings on Internal Audit/processes functions;
- ii. Trainings/Seminars on latest developments in audit areas, acts, rules, regulations etc.;
- iii. Trainings on modern audit tools and techniques;
- iv. IT skills training on use of software including using formulas in excel for analysis or any other audit related analytical software etc.;
- v. Trainings on report writing and documentation;
- vi. Prevention and detection of irregularities/frauds etc;
- vii. Any other training programs relating to Internal Audit.

**11.3** The Finance Department may conduct Annual or Bi-annual state level workshop for auditors with focus on latest developments and implications of the Acts, Rules, Regulations pertaining to the audit functions and practical experience of experts in the field. Govt. may identify resource persons within the departments and may also hire an external agency for conducting training programmes for specific subjects.

# Annexure I

## CHECK LIST FOR AUDIT & INSPECTIONS OF DRAWING & DISBURSING OFFICES (DDOs).

### Introduction

The checklist is based on control points that have been divided into sections and provide a holistic view of the performance of the DDO. The check list brings out the possible risks / irregularities that may occur and various rules and procedures that mitigate the occurrence of such risks / irregularities. The rules and orders relating to the control points have thus been quoted in the check list for easy reference and better understanding of the internal audit function in the organization. These checks are tools to encourage DDOs to improve their performance and achieve 100% in terms of quality and excellence.

**Disclaimer:** However, checklists are only facilitating tools for internal audit and their use cannot substitute for a sound understanding of auditing tasks and protocol, nor reduce the responsibility of the auditor in conduct of individual audit engagements. It is to be understood that these checks are not intended to dilute the responsibilities of DDO/auditor in any way.

**Note:** *For guidance of Auditors a comprehensive checklist of documents / procedures to be examined is given at Annexure I. The Auditors shall use their professional acumen to decide which of the documents or which other documents are required to be examined in a particular office.*

**Checklist for inspection of DDOs****( Refer Note at Para 3 above)**

S.No	Checks	Response			Observation	Status
		Yes	No	NA		
<b>Section-I: Cash Book</b>						
1.	All pages of the cash book machine numbered and certificate of count recorded on the 1 <sup>st</sup> page?					
2.	Monthly closing of cash book done on the last working day of the month or by the 1 <sup>st</sup> working day of the next month and cash balances verified by Head of Office (DDO)?					
3.	All cuttings & Corrections in cash book made in red ink and attested by the Head of Office?					
4.	Cash receipts issued in relevant form (machine numbered serially) and receipts entered in Cash Book?					
5.	Receipts in the form cheques or DDs entered in the relevant register and credited in to Government accounts?					
6.	Blank receipt books kept under lock and key in the personal custody of DDO, counterfoils kept in safe custody of DDO till they are destroyed after the prescribed time limit and stock register of receipt books maintained and stock verified once a year?					
7.	Receipts not utilized to meet departmental expenses except where it is specifically permitted by the authorities?					
8.	Money received as receipts are promptly remitted into Treasury?					
9.	Cash not drawn in anticipation of demand?					
10.	Proper acquaintance Roll / register maintained?					
11.	Register of Advances maintained?					
12.	Government money and private money kept separately?					
13.	Surprise check of cash book conducted by Head of Office?					

14.	Permanent advance with the DDO is the minimum required for smooth functioning? (Check cash book for amounts spent and recouped from imprest during the year)					
15.	Register of non Government Money maintained?					
16.	Payment made from Permanent Advance are being recouped promptly?					
<b>Section-II: Establishment Register, Service Books etc.</b>						
17.	Establishment Register showing the sanctioned strength of staff for the office maintained in prescribed form ?					
18.	All entries on 1 <sup>st</sup> page of Service Book completed?					
19.	Service Books verified by Head of Office every year?					
20.	Certificate of service verification recorded in Service Book each year by the Head of Office?					
21.	Details of family obtained, accepted and pasted in Service Book?					
22.	Pay fixation noted in Service Book are correct?					
23.	Service Books do not contain overwriting and all corrections are neatly made and properly attested?					
24.	GPF Account Number / PRAN/CPIS Number recorded in the Service Book ?					
25.	Options, Pay fixation, Period of Suspension etc. recorded in Service Book?					
26.	Leave Account in Service Books are complete and upto date ?					
27.	Leave Account for Child Care Leave maintained properly ?					
28.	A register for keeping note of Nomination is maintained?					
29.	A register of Superannuation showing names of all members of staff working in the office on any date is maintained in a suitable form ?					
30.	List of persons due for retirement within 24 to 30 months prepared in January and July each year?					

31.	Particulars obtained in relevant form from the retiring official before date of retirement?					
32.	Register of Service Books maintained?					
33.	Copy of Service Books given to Government Servant and updated in January each year?					
<b>Section-III: Record Maintenance, Property Returns and Right to Information Act.</b>						
34.	Specified period of retention records followed?					
35.	Procedure for indexing, maintaining and sending records to old records room adopted?					
36.	Old records are properly protected from damage?					
37.	Records are catalogued and indexed in such a manner and form that it may facilitate provisions of information under RTI Act?					
38.	Public Information Officers and Assistant Public Information Officers have been designated?					
39.	Officers who are directly or indirectly involved in the implementation of the provisions of the RTI Act have been properly trained?					
40.	Transfer of RTI applications which requests for information held by another Public Authority is made within five days from receipt of application and the applicant informed of the same?					
41.	Time limit for disposing off RTI applications strictly adhered to ?					
42.	Prompt compliance to audit paras and regular correspondence for early settlement of objections undertaken?					
43.	Proper record of various audit objections is being maintained?					
44.	Property Returns have been received from the concerned Officers every year?					
<b>Section-IV: Pay Bill Register.</b>						
45.	LPC in prescribed form and details noted in Pay Bill Register?					
46.	Income tax deductions accurate?					
47.	Form 16 or 16A as the case may be issued in time?					

48.	Attachment of deduction from salary on court orders is made strictly according to the procedures laid down in Receipt & Payment Rules?					
49.	The amount recovered on orders of court is not shown in pay bill but treated as ' <b>outside deduction</b> ' ?					
50.	All allowances such as HRA, CEA, Transport Allowance, etc. paid as per extant rules and no overpayment has been made?					
51.	Pay in Pay Bill Register tallies with pay recorded in Service Book ?					
52.	Income Tax deductions made proportionately from beginning of financial year as per IT Act as amended from time to time?					
53.	Sanctions, payments and recoveries etc of long term advances entered in relevant columns under proper attestation?					
54.	Quarterly IT returns in Form 24 submitted by the DDO in time through on line mode?					
55.	Record of deductions on account of attachment orders received are kept in Register of Court Attachment in prescribed form?					
56.	Absentee statement attached with pay bills?					
57.	Amount of NPS subscriptions recovered from the salary bills shown under the " <b>recoveries</b> " column of the salary bill?					
58.	Bills of the office are checked independently by a person other than the one responsible for preparation of bills?					
<b>Section-V: TA, LTC and OTA.</b>						
59.	Details of LTC availed by a Government Servant recorded in his Service Book?					
60.	Earned Leave Account debited in case of encashment of leave at the time of availing of LTC?					
61.	TA claims entered in TA Roll register in detail?					

62.	TA claims are countersigned by the Controlling Officer in all cases?					
63.	Amount paid on account of Leave Encashment at the time of availing LTC has been taken as income while calculating income tax of the individual?					
64.	LTC claims submitted within 3 months and advance adjusted within one month?					
65.	2 <sup>nd</sup> TA advance not sanctioned till 1 <sup>st</sup> is adjusted except in cases where the G. Servant has to undertake the second journey within short period of completion of the first?					
66.	In cases where LTC adjustment bills were not submitted in time, the whole amount of advance has been recovered in one lump sum along with panel interest from the date of drawal of advance?					
67.	Overtime Register maintained properly?					
<b>Section-VI: Contingent Expenditure, Receipts and Reconciliation.</b>						
68.	Register of contingent charges maintained in prescribed form?					
69.	Contingent expenditure not incurred in excess of Financial Powers delegated?					
70.	Electricity and water charges recovered from other parties / residential accommodation to whom electricity and water have been supplied by the department and paid for by the department?					
71.	If office accommodation is hired, a certificate of reasonableness of rent has been obtained from Estates / Rent Assessment Committee?					
72.	Sanction of Competent Authority for hiring of accommodation and of rent to be paid has been obtained?					

73.	No portion of private building hired by Government for accommodation of Government Offices and for which expenditure was incurred, was utilized for residential or other purpose during the period and if it was utilized for residential or other purpose the share of expenditure required to be recovered for the portion of the buildings used for residential or other purpose during the period for which the charges were paid, has been recovered from the persons from whom it was due?					
74.	Register of sanctions maintained separately for Capital and Revenue expenditure and all financial sanctions recorded therein?					
75.	Monthly Reconciliation of the expenditure figures carried out with the concerned Controlling Officers figures separately for Capital, Revenue and special services for which budget provision is separately sanctioned?					
76.	Reconciliation Statement sent to the HOD in the prescribed form?					
77.	All sanctions for expenditure express the amount in figures and words and carry individual dispatch numbers?					
78.	All sanctions for expenditure indicate the details of appropriations and budget provisions?					
79.	Payment of Telephone, Electricity and other utilities bills have been made by due date without payment of surcharge?					
<b>Section-VII: Staff Car</b>						
80.	Log books for Staff car maintained in proper form?					
81.	Log books are scrutinized by the head of office and closed at the end of each month?					
82.	Consumption of vehicle has been obtained from State Motor Garages ?					

83.	Cost of repairs / replacement is not on high side and replacement of same parts is not frequent?					
84.	Register of repairs and replacements indicating the cost and dates maintained properly?					
85.	The reasons for frequent repairs / breakdown of vehicles are not due to negligence on the part of the drivers?					
86.	Register showing the cost of petrol, Mobil Oil etc. consumed and all incidental expenditures incurred maintained properly?					
87.	Average monthly consumption of fuel is calculated at the end of each month and this average is not on the higher side?					
88.	No cleaner has been appointed for cleaning of the staff car(s) and no extra allowance is paid to staff car drivers for cleaning and washing of the car(s)?					
89.	Staff Cars are not parked at the residence of the drivers or of the Officers?					
90.	Non-duty journeys not performed in Staff cars and if they were performed due to unavoidable circumstances, the amount involved in private journeys undertaken in the Staff Car has been recovered from the concerned officials as per rules?					
<b>Section-VIII: Cheque Books and issue of Cheques by CDD.</b>						
91.	Instructions regarding custody of cheque books diligently observed by the CDDO?					
92.	Loss of cheque Book or form intimated to bank promptly?					

93.	Monthly reconciliation of cheques en-cashed is being carried out by the DDO?					
94.	Register of Requisition of Demand Drafts maintained in prescribed form?					
95.	No revalidation of time barred cheques has been carried out by the DDO?					

**Section-IX: General Provident Fund, Medical Reimbursement**

**General Provident Fund**

96.	GPF accounts of employees are maintained properly as per rules?					
97.	The details of the GPF advances / withdrawals have been forwarded to the concerned G.P.Fund office every month, through a statement of the amounts paid and including the particulars of the sanction, names of the subscribers, their account numbers, etc?					
98.	Subscriber has been allowed to reduce subscription only once a year and / or enhance subscription only twice a year within maximum and minimum limits?					
99.	Special Advance sanctioned by the Competent Authority only?					

**Medical Reimbursement**

100.	Medical claims allowed only as per provisions of medical attendance Rules?					
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**Section-X: Works.**

101.	No Work has been commenced or liability incurred in connection with it until administrative approval obtained from the appropriate authority in each case?					
102.	No Work has been undertaken before issue of Technical sanction?					
103.	Sanction to incur expenditure on works/ repairs has been obtained from the competent authority?					

104.	Estimates containing the detailed specifications and quantities of various items have been prepared on the basis of the Scheduled of Rates maintained by CPWD or other Public Works Organization?					
105.	e-Tenders invited and processed in accordance with standing rules?					
106.	For manual and on line bids, comparative statement incorporating the rates and required particulars of each tender is correctly prepared for evaluation of tender rates to determine the lowest tender value, under the seal and signatures of tender evaluation Committee ?					
107.	Quantity of each item of work has been executed as per the allotment and rates allowed with the rates as per contract agreement?					
108.	All recoveries including cost of material, advance payment, hiring charges, taxes have been deducted as per prescribed rules?					
109.	Pre date and post date photograph of the sight?					
110.	In case of delay in completion of work attributed to the contractor, penal action has been initiated?					
111.	Test check certificate have been recorded in bills and M. Book?					
112.	Quality certificate of materials used by the contractor from AEE at site?					
113.	Other terms & Conditions laid in the NIT's Allotments & Agreements are being adhered to in letter & spirit?					
<b>Section-XI: Procurement Procedures (Goods).</b>						
114.	Specifications, quantity and quality clearly spelt out in the procurement orders ?					

115.	Specifications meet the needs of the organization without including superfluous features?					
116.	Quantity specified is not in excess of requirement?					
117.	Demand of goods has not been divided into small quantities to make piecemeal purchases to avoid obtaining sanction of higher authority?					
118.	GeM portal used for direct online purchases upto Rs 25,000 through any of the available supplier GeM meeting the requisite quality, specification and delivery period?					
119.	GeM portal used for direct online purchases above Rs25,000 and upto Rs 5,00,000 through the GeM Seller having lowest price amongst the available Sellers(excluding automobile) of at least three different manufactures , on GeM meeting the requisite quality, specification and delivery period?					
120.	GeM portal used for direct online purchases above Rs 5,00,000 through the supplier having lowest price meeting the requisite quality, specification and delivery period after mandatorily obtaining bids, using online bidding?					
121.	Purchases (if any) outside GeM, made strictly as per relevant GFR Rules?					
122.	Late bids have not been considered ?					
123.	GFR 2017 has been strictly adhered to all procurements?					
124.	Bidders not permitted to alter or modify their bids after expiry of deadline for receipt of bids?					
125.	Contract has been awarded to the lowest evaluated responsive bidder?					

126.	All sophisticated and costly equipment and machinery are covered under Maintenance Contract with the supplier or any competent firm?					
127.	Advance payment and part payments are made to suppliers only as regulated under Rules?					
128.	Income Tax from contractors / suppliers, where applicable, has been deducted at the prescribed rate?					
129.	Income Tax returns filled in the prescribed form in time?					
<b>Section-XII: Inventory Management.</b>						
130.	Adequate arrangement has been made for safe custody and proper storage of goods and materials?					
131.	Stock Register of Consumables maintained properly?					
132.	Stock Register of Fixed Assets maintained?					
133.	Physical verification of Fixed Assets done at least once a year?					
134.	Physical verification of Library Books done at least once a year/once in three years?					
135.	Prompt action has been taken in case of discrepancy, shortages, damages, unserviceable goods etc identified during physical verification?					
136.	Obsolete or unserviceable goods such as expired medicines, food grain etc which are hazardous or unfit for human consumption has been destroyed immediately by adopting suitable mode to avoid any health hazard, pollution or misuse of such goods?					
137.	Formal sanction of competent authority has been obtained in respect of all losses and losses written off?					

138.	Obsolete or unserviceable items have been identified and a list of such items prepared for disposal?					
139.	Disposal of surplus / Obsolete goods through advertised tender or public auction?					
<b>Section-XIII: New Pension Scheme</b>						
140.	New employees registered with NSDL and NSDL notified about the changes?					
141.	Separate Pay Bill Register is being maintained for Government servants who joined service on or after 01.01.2010?					
142.	Unique 16 digit PRAN number noted in PBR?					
143.	Alphabetical Index Register indicating the PRAN numbers allotted to each subscriber maintained?					
144.	In case of transfer of subscriber to another office, details of PRAN number given in the LPC?					