INDIAN AUDIT AND ACCOUNTS DEPARTMENT

# GUIDELINES FOR CERTIFICATION AUDIT OF ACCOUNTS OF

# PANCHAYATI RAJ INSTITUTIONS

Comptroller and Auditor General of India

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# Preface

The Constitution 73rd Amendment Act, 1992 established a three-tier Panchayati Raj System in the country and provided constitutional status to them. The Constitution envisages a key role to the Panchayati Raj Institutions (PRIs) related to the 29 functions such as education, health and agriculture, mentioned in the Eleventh Schedule of the Constitution. The State Governments are expected to devolve funds, functions and functionaries to the PRIs to carry out these functions, by passing appropriate legislation. Majority of the State Governments have made considerable progress in setting up of PRIs and have consequently devolved administrative and financial powers to the PRIs.

This guide to certification audit describes the general principles and underlying concepts of certification audit of accounts of Panchayati Raj Institutions and the audit methodology to be adopted.

These guidelines are intended only for use by the external auditors faced with the task of certifying financial statements and should be read as a supplement to the audit manuals issued by the Comptroller and Auditor General of India and financial accounting rules issued by State Governments locally.

It is hoped that this guide would bring greater transparency in accounts and prove useful to the auditors entrusted with the audit of PRIs.

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**New Delhi**
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# Contents

# Introduction

These guidelines have been prepared in the context of requirements for certification of accounts of Panchayati Raj Institutions. The Panchayati Raj Institutions are to maintain their accounts on cash basis to include only the transactions which actually take place within the period covered by the accounts. As such, these guidelines mainly deal with certification of the Receipts and Payments Account which shows the opening balances, lists the amounts received and paid in the period of account and shows the balance on the last day of the account. The accounts of the Panchayati Raj Institutions also give the details of sums expended on various functions, programmes and schemes compared with the allocations.

As per Articles 243 J and 243 Z of the Constitution, the State may by law make provision for maintenance of accounts of PRIs/ULBs and their audit. In most of the States the Director Local Fund Audit (DLFA) or a similar statutory authority has been empowered to audit the accounts of PRIs. As per the recommendations of the XIth Finance Commission and Guidelines issued by Ministry of Finance for utilization of Local Bodies grants, the C&AG is to exercise technical guidance and supervision over the DLFA/any other authority vested with audit of PRIs.

One of the important aspects of audit by DLFA would be to certify the accounts prepared by PRIs to ensure that the transactions relating to receipts and expenditure have been recorded truthfully or faithfully to give a true and fair view of accounts. Accordingly these guidelines given in a readily accessible form, would serve as valuable work of reference for DLFAs in the certification of accounts of PRIs.

# CHAPTER–I

## Panchayati Raj Institutions – Background

1.1 Constitution 73rd Amendment Act, 1992 enacted on 24th April 1993 changed the role of Panchayati Raj Institutions (PRIs) and provides Constitutional status to these institutions. Part-IX inserted in the Constitution contains Articles 243 to 243-O relating to Panchayats. These enactments are in the nature of basic provisions which are to be supplemented by laws made by the respective State Legislature, which will define the powers and functions of the Panchayats.

1.2 Part-IX of the Constitution envisages a three-tier system of Panchayats namely, (a) Gram Panchayat at the village level; (b) Zilla Parishad at the district level; and (c) the intermediate Panchayat Simiti/Taluka Panchayat between the village and the district Panchayat.

1.3 Article 243-G of the Constitution provides that the States may, by law, endow the Panchayats with such powers and authority as may be necessary to enable them to function as institutions of self-government and to prepare:

(a) plans for economic development and social justice; and

(b) their implementation including those in relation to the matters listed in the Eleventh Schedule inserted by the $73^{rd}$ Amendment.

1.4 The Eleventh Schedule of the constitution lists 29 functions comprising inter-alia, land improvement, minor irrigation, fisheries, education, rural housing, social forestry, drinking water, roads, rural electrification, etc. , which have to be devolved on the PRIs by the State Government.

The Eleventh Schedule, thus, distributes powers between the State Legislature and the Panchayats. It, however, does not automatically confer any powers on PRIs or entrust them with the responsibility for the objects mentioned therein. The State Legislature has been empowered by $73^{rd}$ Amendment to decide and confer powers and/or responsibilities on PRIs.

1.5 As per Article 243-H of the Constitution, State Legislature has been empowered to enact laws:

- to authorise a Panchayat to levy, collect and appropriate some taxes, duties, tolls and fees;
- to assign the Panchayat, some taxes, duties and tolls levied, and collected by the State Government;

- to provide for making grants-in-aid to the Panchayats from the Consolidated Fund of the State; and
- to provide for constitution of such funds for Panchayats for crediting all money received by or on behalf of Panchayats and also the withdrawal of such money therefrom.

1.6 Within one year from 25 April 1993, the date on which Constitution 73rd Amendment came into force, and afterwards every five years, the State Government shall appoint a Finance Commission to review the financial position of the Panchayats and make recommendations as to (i) the distribution between the State and the Panchayats of the net proceeds of taxes, duties, tolls and fees leviable by the State which may be apportioned between them and how allocation would be made among various tiers of Panchayats; (ii) what taxes, duties, tolls and fees may be assigned to the Panchayats; and (iii) grants-in-aid to Panchayats. The report of the Commission together with a memorandum of action on it shall be laid before the State Legislature.

1.7 The Act also makes a provision for a Gram Sabha with in the area of Panchayat at the village level, to exercise such powers and perform such functions as the Legislature of the State may, by law, provide.

1.8 With the Constitution 73rd Amendment and the State Acts enacted thereafter PRIs were revived. The State legislation carried through in conformity with the Amendment replaced the existing Panchayati Raj system in almost all the States/UTs with three-tier institutional structure and incorporated all the features of PRIs enshrined in the Amendment. In most of the States Finance Commissions have been set up. Several States have vested Gram Sabha with the powers to consider annual budget, annual accounts, administrative reports and audit notes of Gram Panchayats, apart from identification of schemes. The PRIs will be required to adopt an annual report, which includes the financial statements. The purpose of annual report is to compare the institutions actual performance for the year against the forecast in the annual plan.

1.9 The State Governments transfer funds to the PRIs, under various heads of account in the revenue and loans section in the Consolidated Fund of the States. The State Governments are providing major part of funding to PRIs for developmental programmes and schemes of social justice hence their accountability has increased.

1.10 Article 243-J of the Constitution expect the States to make provisions with regard to the maintenance of accounts by the

Panchayats and their auditing. The accounts and audit mandate, thus, originate in a Legislative Statute.

1.11 Accounts of PRIs are based on the cash basis of accounting as followed in Governmental accounting system. The accounts represent actual cash receipts and payments during the period of accounts, which is a financial year (1st April to 31st March). As a consequence, accruals of amounts due to or owing by the institutions are not shown in the financial statements, but are kept track of by way of subsidiary records.

The important feature of the accounting system is integration of budgeting, accounting and reporting. The PRIs adopt an annual budget. There is a strong relationship between accounting and budgeting and the accounting system provides the basis for appropriate budgetary control. The method of budgeting and accounting under the service heads is not designed to bring out the relation in which these institutions stand to their material assets in use or their liabilities due to be discharged at more or less distant date. The institutions, therefore, do not prepare balance sheet. The record of assets is, however, kept in the institution's records.

Given the Panchayati Raj environment and user needs, the objective of financial reporting by PRIs assists in fulfilling their duty to be publicly accountable and enables users to assess that accountability.

The Receipts and Payments Account drawn up by PRIs shows the amounts received and paid in the period of account, classified against various functions listed in the Eleventh Schedule, as also the opening balance and the balance on the last day of the account. The Receipts and Payments Account incorporates or is accompanied by the Appropriation Accounts which show the amounts spent in the period of account (financial year) on various functions, upto scheme level (sub-head), as compared with the amounts granted through the annual budget and the variance. The financial reporting thus provides information about the financial position of the institution and determines and demonstrates budgetary compliance.

# CHAPTER–II

## Certification Audit and Its Planning

2.1 Certification audit can be described as an independent examination of auditee's accounting records by an auditor appointed to certify the financial statements which the auditee is required to present. It has, therefore, to be distinguished from other types of audit. The definition of the certification audit provided by the Auditing Practices Committee of the UK accountancy bodies states:

"the independent examination of and expression of an opinion on, the financial statements of an enterprise by an appointed auditor in pursuance of that appointment and in compliance with any statutory obligation."

2.2 The primary objective of certification audit is "expression of an opinion" on the financial statements presented by the auditee and audit has to be planned to enable the certificate to be given. The factors, which govern the particular audit being undertaken need the auditor to comply with the terms of his appointment and with any governing legislation; and with prescribed auditing standards. The audit will involve judgements and decisions, taken at appropriate level, in accordance with the laid down policies particularly in the matters of materiality.

2.3 In the conduct of audit, duties and obligations are placed on the auditor by legislation and through the professional status of the audit organisation and the certificate given to the accounts carries with it an assurance that the audit has been carried out in accordance with the generally accepted audit standards.

## 2.4 Audit Planning

(a) The auditor should adequately plan, control and record his/her work. The planning should ensure that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner. The work of audit staff at each level and audit phase should be supervised during the audit.

(b) The planning of audit follows familiarisation with the auditee's financial and accounting system and control procedures. It would involve:

- examining the legislation which affects the auditee i.e. legislation that governs the PRIs;
- confirming the scope of audit and the authority for it; and
- acquainting with the form of accounts and disclosure requirements.

The familiarisation gives auditor the essential background information about the auditee while planning and carrying out audit.

(c) The auditor, in determining the extent and scope of the audit, should study and evaluate the reliability of internal controls.

(d) In conducting regulatory audit, a test should be made of compliance with applicable laws and regulations. The auditor should design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities and illegal acts that could have direct and material effect on the financial statements or the results of regularity audit. The auditor should be aware of the possibility of illegal acts that could have an indirect or material effect on the financial statements or results of the regularity audit.

Any indication that an irregularity, illegal act, fraud or error may have occurred which could have a material effect on the audit should cause the auditor to extend procedure to confirm or dispel such suspicions.

(e) In regularity audit, auditor should analyse the financial statements to establish whether acceptable accounting standards for financial reporting and disclosures are complied with. Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on financial statements.

2.5 The auditor's opinion is based on evidence and in order to determine the reliability of the financial statements, the auditor would require substantive evidence which is sufficient, relevant and reliable and may be acquired by:

- examining vouchers, statement of receipts, pay roll records, works records, etc. against the audited institutions books of accounts;
- checking of accuracy of computations;
- observation of procedures and operations like stock taking;
- obtaining independent corroboration of figures like bank reconciliation statements/treasury plus and minus memorandum;
- analysing figures in the accounts to see whether relationship between them is consistent.

2.6 An audit is only as good as its documentation. Documentation is the record of the audit and, therefore, must provide an accurate record of the work, which has been done. It will confirm and support the auditor's opinion and report, serve as evidence of the auditor's compliance with auditing standards and provide evidence of work done for future reference.

2.7 In order to support opinion on the Receipts and Payments Account, the auditor's objective should relate to:

- Completeness – all transactions relevant to the year of account have been recorded;
- Occurrence – all recorded transactions properly occurred and were relevant to the year of account;
- Disclosure – the recorded transactions have been properly classified and disclosed where appropriate;
- Regularity – the recorded transactions are in accordance with the legislation and other specific provisions.

2.8 Procedure at the end of the audit should ensure that:

- the account has been prepared in the correct form and all disclosure requirements have been met;
- all information has been obtained to enable the auditor to arrive at the audit opinion and determine the form of the certificate;
- all working papers have been documented and are adequate to support the audit opinion.

2.9 The auditor must reach an overall conclusion as to whether the account can be given an unqualified audit certificate. In particular auditor has to consider whether:

- the accounts comply with all statutory requirements and are prepared in accordance with relevant accounting rules;
- the view presented by the financial statements as a whole is consistent with his/her knowledge of the auditee institution;
- appropriate assurance has been obtained from the internal auditors in respect of the work done by them, where reliance has been placed on them.

# CHAPTER–III

## Audit for Certification of Annual Accounts

3.1 The certification of accounts shall involve verification of accounts with reference to the books of original entry to see if the accounts are in accordance with the books. Inherent in the process of audit of annual account is the assumption that the transactions appearing in the books of original accounts pertain to the audited institution, represent legitimate charge and the books of accounts themselves record fully and faithfully all transactions pertaining to the audited institution for the period of account and nothing is left out. This can be examined by test check of transactions. (For detailed instructions on audit/test check of transactions refer to Manual of Audit for PRIs issued by C & AG of India)

3.2 The audit certificate relates to the accounts audited and covers, therefore, receipts as well as payments. The certificate given to cash accounts - Receipts and Payments Account states expressly the auditors opinion as to whether the account properly presents the receipts as well as the payments.

3.3 The receipts mean the inflow in the various forms say cash, cheques, drafts, etc. Apart from the receipts which may be incidental to the activities undertaken by the Panchayati Raj Institutions, their receipts are through taxes, duties, fees, tolls and levies.

It is essential to make sure that:

- all sums due by way of taxes, duties, fees, tolls, levies are collected in accordance with the applicable laws and regulations; and
- all money received are deposited into account of the institution in the accredited bank/treasury without delay and are properly accounted for.

3.4 In the case of expenditure, lest there is mis-statement in the accounts, it is essential to make sure that:

- all expenditure relevant to the year of account is recorded;
- recorded payments did in fact properly occur and were relevant to the year of account, payments were not recorded for goods and services not actually received or payments to persons other than the proper payee were not made;
- recorded payments are stated at correct value and did not include payments not in accordance with supporting information or made at an incorrect amount;
- recorded payments were in conformity with the legislative intention and in accordance with the provisions of rules and due authorization; and
- recorded payments are properly shown in accounts; i.e. correctly classified under the relevant head of account.

3.5 Cash book constitutes the most important book of original entry. The auditor should check cash book to ensure that:

(i) all receipts have been taken into account in full;

(ii) no improper or fraudulent payments have been made;

(iii) all receipts and legitimate payments have been accordingly recorded;

(iv) the balances reflected in the cash book have been worked out correctly from time to time; and

(v) periodical surprise check of cash balances has been carried out.

3.6 The auditor will broadly cover vouching the entries in the cash book and other books of original entries. It would be ascertained that the books are correct to the best of his information and the auditor shall obtain this information from the documents from which the books have been written up.

3.7 The vouching of payments will include examination of the authority for payment, reconciliation with liabilities discharged or assets acquired, verification of rates, quantum of payment and tracing of acknowledgement by the payee. Vouching of receipts will aim at ensuring that value for supplies and services have been received, all receipts have been fully brought to account immediately and the control system does not leave scope for fraud or defalcation. Check of classifications for both receipts and payments is also an important aspect of vouching.

3.8 In addition to the above checks, the following points shall be kept in view while auditing accounts:

(i) check opening balance;

(ii) look for exceptional transactions which have resulted in receipts or payments of material amount in the accounting period;

(iii) vouch all capital expenditure;

(iv) check bank reconciliation procedure and obtain reconciliation certificate from bankers;

(v) check classification between revenue and capital;

(vi) make sure that all receipts have been brought to account;

(vii) ascertain the system of stock taking and review the same; and

(viii) ascertain the existence of a sound system of internal control.

3.9 The auditor shall examine the system of internal control in order to assess its efficacy before determining the extent or quantum of check and planning the audit. The following aspects would need to be noted by the auditor:

(i) accounting of cash receipts and payments;

(ii) realization of receipts and avoidance of loss due to negligence, delayed action, etc.;

(iii) sanctions to expenditure and watch over the progress of expenditure vis-à-vis budget allocations;

(iv) purchase, accountal, issues, utilization and physical existence of stores and stock;

(v) utilisation of Government assistance for the specified purposes; and

(vi) execution of construction programmes.

3.10 Audit alertness is one of the most important factors in detecting frauds. Auditor has to be alert to the situations or transactions that would be indicative of fraud, abuse or illegal acts and if such evidence exists, the auditor has to be on the guard for possible irregularities such as:

- ♦ unauthenticated erasures and alterations of accounting records;
- ♦ use of photocopies of documents for payments (may indicate duplicate payment);
- ♦ missing vouchers/counter-foil for departmental receipts issued;

- unusual accounting entries;
- discrepancy between control total and subsidiary records;
- manipulation of accounting records to conceal misappropriation of receipts;
- retention of heavy cash balances and undue delay in depositing cash receipts into the bank(s)/treasury.

3.11 In so far as the frauds and other types of irregularities which are not due to a bona-fide error of procedure or judgement, the auditor shall communicate the findings to the auditee, preferably in writing and shall refer to these communications in his report on compliance. Auditor should document in his/her working papers all communications to the audited institution about fraud, illegal acts and other non-compliance. The audited institution is responsible to take timely action and appropriate steps to remedy fraud or illegal acts that are reported by the auditor to it. When fraud or an illegal act involves assistance received directly or indirectly from another agency or government (for example Central Government, State Government) it is auditor's duty to report it directly to that agency/government, if the audited institution fails to take remedial steps.

# CHAPTER–IV

## Certificates and Standard form of Audit Certificates

### 4.1 Auditors' certificate

Auditor's Certificate is in two parts, given in separate paragraphs:

- the first part would provide information about the scope of audit;
- the second part would give the auditors' opinion on accounts.

### 4.2 Scope

The paragraph on scope should identify the financial statements, the legislation or other authority providing for the audit and the auditing standards or practices followed in conducting audit, thus providing the reader with an assurance that the audit has been carried out in accordance with the generally accepted principles, procedures, auditing standards and will be along the following lines:

"I have examined" (or, if required, "I certify that I have examined") "the ………………." (indicate financial statements, for example Receipts and Payments Account) "in accordance with the ………………." (Relevant statutory authority or legislation) as per the auditing standards for the Panchayati Raj Institutions prescribed by the C & A. G of India).

4.3 In case the auditor has not been able to obtain all the information and explanations required to carry out the audit satisfactorily, he/she must say so. This is a limitation on the scope of the audit and would cause the auditor not to be certain about his/her opinion.

### 4.4 Qualified and Unqualified Opinion

The auditor has to decide at the conclusion of his/her audit whether he/she can give an unqualified opinion or should qualify his/her opinion. The opinion paragraph should give:

- ♦ the name of the audited entity to which accounts/financial statements relate;
- ♦ the period to which the accounts/financial statements relate;
- ♦ give the authority, if any, under which the accounts/financial statements have been prepared by referring to the governing legislation and the directions made thereunder.

4.5 If the auditor comes to a conclusion at the end of his/her audit that the accounts/financial statements are reasonably reliable, the auditor gives an unqualified opinion. The meaning of reasonably reliable shall be considered in relation to the materiality of errors noticed. The unqualified opinion does not also imply that there are no errors in the accounts/financial statements.

4.6 While giving an unqualified certificate the word "correct" would not be used. Room for the existence of immaterial error, which does not affect the overall reliability of the accounts, is implied in the opinion by using terms like "properly presents" and "true and fair view".

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

(a) The financial statements have been prepared using acceptable accounting basis and policies which have been consistently applied.

(b) The statements comply with statutory requirements and relevant regulations.

(c) The view presented by the financial statements is consistent with the auditor's knowledge of the audited institution.

4.8 The actual wording for unqualified opinion is explained here below:

**For Accounts maintained on Cash Basis**

**(a) Receipts and Payments Account**

The paragraph on scope of audit followed by:

"In my opinion the accounts/financial statements properly present the receipts and payments of ……………………" (name of the PRI-ZP/PS/GP) "for the year/period (if less or more than year) ended ………….. and comply with …………." (authority, where appropriate, under which accounts have been prepared) or "the accounts have been prepared in accordance with the relevant Act and direction made under the Act".

**(b) Appropriation Accounts accompanying the Receipts and Payments Account**

The paragraph on scope of audit followed by:

"In my opinion the sums expended have been applied for the authorised purposes and the account properly presents the receipts and payments of (name of PRI-ZP/PS/GP) ………………. for the year ended ……………."

When the Receipts and Payments Account incorporates the Appropriation Accounts (as in the case of PRI accounting formats prescribed by CAG), the certificate at paragraph 4.8 (a) be followed by:

"The sums expended have been applied for the authorised purposes."

4.9 When an error would distort the accounts, qualification becomes necessary. It could be a material error. It is not just the value of the error, which would determine the materiality but its nature and the context in which it occurs.

4.10 The auditor has to know who are likely to be the main users of audited accounts and to judge what would distort their overall view.

4.11 An auditor may not be able to express an unqualified opinion when any of the following circumstances exist and, in the auditor's judgement, their effect is or may be material to the financial statements:

(a) There has been limitation on the scope of audit.

(b) The auditor considers that the financial statements are incomplete or misleading or there is unjustified departure from acceptable accounting standards.

(c) There is uncertainty affecting the financial statements.

The reasons for qualification may be:

(i) Uncertainty; the audit may have caused the auditor to be uncertain as to whether material error does or does not exist in the accounts; and (ii) Disagreement; the auditor may disagree with something the audited institution has included in, or omitted from, the accounts.

### 4.12 Uncertainty

Uncertainty can arise in either of the following situations:

- The auditor is unable to obtain all the information and explanations as explained in Paragraph-4.3 above. The non-availability of the connected accounting records may be the cause or the auditor may have been be prevented from carrying out the necessary audit process so that a material figure in the account cannot be confirmed,
- The auditor cannot reach an objective conclusion as to the outcome of a situation due to circumstances themselves. For example, there may be doubts about the performance of long-term contracts or the result of a legal action, which would have material financial consequences for the audited institution.

### 4.13 Disagreement Qualification

Disagreement qualification arises where the auditor disagrees with the inclusion or exclusion of some items in or from the accounts by the auditee institution.

- The figures in accounts may not be based on the appropriate accounting policies or principles.

- The auditor may disagree with the facts or amounts in the accounts.
- The auditor may disagree with the way the audited institution has disclosed facts or accounts in the financial statements.
- The audited institution may fail to comply with legislation or other regulations.

### 4.14 Qualified Opinion

Where the auditor is uncertain or disagrees with one or more particular items in the financial statements that are material but not fundamental to understanding of the accounts a qualified opinion would be given. The opinion in case of uncertainty would be "subject to" i.e., the auditor would qualify opinion that the accounts "properly present" by saying "subject to ……….". In the case of disagreement the opinion would be "except for" (the irregular expenditure or the failure to) followed by normal opinion.

The auditors' report should report separately on the matters of uncertainty and should provide the details of the disagreement for the qualified opinion.

## 4.15 Qualified Certificates

The wording of the certificate would depend on how seriously the audit was affected by the circumstances. For example, the non-availability of proper accounting records for a part of the financial period might give rise to uncertainty considered to be material but not fundamental. The wording of the certificate would be as given here below:

"I have examined or I certify that I have examined the receipt and payment accounts of (name of PRI-ZP/PS/GP)………………… " "in accordance with the ……………." (relevant statutory authority or legislation) "and the auditing standards for the PRIs" (or auditing standard issued by the CAG) "except that, as explained in paragraphs ……. to …….. of my report, I was unable to examine fully the expenditure on ………… Subject to this, in my opinion the accounts properly present the receipts and payments for the year …… ended ……….."

In the case of disagreement, for example where the irregular expenditure has been incurred, the wording could be:

Normal paragraph on scope of audit followed by:

"Except for the irregular expenditure on ………………… amounting to …………….. details in paragraphs …….. to ……… of my report, in my opinion the accounts properly present the receipts and payments for the year ……ended …….."

## 4.16 Disclaimer opinion

Where the auditor is unable to arrive at an opinion because of uncertainty or restriction on scope of audit that is so fundamental that an opinion, which is qualified in certain aspects, would not be adequate, a disclaimer is given. The wording of the disclaimer opinion makes it clear that an opinion cannot be given, mentioning clearly and concisely all matters of uncertainty. For example, the absence of information to the auditor (records burnt in fire) might be of a magnitude so as to create fundamental uncertainty, giving rise to disclaimer opinion. The certificate in this case could be worded as:

"I have examined or I certify that I have examined the receipts and payment account of(name of PRI-ZP/PS/GP)……………" in accordance with the …………" (relevant statutory authority or legislation) "and the auditing standards for the PRIs" (or auditing standards issued by the CAG) "except that, as explained in paragraphs ……… to ……... of my report, the fire at ………….. on ………….. meant that I was unable to obtain all the information and explanations that I required".

"Under these circumstances, I am unable to form an opinion as to whether the sums expended have been applied for the authorised purposes and whether the accounts properly present the receipt and payment for the year ..…ended ..……..".

Where the fundamental uncertainty would give rise to disclaimer opinion the wording could be:

Normal paragraph on scope of audit followed by:

"Because of the failure to keep proper accounting records, details given in paragraphs ………. to ……………. of my report, I am unable to form an opinion as to whether the accounts properly present the receipts and payments of (name of PRI-ZP/PS/GP)……………. for the year ended ……….. or whether they comply with ……………."(authority, where appropriate, under which accounts have been prepared)

### 4.17 Adverse opinion

Where the auditor is unable to form an opinion on the financial statements taken as a whole due to disagreement which is so fundamental that it undermines the position presented to the extent that an opinion which is qualified in certain respects would not be adequate, an adverse opinion is given. The wording of such an opinion makes clear that the financial statements are not fairly stated, mentioning clearly and concisely all the matters of disagreement. It is helpful if the financial effect on the statements is quantified, where relevant and practicable. Fundamental disagreement could give rise to an adverse opinion. The cause could be a widespread regularity failure. The wording of the certificate could be:

Normal paragraph on scope of audit followed by:

"In view of the failure to comply with the requirements of the ……………. Act mentioned in paragraphs …………… to ………… of my report, in my opinion the sums expended have not been applied for the purpose authorised by the ZP/PS/GP (or state act)………….. and the account does not properly present the receipts and payments for the year……..".

4.18 The opinion should be preceded by a suitable title or heading and should be dated and signed. The inclusion of a date shows the reader that consideration has been given to the effect of events or transactions about which the auditor became aware up to that date (which, in the case of regularity (financial) audit, may be beyond the period of financial statement).

The audit opinion should be available promptly to the users, particularly those who have to take necessary action.

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