

**For official use only**

**Manual  
of  
Instructions for  
Audit of  
Panchayati Raj Institutions**

**Comptroller & Auditor General of India**

**New Delhi**

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## PREFACE

The Constitution 73<sup>rd</sup> Amendment Act, 1992, which came into force with effect from 24<sup>th</sup> April 1993, 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) in relation to 29 functions such as, education, health and agriculture mentioned in the Eleventh Schedule of the Constitution. In compliance of these Constitutional provisions State Governments have passed appropriate legislations to devolve funds, functions and functionaries to the PRIs.

By virtue of the provisions of Article 149 of the Constitution of India and Section 23 of the Comptroller and Auditor-General's (Duties, Powers and Conditions of Service) Act, 1971, the Comptroller and Auditor General of India has the power to make regulations for giving effect to the provisions of the CAG's (DPC) Act, 1971, in so far as they relate to the scope and extent of his audit.

The PRIs come under the purview of audit under Sections 14, 15, 19(3) and / or 20 of the CAG's (DPC) Act, 1971.

On the basis of recommendations of the Eleventh Finance Commission, the Ministry of Finance, Government of India, have issued guidelines for the utilisation of Local Bodies' grants. The guidelines envisage, *inter-alia*, that the Comptroller and Auditor General of India shall be responsible for exercising control and supervision over the proper maintenance of accounts and their audit. These guidelines also contemplate that Director or Examiner, Local Fund Audit or any other Agency responsible for the audit of accounts of the Local Bodies under the provisions of State enactments shall work under the technical supervision and advice of the Comptroller and Auditor General.

In a majority of States, the State enactments constituting the PRIs have prescribed that their accounts and transactions should be audited by an Agency appointed by the State Government. For this purpose, either such States have set up a separate Local Fund Audit organisation has been set up by such States or the audit is entrusted to a specified department. In a few States, however, audit of PRIs has been entrusted to the Comptroller and Auditor General under the provisions of relevant State Acts and CAG's (DPC) Act, 1971. In some other States the State Act itself provides for test check / supplementary audit of Local bodies accounts by C&AG of India.

There are basic differences between regular departments of Government and PRIs, which are elected bodies. While the former perform their functions by drawing funds direct from the Consolidated Fund, the latter draw money from separate fund accounts kept in Bank / Treasury normally. Vouchers relating to payments made by Government departments are submitted to the Accountant General concerned by the treasury or through compiled accounts of officers authorised to draw funds through cheques on treasury. On the other hand, each PRI is required to prepare monthly and annual accounts of receipts and payments and vouchers are retained by it or the treasury transmits them to it and not to the Accountant General. PRIs mobilise revenue through rents, rates, taxes, fines, fees etc., levied by them as authorised by the relevant Acts and Rules. Keeping these factors in view, **Auditing Standards** have been prescribed by the Comptroller and Auditor General exclusively for PRIs.

Under the circumstances mentioned above, the need for bringing out a separate Manual containing guidelines for auditing the accounts and transactions of PRIs by the staff of Indian Audit & Accounts Department has been felt necessary.

This Manual, compiled under the authority of the Comptroller and Auditor General, is intended to guide offices of the Indian Audit and Accounts Department in the conduct of audit of PRIs. Apart from incorporating guidelines for conducting audit for certification of accounts of PRIs and review of their performance, this Manual attempts to bring together various instructions issued from time to time for the conduct of audit under the provisions of the CAG's (DPC) Act, 1971 and a scheme of technical guidance and supervision in respect of audit of PRI, by State Audit Agencies.

The manual has been prepared after studying the Acts, Rules and orders in force for PRIs in various States. Some of the provisions of this manual may not be applicable as of now in certain States, due to differences in the extent of devolution of functions to PRIs. However, the manual has been made in a comprehensive manner taking into account all 29 functions to be devolved on the PRIs as listed in the 11<sup>th</sup> Schedule of the Constitution.

The instructions contained in this Manual are supplemental to those contained in the Comptroller and Auditor General's Manual of Standing Orders (Audit) and audit instructions issued by the Comptroller and Auditor General from time to time. These are not exhaustive. It would be essential to supplement them in the field with reference to

the nature, functions and transactions of different PRIs, wherever special features exist in particular states.

For matters not covered in this Manual the provisions of Manual for Audit of Autonomous Bodies and subsequent amendments thereto or subsidiary instructions issued thereunder have to be followed to the extent applicable to PRIs.

It is obvious that audit procedures and practices cannot remain static and hence it is necessary to keep the contents of this Manual under periodic review so that improvements as also modifications to conform to the changes, if any, made in the structure and functions of PRIs from time to time, can be effected.

Suggestions are welcome for improvements or modifications and they will receive careful consideration.

**(K.N. Khandelwal)**

**Deputy Comptroller and Auditor General**

New Delhi

Dated :31<sup>st</sup> December 2002

# CHAPTER 1

## INTRODUCTION TO PANCHAYATI RAJ INSTITUTIONS

### 1.1 CONCEPT OF PANCHAYATI RAJ :

**1.1.1** *Panchayati Raj* was earlier known as **Democratic Decentralisation of Governance**. It envisages “**Power to the People**” and “**self governance**” at grass root levels.

**1.1.2** The process of **decentralisation** consists of transfer of some substantial government functions from the centralised government set-up to intermediate and local governments by vesting the latter with authority and responsibilities to discharge those functions. The scope of decentralisation is three-fold – political, administrative and fiscal.

### 1.2 BACKGROUND

**1.2.1** *Historical* : In ancient times, self governing village communities had existed in our country, which maintained public order, settled local disputes and provided drinking water, sanitation, health care in case of epidemics etc., These village bodies evolved as Panchayats (an assembly of five persons) having administrative powers and performed police and judicial functions. By and large, these functions continued till the advent of British rule (1857).

**1.2.2** *Pre-Independence* : During the British rule, Village Panchayats were divested of their judicial powers. They were encouraged to undertake local works with local contributions, but these functions could not be performed with uniform success due to limited financial resources of Panchayats.

**1.2.3** *Post-Independence* : During the freedom struggle and after Independence the idea of establishing Panchayati Raj in keeping with the Indian heritage of village panchayat system was discussed and debated upon. As a result Article 40 was

incorporated in the Constitution of India under **Directive Principles of State Policy**. It reads as under :

**“Organisation of Village Panchayats :- The State shall take steps to organise village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government.”**

**1.2.3.1** To provide guidance on how to develop Panchayati Raj Institutions (PRIs), committees were set up at the national level from time to time for examining the question and making recommendations. Among them were Balwantray Mehta Commission (1957), K. Santhanam Committee (1963), Asoka Mehta Committee (1978), G.V.K. Rao Committee (1985) and L.M. Singhvi Committee (1986). A few other committees also went into the question of designing rural decentralisation

**1.2.3.2** Some States (for instance, Karnataka, West Bengal and Andhra Pradesh) passed new legislation to give effect to some of the recommendations of a few of these committees, but overall development of PRIs in the country after 1978 was not significant.

### **1.3 73<sup>rd</sup> CONSTITUTIONAL AMENDMENT**

**1.3.1** On the basis of recommendations of several committees, PRIs were accorded Constitutional status by means of the Constitution (Seventy third Amendment) Act, 1992. The Amendment came into force with effect from 24<sup>th</sup> April 1993. Articles 243, 243 A to 243 O, additional sub-clauses to Article 280 and the Eleventh Schedule introduced by this amendment deal with matters relating to Panchayats.

**1.3.2** In addition to granting Constitutional status to PRIs the 73<sup>rd</sup> Amendment attempts to solve the problems encountered by them till then, by

- Empowering socially and economically disadvantaged groups such as ***Dalits, Adivasis*** and ***Women***
- Ensuring free, fair and regular elections
- Keeping their terms of office fixed
- Identifying procedures to make them financially viable for enabling them to undertake effectively tasks assigned to them.

**1.3.3** The 73<sup>rd</sup> Amendment specifies *inter alia*, as follows :-

- There should be a uniform three-tier PRI structure at the village, intermediate and district levels
- A law should be passed by State Legislature, containing provisions for devolution of powers and responsibilities upon Panchayats by the State in the preparation and implementation of development plans
- State Finance Commission should be set up once in five years to review the financial position of PRIs and to make suitable recommendations to the State on the **distribution of funds** among them and to improve their financial position.

**1.3.4** The 73<sup>rd</sup> Amendment is not applicable to

- (i) the States of Nagaland, Meghalaya and Mizoram.
- (ii) Hill areas in the State of Manipur for which District Councils exist and
- (iii) Panchayat at the District level of Darjeeling Hill Areas (West Bengal) where Gorkha Hill Council exists.

## CHAPTER 2

### DUTIES AND RESPONSIBILITIES OF PANCHAYATI RAJ INSTITUTIONS

#### 2.1 *Introductory*

2.1.1 Article 243G of the Constitution of India introduced by the 73<sup>rd</sup> Amendment effective from 24<sup>th</sup> April 1993 is reproduced below :

**“Powers, authority and responsibilities of Panchayats** :- Subject to the provisions of the Constitution, the Legislature of a State 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 such law may contain provisions for the devolution of powers and responsibilities upon Panchayats at the appropriate level, subject to such conditions as may specified therein, with respect to –

- (a) the preparation of plans for economic development and social justice;
- (b) the implementations of schemes for economic development and social justice as may be entrusted to them including those in relation to the matters listed in the Eleventh Schedule.”

2.1.2 The Eleventh Schedule to the Constitution of India which identifies 29 items of community welfare and development which may be entrusted to Panchayati Raj Institutions (PRIs) is reproduced in **ANNEXURE 1** at the end of this Chapter.

#### 2.2 *State Enactments*

2.2.1 The 73<sup>rd</sup> Constitutional Amendment leaves implementation of many of the provisions to the discretion of the States. The States have introduced new Acts replacing old ones or have amended their respective **Panchayati Acts** to give effect to the amendment.

2.2.2 The amended State Panchayat Acts provide for a uniformity in terms of three-tier local Governments at the Village, Intermediate and District levels. These Panchayats are known by different names in different States :

**Gram Panchayats, Grama Panchayats, Gaon Panchayats and Village Panchayats** at village level.

**Mandal Parishads, Anchal Samitis, Anchalik Samitis, Block Panchayats, Janpad Panchayats, Panchayat Union Councils, Panchayat Samitis, Kshetra Panchayats and Taluk Panchayats** at intermediate (Block) level.

**Zilla Parishads, Zilla Panchayats and District Panchayats** at District level.

- Note :
1. There is no intermediate level Panchayat in Sikkim, Jammu & Kashmir and Manipur.
  2. In Mizoram, Meghalaya and Nagaland there are traditional councils, as the 73<sup>rd</sup> Constitutional Amendment has not been made applicable to them.
  3. In the District of Darjeeling (West Bengal) the existing Darjeeling Gorkha Council is authorised to function at the District level.

**2.2.3** The State Acts also provide for setting up of **Gram Sabhas**. These **Sabhas** act as legislatures to Village level Panchayats. They approve and oversee the programmes, functions and accounts of Village level Panchayats. They also make recommendations regarding formulation of developmental schemes and identify beneficiaries.

**2.2.4** As laid down in the 73<sup>rd</sup> Constitutional Amendment, the State Acts provide for setting up of Finance Commission and Election Commission for regulating the finances of and elections to Panchayats at the three levels, respectively.

### **2.3 Powers, Duties and Responsibilities**

**2.3.1** The State Acts enable Panchayats to exercise exclusive power to administer, by and large the matters set out in the Eleventh Schedule of the Constitution. However, the States have not transferred a few of the 29 subjects *ibid* to Panchayats. The activities of each PRI will be confined to the areas falling under its jurisdiction.

**2.3.2** The extent of devolution of powers and functions on each of the three-tier PRIs differ from one State to another. In relation to activities of PRIs connected with

community welfare and development including planning, co-ordination, supervision, funding and monitoring a dominant role may be played by the District Rural Development Agency / Society (DRDA / DRDS) or the District level Panchayats. In some States, less importance is given to District level Panchayats while in some other States, Intermediate level Panchayats and / or the Village level Panchayats are assigned number of functions. The practice of regular departments of Government discharging some of the functions of PRIs is also prevalent. The Intermediate (Block) level Panchayats on Samithis and Village Panchayats may discharge their duties either independently or under the supervision of other PRIs at higher levels. For assisting PRIs in planning, decision-making etc., in regard to their activities. District Planning Committees or District Planning and Development Councils, Standing Committees and as stated earlier, Gram Sabhas (**Paragraph 2.2.3**) have been constituted.

## **2.4 Funding Arrangements**

**2.4.1** The arrangements for funding PRIs for carrying out the functions assigned to them also vary in some respects from one State to another. DRDA /DRDS or the District Panchayat is made the nodal agency for receiving Plan Funds and Grants from State and Central Governments and other sources and for distributing them among other PRIs.

**2.4.2** In the case of Centrally sponsored schemes, funds are usually transmitted by Government of India direct to each PRI implementing the scheme. Likewise, State share of the funds for such schemes is transferred to each PRI direct in accordance with the prescribed procedures or through the PRI at the higher level.

**2.4.3** PRIs are empowered to raise funds through taxes, cesses fees, fines etc., but generally, the magnitude of revenues generated on this account is small. Hence, PRIs in all the States are heavily dependent on grants and loans from the Government for performing their functions.

**2.4.4** Untied or general purpose grants (for example, for maintenance, staff salaries and non-plan expenditure) as well as funds and grants for specified schemes and purposes are released to PRIs by the Government. In the latter case, utilisation

certificates are required to be furnished by PRIs. Similarly, loan schemes are also transferred to PRIs for disbursing loans to beneficiaries, for forwarding utilisation certificates and for recovering and accounting for loans as prescribed. A Flow Chart indicating the processes of transferring funds to PRIs is given in **ANNEXURE 2** at the end of this Chapter. It has to be noted, however, that funds flow differs slightly from State to State.

**2.4.5** In many States, funds received by PRIs are kept in a Personal Deposit Account at the treasury and transactions take place through that Account. In a few States, transactions of PRIs are operated through the Treasury under separate Fund heads of account created for each PRI. Many scheme funds are kept by PRIs in separate Bank accounts for each scheme as said down in scheme guidelines.

## **2.5**      ***Accounting System***

**2.5.1** The State Panchayati Acts and the Finance and Accounts Rules or orders issued under the State Acts lay down accounting procedures to be followed by the PRIs in regard to their financial transactions and the forms of original and subsidiary books of accounts required to be maintained by them and the forms of accounts statements and returns to be rendered by them periodically.

**2.5.2** A representative list of books of accounts and statements of accounts required to be maintained by PRIs, and the returns to be submitted to other authorities is given at **ANNEXURE 3** at the end of this Chapter.

**2.5.3**      ***Budget*** : The manner in which and by whom Annual Financial Statements (Budgets) of PRIs are to be prepared, the authorities competent to accord approval to them, how budgetary control is to be exercised at different levels and allied matters are laid down in the State Panchayat Acts and Rules / Orders issued thereunder.

**2.5.4** Consequent to the Guidelines issued by Ministry of Finance for utilisation of grants, the C&AG of India has prescribed uniform accounts and budget formats for PRIs, and these are in the process of adoption by various State Governments, with some modifications to suit local conditions.

## **ANNEXURE 1**

(Referred to in Paragraph 2.1.2)

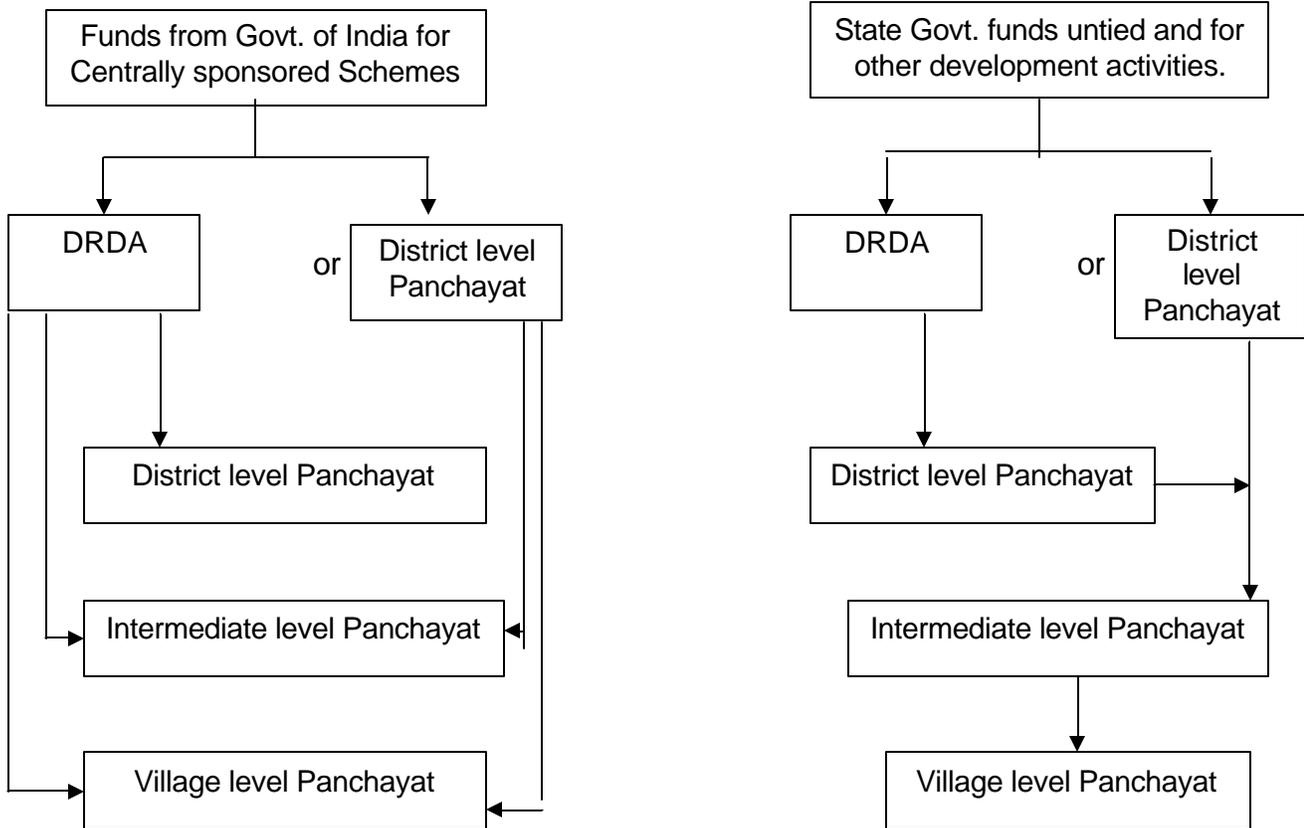
### **Eleventh Schedule (Article 243G)**

1. Agriculture, including agricultural extension.
2. Land improvement, implementation of land reforms, land consolidation and soil conversion.
3. Minor irrigation, water management and watershed development.
4. Animal husbandry, dairying and poultry.
5. Fisheries.
6. Social forestry and farm forestry.
7. Minor forest produce.
8. Small scale industries, including food processing industries.
9. Khadi, village and cottage industries.
10. Rural housing.
11. Drinking water.
12. Fuel and fodder.
13. Roads, culverts, bridges, ferries, waterways and other means of communication.
14. Rural electrification, including distribution of electricity.
15. Non-conventional energy sources.
16. Poverty alleviation programme.
17. Education, including primary and secondary schools.
18. Technical training and vocational education.
19. Adult and non-formal education.
20. Libraries.
21. Cultural activities.
22. Markets and fairs.
23. Health and sanitation, including hospitals, primary health centres and dispensaries.
24. Family welfare.
25. Women and child development.
26. Social welfare, including welfare of the handicapped and mentally retarded.
27. Welfare of the weaker sections, and in particular, of the Scheduled Castes and the Scheduled Tribes.
28. Public distribution system.
29. Maintenance of community assets.

## ANNEXURE 2

(Referred to in paragraph 2.4.4)

### FUNDS FLOW CHART



Note : Funds are to be kept in authorised Bank Account for each scheme and expenditure incurred therefrom.

Note : Funds are to be kept in treasury in P.D. accounts or drawn from treasury on presentation of bills or operated through Bank Accounts as prescribed.

### **ANNEXURE 3**

(Referred to in Paragraph 2.5.3)

#### ***List of Account Records Maintained***

1. Cash Book, Stock Books of receipts, Cheques, License forms, Receipt books, Cheque books, Remittance Register / Challans.
2. Bill Register, Acquittance Register, Deductions Register, Undisbursed pay and allowances, Sanction of increments, Last pay certificates, Scale Register, Travelling allowances, Advances, Register of Contingent charges, Abstract contingent bill register, Register of subsidies, progress of expenditure, Service Register of employees, Registers of Pension & Leave salary contributions.
3. Daybook of receipts, D.C.B. statements, Assessments, Remissions and write-off, Refunds, Fines & Penalties.
4. Stock Registers of Consumable articles, Immovable articles, Agreements, Forms, Stamps, Logbook of vehicles, Dead Stock, Library, Roads, Lands, Wells, Streetlights.
5. Grants, Loans, Imprest, Advances, Deposits, Budget, Securities, Appropriations, Investments, Schemes, Internal audit, Authorisations, Utilisation Certificates, Assets and completion report.
6. Receipt schedules, Payment schedules, Compilation sheet, Deduction statements, Proof sheet of compilation of Treasury transactions, Transfer entries, Classified abstracts, Register of cheques issued, Consolidated abstract, Monthly statement of accounts, Plus and minus memoranda, Annual statement of accounts, Reconciliation statements, Expenditures, Execution of works, Estimates, Authorisations, Tenders.
7. Data of beneficiaries, Cattle impounded, Work allotment, Progress of work, etc.
8. Register of Audit objections.
9. Any other Registers or Accounts prescribed under relevant Rules or orders issued by competent authority.

## CHAPTER 3

### NEW GUIDELINES FOR ACCOUNTING AND BUDGET FORMATS

- 3.1** Pursuant to the recommendations of the Eleventh Finance Commission guidelines for the utilisation of FUNDS RELATED TO Local bodies have been issued by Government of India, Ministry of Finance, Department of Expenditure in June 2001. In terms of paragraph 6.4 of the guidelines, the Comptroller and Auditor General is responsible for exercising control and supervision over the proper maintenance of accounts and the audit of all three tiers of PRIs. Paragraph 6.5 *ibid* envisages that formats for preparation of budget and for keeping accounts by PRIs shall be as prescribed by the Comptroller and Auditor General.
- 3.2** Accordingly, the Comptroller & Auditor General has prescribed the budget and accounting formats for PRIs. The classification of transactions in budget and accounts of PRIs has been structured on a function-cum-programme basis, as in Government accounts, to provide uniformity at all three levels of governance – Centre, States and Local Governments.
- 3.3** In October 2002, the following documents have been prescribed by the Comptroller & Auditor General for adoption by the PRIs :-
- (a) A list of **Codes for Functions, Programmes & Activities of PRIs** for proper classification and recording of transactions while preparing the budget and accounts relating to the functions and programmes assigned to PRIs. The codification has been devised in such a manner as to make the PRI budget and accounts amenable to computerisation.
  - (b) A **model budget format** to serve as a guide for preparation of annual budget by the PRIs.
  - (c) Separate formats of **Receipts and Payments Accounts** to be prepared by District level and Intermediate/Village level PRIs respectively for each financial year on cash basis incorporating all the receipts and payments, both revenue and capital, deposits, loans and advances and remittances. The formats have been designed to keep them as simple as possible so that they can be

maintained easily. The salient features of these formats and instructions relating to their maintenance are as follows :-

1. **Financial Statements**

- (i) **Annual Accounts** : Receipts and Payments Account is to be drawn up annually. It shows the amount received and paid in the period of account, classified functionally as also the opening balance and the balance on the last day of account. It also incorporates the Appropriation Accounts which show the amounts spent in the period of account on various functions up to the primary unit of appropriation, as compared with the amount granted through the annual budget and statement of variances. The columns of Budget Estimates for the year in the Receipts and Payments accounts and progressive total column depict the amounts appropriated for the year.
- (ii) **Monthly Accounts** : The monthly Receipt & Payment Accounts shall be prepared by each PRI, major headwise in a summary form, along with a monthly bank / treasury reconciliation statement.
- (iii) **Additional Statements** : (These form part of annual accounts and are common for all 3 levels of PRIs.)  
Besides drawing up an annual statement of Receipts and Payments, the following statements are to be prepared annually :
  - (a) Statement of Capital Expenditure (scheme-wise) showing expenditure for the year and progressive expenditure up to the end of the year.
  - (b) Detailed statement of receivables and payables at the end of the year.
  - (c) Statement of balances in various Deposit Accounts at the end of the year.
  - (d) Statement of Provident Funds etc., if these are administered by PRIs at the end of the year.
- (iv) Formats of Cash Book, Registers of Moveable Property, Immoveable Property, Demand, Collection and Balance, Compilation Sheet, Stock Book, Consolidated Abstract, Roads and Lands.

2. **Accounting of Works Expenditure** : The accounting rules and other general instructions followed by the works departments in the State Government for works expenditure, except where these are inconsistent with the provisions of PRIs Act or codes/manuals, are to be followed by PRIs.
3. For transfer of funds to the PRIs new minor heads have been prescribed. In case funds are transferred from District level Panchayats to Intermediate Village level Panchayats for implementation of various schemes, these transfers are to be shown as deduct receipts under the head Grants-in-aid and contributions on the receipt side of the Receipts and Payments Accounts of the District level Panchayat.
4. Funds received under various schemes are to be shown under Grants-in-aid & contributions, scheme-wise on the receipt side. However, on the payment side, the expenditure against each scheme would have to be shown under the relevant functional head, below the minor head.
5. The Object heads (for the sake of uniformity across the State) have been standardised. The list of Object heads with the proposed standard code for each head prescribed is to be used across the State. Item-wise details of Object head expenditure like dearness allowance, house rent allowance etc., under salaries may be kept outside the accounts, if required.
6. The Receipts and Payments Account is prepared on the basis of figures in the Consolidated Abstract. Expenditure of a capital nature is distinguished from revenue expenditure with plan and non-plan classification. Non-plan expenditure is in the nature of continuance of earlier schemes.
7. Only one main cash book in each PRI may be maintained incorporating balances from all subsidiary cash books which are to be kept as found necessary.

- 3.4** On the basis of these model formats, the State Governments may formulate Budgeting/Accounting rules and manuals for preparing Budget and for keeping accounts for PRIs, in consultation with the State Accountants General.
- 3.5** Detailed instructions on the maintenance of these accounts, subsidiary registers/records would have to be issued by the State Government under the accounting rules.

## CHAPTER 4

### AUTHORITY AND PROCEDURES FOR AUDIT OF PANCHAYATI RAJ INSTITUTIONS

- 4.1** *Parliamentary enactments* : The duties and powers of the Comptroller and Auditor General in relation to the audit of Panchayati Raj Institutions (PRIs) are regulated by Sections 14, 15, 19 and 20 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (hereinafter referred to as the CAG's (DPC) Act, 1971) framed by Parliament under Article 149 of the Constitution.
- 4.2** *Provisions in State enactments* : Several State enactments also provide for certain powers and duties to be performed by the Comptroller and Auditor General in relation to PRIs. As Parliament only can provide for his duties and powers, such powers and provisions are valid so long as they are not inconsistent with Parliamentary enactments and the requirements for entrustment of such duties and powers under provisions of the CAG's (DPC) Act, 1971 are duly complied with.
- 4.3** *General scope of Sections 14, 15, 19 & 20 of the CAG's (DPC) Act, 1971* : The audit of accounts of PRIs falls under two categories – one, for watch over utilisation of assistance rendered by Government and another, for certification of annual accounts, as representing true and fair picture of affairs of the PRI in public interest. Though the scope of audit of all four Sections of the CAG's (DPC) Act can cover both aspects depending on facts of each case, in practice, the job of certification of annual accounts is undertaken only under the provisions of Sections 19 and 20, while audit of utilisation of Government assistance can be undertaken under all the four Sections. The scope and extent of legal applicability of these Sections are considered in the succeeding paragraphs.

#### **4.4            *Audit under Section 14 of the CAG's (DPC) Act, 1971***

**4.4.1**        At the beginning of a financial year, the quantum grants / loans released to District level Panchayats and Intermediate level Panchayats by State and Central Governments (including grants directly released in respect of Centrally Sponsored Schemes) during the preceding financial year may be obtained by the Audit Office from the District Rural Development Agencies / Societies or District level Panchayats, as the case may be. This information will enable the Audit Office to decide which of these Panchayats attract audit under Section 14 of the Act.

**4.4.2**        As regards Village level Panchayats, their annual accounts should be obtained by the audit party which visits the Intermediate level Panchayats for verifying whether stipulations in Section 14 are satisfied. A list of Village level Panchayats which satisfy these stipulations is to be prepared by the audit party after the completion of audit of the Intermediate level Panchayats and forwarded to head office for arranging audit.

Note:        In most of the States, the amounts of grants/ loans released to Village Panchayats in a year are not substantial and hence the possibility of their being audited by the Accountant General under Section 14 will be remote. However, under the Scheme of Technical Guidance and Supervision, accounts of some Village Panchayats may be test checked by the Accountant General (***Vide paragraph 4.10.1 infra***)

**4.4.3**        A list of PRIs to be audited in a year should be drawn up and a suitable programme chalked out for audit. Each PRI should be informed in advance that audit of its transactions would be taken up under Section 14 and that for this purpose, their books of accounts and other records may be made available and necessary facilities provided for audit.

**4.4.4**        Since audit under Section 14 is **subject to provisions of any law for the time being in force applicable to the institution or authority**, it is always desirable that audit under Section 14 is taken up only after the annual accounts of PRIs are audited and certified by auditors appointed for the purpose by the Government(Usually Examiner/ Director Local Fund Audit), in accordance with

the legal provisions relating to PRIs and the audit party will make comments on accounts in addition to transaction audit. Where, however, no regular auditors have been appointed and / or annual audit has been in arrears for a considerably long period, there is no objection for taking up audit under Section 14 first.

#### **4.5        *Audit under Section 15 of the CAG's (DPC) Act, 1971.***

**4.5.1**        Audit under Section 15 has two parts. The first part relates to the statutory responsibility of the Comptroller and Auditor General to scrutinise procedures by which sanctioning authorities satisfy themselves about the utilisation of grants and loans given for specific purpose.

**4.5.2**        The second part of Section 15 empowers the Comptroller and Auditor- General to have access to the books and accounts of institutions receiving specific purpose grants, subject to certain restrictions specified therein. As most of District level and Intermediate level Panchayats attract audit under Section 14, the question of taking up audit of such institutions under Section 15 on the ground that they have received specific purpose grants in a year will not normally arise. However, the correct position in this regard may be ascertained with reference to relevant records and further action taken wherever necessary.

#### **4.6        *Programme and Procedure for Audit***

**4.6.1**        ***Programme for local audit*** : Audit under Sections 14, 15, 19 and 20 of the CAG's (DPC) Act, 1971 can be conducted only locally by scrutiny of records of sanctioning authorities and Panchayati Raj Institutions (PRIs). For this purpose, it is necessary that the period required for completion of audit and composition of audit party or parties to take up the work with adequate arrangement for supervision of the work, should be planned well in advance, with due regard to the time schedule within which the accounts should be certified and / or the transactions are to be scrutinised. In the case of every PRI taken up for audit for the first time, it is advisable to obtain first hand information on the volume of work involved, number of branch units / offices situated in various places, and the arrangements existing for coordination of financial and accounting work, if necessary, by discussion with those in charge of the PRIs and chalk out a well-

defined programme for audit of all units and coordination of results of audit before the accounts are certified and/ or the transactions are audited.

**4.6.2**      **Local audit procedure** : The procedures regarding issue of notice intimating the programme of audit, commencement of audit, control over progress of work of the audit party, issue of audit memos, discussions of the findings of audit with the Head of Institution or Department, despatch of records to head office, scrutiny of documents at head office, processing of material at head office, etc., followed for inspection of Government offices should be followed *mutatis mutandis* in respect of PRIs also. In this connection, Section VI of the Comptroller and Auditor General's Manual of Standing Orders (Audit) may be referred to.

#### **4.7**            **Conduct of Audit under Section 14**

**4.7.1**      The main objective of audit is to ascertain how the funds provided by Government were actually utilised and to identify factors that lead to sub-optimum use.

**4.7.2**      **Financial and Performance auditing** : The duties of audit in respect of PRIs brought under the purview of Section 14 of the CAG's (DPC) Act, 1971 can be broadly grouped under two categories, viz. (i) financial auditing and (ii) performance auditing. Financial auditing is a critical review of the controls and financial records of an organisation, that leads to an opinion on the accuracy and fairness of the financial statements and adequacy of the safeguards available against errors and losses. For PRIs for which the Comptroller and Auditor General acts as sole auditor, this function essentially performed in his capacity as auditor of the organisation under Sections 19 and 20 of the CAG's (DPC) Act, 1971 and includes certification of accounts. In respect of PRIs, where the Comptroller and Auditor General is not the sole auditor but is an auditor under Section 14 only, the task of financial auditing/ certification is usually performed by the auditor certifying the annual accounts (usually Examiner/ Director Local Fund Audit), though the efficacy of such audit should be subjected to check during audit under Section 14 by making comments on budgetary control. The procedure of financial audit as indicated in **Chapter 9 et, seq** will apply for audit under Section 14 also.

**4.7.3**      **Scope of Performance auditing :** Performance auditing is an extension of the financial auditing, going beyond what is generally considered as the accounting function; it deals primarily with non-financial aspects that sooner or later are quantitatively expressed in the financial records of the organisation. In a sense, audit under Section 14 should be construed as intended to go beyond the financial audit already conducted by other auditors and hence is akin to operational or management auditing. Audit under Section 14 is hence a second or superimposed audit for an objective entirely different from the one for which the organisation / government had appointed auditors for annual certification of accounts.

**4.8**            **Review of programmes and their implementation :**

**4.8.1**        Where the Comptroller and Auditor General acts as sole auditor, he combines functions for financial auditing and operational auditing. Where he is the second auditor, he acts essentially as operational or management auditor though it may be necessary for him to test-check the work done by the first auditor. In this audit, his function is not merely to see that the accounts represent a true and fair picture of the transactions of the year but also to examine whether value for the money spent has been realised and what, if any, specific lapses had occurred in this regard. To effectively appraise the same, it is necessary to examine the various policies, plans and programmes, to identify deficiencies in detailed planning and execution and to bring to light various lacunae in procedures and methods as well as particular lapses on the part of institutions and individuals. Audit under Section 14 will thus, include, as an integral part, a review and appraisal of the efficiency and effectiveness of the programme and their implementation procedures. It carries with it the need to discover and inform the Government of the problems of implementation and consequential failure and shortcomings in the implementation of the programmes and policies.

**4.9**            **Report on results of audit :** The findings of audit as a result of this examination in depth should be communicated in the form of a report to the PRI and to the next higher authority / Government concerned. Their replies / comments should be obtained and thereafter the final conclusions should be examined to see whether the results are such that they should be reported to the Legislature, if so prescribed by the relevant State Enactments. Based on the conclusion so

reached, draft paragraphs should be prepared and processed in accordance with the procedures prescribed therefor.

#### **4.10 Control and Supervision of C & AG over Audit of PRIs by State Audit Agency**

**4.10.1** In paragraph 3.1 of Chapter 3 of this Manual mention has been made of the Guidelines issued by the Government of India in June 2001 pursuant to the recommendations of the Eleventh Finance Commission for the utilisation of Local Bodies Grants. Accordingly, parameters of the technical control and supervision by the Comptroller and Auditor General over the State Audit Agencies have been prescribed in order to strengthen the system of audit. They are broadly as follows :-

- The methodology and procedure for audit of PRIs by State Audit Agency shall be as per audit guidelines prescribed by the Comptroller and Auditor General of India.
- Staff of State Audit Agency would continue to work under the administrative control of State Government.
- Training programmes for staff of PRIs for capacity building would be organised by the Accountant General in Co-ordination with Institute of Public Auditors of India (IPAI), the agency approved by Comptroller and Auditor General to conduct training for PRIs.
- The State Audit Agency would prepare the audit plan in consultation with the Accountant General, who shall conduct test check of the accounts of PRIs after deciding the percentage of the test check.
- The nature, extent and scope of Audit including form and contents of the report, shall be as per guidelines issued by Comptroller and Auditor General of India.
- Accountant General would supervise proper certification of Accounts by State Audit Agency with reference to initial records like cash book, asset register, bank accounts, etc.,.
- For implementing these procedures, State Audit Agency shall develop in consultation with the Accountant General, a system of internal control in the State Audit organisation.

- State Audit Agency shall submit such returns / reports in such form as may be prescribed by Accountant General to evolve an effective system of monitoring the audit functions.
- The Accountant General of the State at his discretion, may supervise some of the audit parties of State Audit Agency during audit of PRIs and supplement the audit to ensure quality and timely completion of audit and certification of accounts of PRIs by such agency.

**4.10.2** Additional instructions relating to these matters are contained in Chapter 19 of this Manual.

**4.10.3** In many States, the Government have issued Local Fund Audit manuals and they are by and large followed by the State Audit Agencies for Audit of PRIs. In the context of present status and functions of PRIs, especially after the 73<sup>rd</sup> constitutional amendment Act, the respective Accountant General may examine the need to revise/supplement the provisions contained in the existing State Audit Manual. As an alternative, the possibility of issuing suitable supplementary instructions under the TGS scheme, to the State Audit Agency, based on provisions of this audit manual, Auditing Standards for PRIs, Certification guidelines and Manual of Standing Orders(Audit) etc. may be examined by the Accountant General and further action taken in the matter, with the approval of the comptroller & Auditor General of India.

**4.10.4 Commencement of Audit**

**4.10.4.1** the accounts maintained by each PRI shall be audited soon after the completion of each financial year in accordance with the provisions of relevant Act/ Rules and procedures prescribed by the authorised audit agency.

**4.10.4.2** The State Audit Agency shall have a list of PRIs to be audited every year and as stated earlier, prepared a suitable audit plan in consultation with the Accountant General. The plan shall include selection of units, rotation of units, number of units to be test checked by the Accountant General composition and deployment of audit staff. The Accountant general shall approve the audit plan after due examination and after effecting such modifications as may be found necessary.

**4.10.4.3** Arrangement should be made to contact the PRIs and to bring about a working arrangement for conduct of audit. The arrangement should, *inter alia*, give due attention to the following points:-

- (i) The date by which accounts will be made available for audit.
- (ii) The time required and a tentative period during which audit will be conducted.
- (iii) Adequate internal arrangements within the institution for ensuring availability of all records for audit, supply of replies to preliminary memos of audit in time, arrangement for discussion of reports/ audit objections.
- (iv) Period by which audit report will be issued and replies are to be furnished by the institution.
- (v) Period within which the finalised Audit Report with audit certificate will be issued.

**4.10.4.4** Each PRI should be informed in advance that audit of its accounts and transactions would be taken up on a specified date and for this purpose, its books of accounts and other records may be made available and necessary facilities provided for audit.

**4.10.4.5** Even when the finalisation of accounts is in arrears for a particular year in any PRI, it should be advised that records should be made available for audit of transactions.

**4.11** the auditing Standards issued by the comptroller & auditor General of India to govern audit of transactions of PRIs (July 2002) should be observed during audit of PRIs.

## CHAPTER 5

### AUDIT FOR CERTIFICATION OF ANNUAL ACCOUNTS

**5.1** *Introductory* : While it is not obligatory on the part of the Comptroller and Auditor General to certify the annual accounts of an institution under Section 14 of CAG's (DPC) Act, 1971, in cases where he has decided to undertake its audit under Section 19 or Section 20 *ibid*, certification of the annual accounts will be involved. In cases where the Comptroller and Auditor General is the sole auditor, it will be advantageous to combine audit of transactions and audit of annual accounts of the institution in one spell, unless for any special reason, it becomes necessary to undertake audit of transactions separately from the audit of annual accounts (e.g., when the accounts are in arrears).

**5.2** *Certification audit* :

**5.2.1** Certification of annual accounts involves verification of accounts with reference to books of original entry, ledgers, subsidiary books of accounts, etc., to see that accounts are in accordance with the books. Inherent in the process of audit of annual accounts is the assumption that transactions appearing in the books of original accounts pertain to the organisation, represent legitimate charge, and the books themselves record fully and faithfully all transactions pertaining to the organisation for the period and nothing is left out. This can be ensured only by test check of the transactions. The procedure for checking up transactions has been outlined in the subsequent Chapters. The instructions contained in this Chapter are restricted mainly to checking of accounts, which, however, have to be read along with instructions for audit of transactions.

**5.2.2** Guidelines for Certification of Audit of Accounts of PRIs issued by the Comptroller and Auditor General of India (July 2002) as modified from time to time should be observed during certification audit.

### **5.3 Form of annual accounts**

**5.3.1** As stated in **Chapter 3** of this Manual, a uniform accounting system and formats of accounts and Registers as applicable to all Panchayati Raj Institutions (PRIs) in the country have been prescribed and are being brought into use. Till then, the form of Annual Accounts of PRIs and accounting procedures to be adopted by them will be as laid down in the Accounts Rules and / or instructions issued by each Government through Notifications etc., under the respective State Panchayati Raj Acts.

**5.3.2** Accounts of PRIs are maintained on cash basis.

**5.3.3** In respect of some schemes implemented by PRIs separate bank accounts and cash books are required to be maintained scheme-wise by each implementing office. Audit should verify that this requirement has been complied with and obtain a list of Bank Accounts showing the name of the Scheme, name of the Bank and Account Number. An intelligent review of entries in the bank pass books should be conducted to find out whether any amount from one bank account has been transferred to any other unauthorised bank account. If any such cases come to notice, transactions relating to those accounts should be investigated thoroughly.

**5.3.4** It is necessary to ensure that the annual accounts of each PRI as presented, indicate in sufficient detail, information necessary to enable one to develop an understanding of the results of working and the financial position of the PRI. It is also important to ensure that formats of accounts and schedules attached thereto are in the forms prescribed in the relevant accounts rules or orders issued by the competent authority.

**5.3.5** Any shortcomings noticed in this regard should be commented upon in the Audit Report.

**5.4 *Completeness in Accounts*** : It should be ensured in audit that the accounts to be certified are complete in all respects and the possibility of any accounts remaining out of the purview of audit is avoided. In order to ensure completeness

and meaningful exhibition, all the accounts with supporting schedules as prescribed should be submitted as one set to audit to enable the auditor to check and certify these accounts in a complete manner.

**5.5**        **Records for accounts audit :** As all transactions ultimately get reflected in the form of cash outflow or cash inflow, cash book constitutes the most important book of original entry. For various adjustments, the Transfer Entry Book is used. While cash book serves both as a book of original entry and also a ledger, subsidiary accounts are maintained for consolidating transactions under appropriate classifications. Suspense Registers, Loan Ledger Books and challans relating to Bank / Treasury transactions and other records which have a bearing on the transactions incorporated in accounts are also to be checked during audit of accounts.

**5.6**        **Essential features of audit :** The essential features of the audit of accounts would be –

- (a) to make critical review of the system of maintaining accounts books, accounting and internal control;
- (b) to make such tests and enquiries as the auditors consider necessary to form an opinion as to the reliability of the records as a basis for preparation of accounts;
- (c) to compare figures of different accounts schedules with those of the connected records in order to see whether they are in accordance with the transactions depicted therein; and
- (d) to make a critical review of the accounts in order that a report may be made stating whether, in the opinion of the auditors, the accounts are presented and the items are described in such a way that they properly present the receipts & payments of the PRI.(also refer to Guidelines for Certification Audit of PRIs issued by C&AG of India)

**5.7**        **Broad outline for accounts audit :** The method of auditing of annual accounts will be broadly as follows :-

- (i) Entries in cash book and other books of original entries should be vouched and castings tested.

- (ii) The postings from the main Accounts books to subsidiary accounts should be test-checked.
- (iii) The justification and authority for each Transfer entry should be examined.
- (iv) Balances in subsidiary Registers should be checked and agreed with schedules wherein such balances are shown.
- (v) Accounts showing receipts and payments should be checked with reference to primary records.

## **5.8 Internal Control**

**5.8.1 Need for internal control :** The extent of checks to be exercised in audit will depend upon the system of internal control operating in the PRI. Internal control is a management tool used to provide reasonable assurance that management's objectives are being achieved. The responsibility for the adequacy and effectiveness of the internal control structure rests with management. The head of each government organization must ensure that a proper internal control structure is instituted, reviewed and updated to keep it effective. By internal check is meant the checks on day to day transactions which operate continuously as part of the routine system whereby the work of one person is proved independently or is complementary to the work of another, the objective being prevention or early detection of errors or frauds.

**5.8.2** Another essential characteristic of the system of Internal Control is the existence of skilled managerial supervision and reviews including internal audit. It is the responsibility of the auditors to examine the system of Internal Control existing in a PRI in order to assess its efficacy before planning the audit and determining the extent or quantum of checks to be exercised.

**5.8.3 Requirements of Internal Control :** In particular, the system of Internal Control over the following aspects would need to be noted by the auditor :-

- (i) Sanctions to expenditure and watch over progress of expenditure *vis-à-vis* budget of the PRI;
- (ii) Realisation of receipts and avoidance of loss due to negligence, delayed action, etc.;
- (iii) Accounting of cash receipts and payments;

- (iv) Purchase, accountal, issue, utilisation and physical existence of stores and stock;
- (v) Execution of construction programmes;
- (vi) Creation of assets, their maintenance and verification of their existence etc.;
- (vii) Disbursement of grants, subsidy, scholarships, etc., and their utilisation by the recipients;
- (viii) Utilisation of Government assistance for specified purposes.

## **5.9            *Need for Vouching of entries***

**5.9.1**        Mere checking of postings and totalling etc. is no proof that the books contain true entries in respect of all transactions. The duty of the auditor is to ascertain whether the books are actually correct in accordance with the best of information obtained by him the documents from which the books have been written up. This examination of the evidence offered in substantiation of the entries in the books, including such examination of the proof, to ensure that no entries have been omitted from the books, is known as **Vouching**. While it is not possible to deal exhaustively within the frame-work of these instructions all aspects of audit, the salient features of vouching are mentioned below :

**5.9.2**        ***Vouching of Receipts*** : It should be examined that all receipts have been brought to account through the cash book and other records immediately as when transactions occur and that the system of control in force over receipts does not have scope for fraud or defalcation.

### **5.9.3            *Vouching of payments***

**5.9.3.1**      The voucher for payment –

- (a)        must be addressed to the PRI under audit;
- (b)        relates to the affairs of the PRI under audit;
- (c)        is properly authorised;
- (d)        pertains to the period under audit;        and
- (e)        does not bear any signs of having already been used for another payment.

**5.9.3.2** The vouching of payment will include examination of the authority for payment, reconciliation with liabilities discharged or assets acquired, verification of rates and quantum of payment and tracing of acknowledgement by the payee. Vouching of income will aim at ensuring that values for supplies and services have been either received or accounted for as recoverable.

**5.9.4** Check of classifications is also an important aspect of vouching. Transfer entries should be checked with reference to evidence, authority and narrations. Transfer entries may have a material bearing on the accounts. Vouching of such adjustment entries is thus very important. The entries in other books of original entries should also be vouched, the extent being determined with reference to the nature of the PRI and the adequacy of the system of Internal Control.

**5.10** ***Points to be seen in checking the accounts*** : Apart from the necessary routine checking of postings, castings and vouching, the following aspects should also be kept in view while auditing the accounts :-

- (i) Check opening balance with the previous year's closing balance;
- (ii) Make sure that all income has been brought to account;
- (iii) Look for exceptional transactions which have resulted in charges or credits of a material amount to the accounting period;
- (iv) Vouch all capital expenditure;
- (v) Examine classification as between capital and revenue;
- (vi) Check bank / treasury reconciliation and existence of certificates from bankers / treasury;
- (vii) Review balances of suspense accounts, loans, advances, etc., analyse their pendency and ensure that their recovery is enforced and correctly accounted for and that balances shown in Registers and accounts are not erroneous or fictitious;
- (viii) See if credits from any source of income have come down as compared to previous year's figures;
- (ix) Examine particularly the bookings against items which qualify for grants / assistance to prevent attempts at securing inflated assistance from Government or to detect mistakes which may result in reduction in the quantum of assistance.

- (x) Ascertain the system of stock taking, test check, stock sheets and valuation and existence of verification certificates from responsible officials as prescribed;
- (xi) Verify existence and ownership of assets and check basis of valuation;
- (xii) Look for assets created or expenditure incurred which have not been productive; and
- (xiii) Look for charges / transactions falling beyond the scope of authorised activities of the organisation.

## **5.11 Additional points to be seen in audit of accounts**

**5.11.1 Capital and revenue expenditure :** Since measurement of income for a given period involves matching of cost with revenue, the distinction between capital and revenue expenditure becomes important. Capital, by and large, represents cost, the benefit of which does not expire during the period covered by audit, but lasts for a longer income period. The important point to be seen in this connection is that the distinction between Capital and Revenue expenditure as laid down in the accounts rules is followed correctly and consistently.

### **5.11.2 Transactions under Plan and Non-Plan**

**5.11.2.1** Transactions are to be examined to ensure that there is no mixing up of plan and non-plan in any inflow or outflow and if there be any mix-up, suitable comments should be made in the Audit Report.

**5.11.2.2** If plan and non-plan transactions are not separately depicted in accounts, a separate schedule for bifurcation of revenue and capital and plan and non-plan may be insisted upon by audit.

**5.11.2.3** If the PRI is not able to exhibit such important data distinctly and correctly under major activities / heads of accounts, it should be commented upon in the Audit Report.

**5.11.3 Cross checking of accounts with schedules :** It has to be ensured in audit that all the schedules referred to in accounts are correctly drawn up and that figures shown therein tally with accounts figures, as schedules form part of the accounts certified by audit.

#### **5.11.4 Reconciliation**

**5.11.4.1 Departmental Reconciliation :** It should be verified that departmental figures of receipts and expenditure relating to different offices under the jurisdiction of each PRI / DRDA are regularly reconciled by the designated controlling officers with those of the accounts of the PRI / DRDA concerned and misclassifications, etc., coming to notice are rectified promptly in accordance with the procedures prescribed in this behalf.

**5.11.4.2 Bank Reconciliation :** It has to be seen in audit that

- (i) action has been taken at the end of each month to agree the Bank balance with the Cash Book balance;
- (ii) proper action has been taken to reconcile the differences between the two balances and to clear the old differences expeditiously;
- (iii) in particular, for all payments in the Bank Pass Book there are corresponding entries in the Cash Book duly supported by proper vouchers and cases of absence of payment entries in the Cash Book and vouchers are promptly investigated in detail. Similarly, cases of remittances to Bank as shown in the Cash Book, not found in the Bank Pass book should also be investigated thoroughly.
- (iv) Further, It has to be ensured that comments about arrears in Bank reconciliation highlighting possibilities of misappropriation and frauds and the risks involved due to non-reconciliation / delays in reconciliation and the procedural deficiencies and lapses are highlighted in the Audit Reports.
- (v) It should be ensure that wherever warranted, Audit Report should contain a clear comment that the bank / cash balances as revealed in the books of account could not be verified and their accuracy ensured in audit due to such non-reconciliation and non-production of relevant records.

**5.11.4.3 Treasury Reconciliation :** In the States where PRIs are authorised to draw funds from Government Treasuries by presentation of bills and cheques, the treasury officer is required to forward Schedules of Receipts and Lists of

Payments as in the case of Government departments to the PRIs every month. In addition, he will forward every month a **Plus and Minus Memorandum** to the PRIs, showing the Opening Balance, Receipts, Total Payments and Closing Balance under the PRI fund concerned. The figures in these documents should be checked with reference to those of the PRI Accounts wing and differences between the two reconciled promptly every month.

**Note : Where financial transactions of PRIs are conducted through Personal Deposit Accounts maintained at Government Treasuries, the same procedure as applicable to Bank reconciliation (paragraph 5.11.4.1 above) has to be followed.**

**5.11.5** If **Minus Balances** have been shown in the accounts, they require careful probe in audit. They sometimes foretell serious irregularities. Reasons for each minus balance should be examined in detail and commented upon.

**5.11.6** **Suspense heads** : The extent of transactions and outstanding balances under suspense heads and their relevance to the accuracy in accounts may be examined carefully and commented upon in the Audit Reports, because Suspense Accounts dilute the accuracy of accounts.

**5.11.7** **Funds Accounts** : If fund accounts for different purposes are maintained in the PRI, then the relevant transactions of each fund being accounted for under the respective fund heads of account should be checked in audit. Mixing up of funds, if any, should be commented upon in the Audit Report and audit of each fund account should be done specifically to assess the accuracy of each fund account.

**5.11.8** **Unspent Grants**

**5.11.8.1** It is necessary that the PRIs draw a distinction between annual maintenance / revenue grants and grants for specific / capital purposes. The unspent grants refundable / repayable to Government / other Agencies, as may be required under the conditions stipulated in the grants, are to be distinctly shown as returnable in the accounts. Non-depiction of such unspent balances in the accounts should be commented upon in the Audit Report.

- 5.11.8.2** One of the main difficulties in ascertaining utilisation of grants / loans for purposes for which the grants / loans are given to PRIs is non-production of utilisation certificates to the Ministry / Department / Government. While on one hand, the accounts are purported to have accommodated such expenditure on revenue and capital heads and are certified by audit, on the other hand, audit also lists out cases of non-receipt of utilisation certificates. This is like absence of physical verification certificate for assets exhibited in the accounts certified. Therefore, a distinct comment should be made in the Audit Report that the assets / expenditure as exhibited in the current and previous years accounts are not supported by utilisation certificates which are yet to be furnished to the Government by the PRI.
- 5.11.8.3** It has to be verified that, grant pertaining to State Plan / Non-Plan Schemes are not kept in bank accounts and prior approval of the government should be taken for utilisation of such unspent grants. It should also be seen that grants in respect of Centrally Sponsored Schemes are operated through separate bank account strictly in accordance with the guidelines issued for the implementation of the schemes.
- 5.11.9** **Register of assets** : These should be carefully checked and certification and physical verification of assets insisted upon. Cases of non-availability of such certificates should be commented upon in the Audit Report. Whether a statement in the prescribed form showing the fixed assets held by the PRI at the end of the financial year is sent to State Government along with the annual statement of accounts should be seen and its correctness verified.
- 5.11.10** **Scheme Accounts** : Whether Scheme-wise accounts are being maintained correctly and Block-wise abstract is prepared showing the monthly expenditure in respect of each Scheme should be verified.
- 5.12** **Concise and brief comments** : It should be ensured that comments on accounts to be included in the Audit Reports are concise and brief with a clear statement about impact on accounts of each comment as a result of defective procedure / accounting followed. Report on accounts should convey only final comments and should not read like as an Inspection Report Para or a Draft Para.

Comments on accounts should always state the resultant under or over statement of the transaction concerned, and the impact on surplus / deficit and on assets / liabilities, in exact amounts.

**5.13** Where the accounts of PRI are certified by State Audit Agency, Comptroller and Auditor General acts as second auditor under Section 14 of CAG's (DPC) Act, 1971. As a second auditor, Comptroller and Auditor General not only audits transactions of PRIs but also is required to ensure, during audit, that the State Audit Agencies have discharged their duties efficiently. For this purpose, accounts should be scrutinised by the Audit Party as mentioned in earlier paragraphs.

**5.14** ***Correction of Accounts*** : One of the points that has to be looked into before certification, is the need or otherwise for correction of accounts as presented for audit before they are certified. Correction of accounts should not be insisted upon as a matter of course of rectification of every mistake that is noticed in audit. The request for correction should be made only sparingly in cases where the PRI is either willing to carry them out without delay to avoid audit comments or the corrections are such that they affect the fundamental correctness of the accounts to be certified. In cases where the PRI is willing to carry out the corrections in future accounts, it shall normally be agreed to. However, in cases where audit is not in a position to certify the accounts as properly presenting the receipts and payments of the PRI and where it is necessary that the current year's accounts must be correct, suitable corrections should be insisted upon.

**5.15** ***Revision of accounts*** : In all cases where accounts are revised at the instance of audit, suitable comments about the impact of such revision may be made in the Audit Reports provided that substantial revision was effected due to audit scrutiny.

**5.16** ***Audit Certificate***

**5.16.1** ***Auditors' Certificate***

The Certificate is in two parts, given in separate paragraphs :

- (i) the first part would provide information about the scope of audit; and
- (ii) the second part would give the auditors opinion on accounts.

**5.16.2 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. The first paragraph may be on the following lines.

“ 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) on the basis of registers and records made available to me as per the Auditing Standards for the Panchayati Raj Institutions prescribed by the Comptroller and Auditor General of India and that I have obtained all the information and explanations that I have required.”

### **5.16.3 Unqualified Opinion**

**5.16.3.1** The opinion paragraph should first recite :

- (i) the name of the audited entity;
- (ii) the period to which the accounts / financial statements relate;
- (iii) the authority under which the accounts / financial statements have been prepared, by referring to the governing legislation and the directions made thereunder.

**5.16.3.2** If the auditor comes to the conclusion that the accounts / financial statements are reasonably reliable, he gives an unqualified opinion. The meaning of reasonably reliable shall be considered in relation to the materiality of errors noticed.

**5.16.3.3** 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; and
- (b) The statements comply with statutory requirements and relevant regulations.

**5.16.3.4** The wording for unqualified opinion may be as below :

“ In my opinion the accounts / financial statements properly present the receipts and payments of..... (name of the PRI) for the year / period ended ..... and comply with.....(authority where appropriate, under which accounts have been prepared) or “the accounts have been prepared in accordance with relevant Act and directions made under the Act”

When the accounts / financial statements incorporate the appropriation accounts ( as in case of PRI accounting formats prescribed by CAG), the certificate above may be followed by :

“ The sums expended have been applied for the authorised purposes.”

#### **5.16.4** *Qualified Opinion*

**5.16.4.1** When there is uncertainty or disagreement in regard to certain items in the accounts / financial statements that are material but not fundamental to the understanding of the accounts, a qualified opinion would be given.

**5.16.4.2** Uncertainty may arise in either of the following situations :-

- (a) The auditor is unable to obtain all the information and explanations. The non-availability of the connected accounting records may be cause or the auditor might have been prevented from carrying out the necessary audit process to test the accuracy of material figures in the accounts.
- (b) The auditor cannot reach an objective conclusion as to the outcome of a situation. 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.

**5.16.4.3** Disagreement may arise as regards inclusion or exclusion of certain items in the accounts by the PRI :

- (a) The figures in accounts may not be based on the appropriate accounting principles or policies.
- (b) The auditor may disagree with the facts or amounts in the accounts.
- (c) The auditor may disagree with the way the PRI has disclosed facts or accounts.

(d) The PRI may have failed to comply with legislation or other regulations.

### **5.16.5 Qualified Certificate**

**5.16.5.1** The wording of the certificate would depend on how seriously the audit was affected by the circumstances. For example, the non-availability or incompleteness of proper accounting records for the relevant period may be material but not fundamental. The wording of the certificate in such a case may be as follows :

“ I certify that I have examined the accounts / financial statements of ..... (name of the PRI) in accordance with the ..... (relevant statutory authority or legislation) and the auditing standards for the PRIs (or auditing standards issued by the Comptroller and Auditor General) except that, as explained in paragraphs ..... to ..... of my report. I was unable to examine fully the expenditure on items mentioned therein. Subject to this, in my opinion the accounts properly present the receipts and payments for the year .....ended.....

**5.16.5.2** In the case of disagreement, for example where 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 ..... detailed in paragraph ..... to ..... of my report, in my opinion, the accounts properly present the receipts and payments for the year.....ended .....of the .....(name of the PRI).

**5.16.6 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. The certificate in this case could be worded as :

“ I certify that I have examined the receipts and payments accounts of ..... (name of the PRI) in accordance with the ..... (relevant statutory authority or legislation) and the auditing standards for the PRIs (or auditing standards issued by the Comptroller and Auditor General). Owing to

the non-production of proper accounting records as detailed in paragraphs ..... to ..... of my report. I am unable to form an opinion on whether the accounts / financial statements have been drawn up in accordance with ..... (authority under which accounts have been prepared) and whether they properly present the receipts and payments for the year ended..... and whether the sums expended have been applied for the authorised purposes.

**5.16.7 Adverse Opinion**

**5.16.7.1** Where disagreement on the validity and truthfulness of the accounts / financial statements is so fundamental that even a qualified certificate in certain respects is found to be unjustified, an adverse opinion is given. The wording of such an opinion should bring out clearly that the accounts / financial statements are not clearly stated mentioning clearly and concisely all the matters of disagreement. 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 / Rules / Regulations mentioned in paragraphs ..... to ..... of my report, in my opinion the sums expended have not been applied for the purposes authorised and the accounts / financial statements **do not** properly present the receipts and payments of ..... (name of the PRI).

**5.16.7.2** 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 audit may be beyond the period of the financial statement).

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

**5.17 Check List :** For Certification of accounts a check list has to be framed by the Accountant General drawing upon the existing manual provisions, if any, in the State Government as also instructions issued by Comptroller and Auditor General. A model check list is enclosed **vide ANNEXURE** at the end of this Chapter but it may be suitably modified to conform to local procedures and requirements of each State.

## ANNEXURE

(Referred to in paragraph 5.17)

### CHECK LIST FOR AUDIT FOR CERTIFICATION ACCOUNTS

Name of the PRI .....

Year of Accounts .....

Dates of Audit .....

Questionnaire	Answer Yes / No	Reference to any comment included in the Report (Paragraph No.)
1. Whether the processes of accounting as in the proforma attached have been followed;		
2(a) Whether the annual accounts have been prepared strictly in the prescribed form.		
(b) Whether the annual accounts have been approved by competent authority. If so, when (date).		
(c) Have the accounts been checked.		
3. (a) Whether records such as cash book, ledger, subsidiary accounts and registers, etc., have been made available for audit.		
(b) Whether the stock & stores ledgers and register of assets have been properly maintained as prescribed.		
4. Number of Bank accounts maintained by the officer. Whether separate Bank account is maintained for each Centrally sponsored scheme.		
5. Whether arithmetical accuracy has been ensured in respect of all the Statements of Accounts.		
6. Whether the accounts are maintained in accordance with the prescribed format.		

Name of the Bank	Account Number	Balance as on 31 <sup>st</sup> March

7.
  - (a) Whether the closing balances shown in Statement of Debt, Deposit, Suspense and Remittances agree with Item wise details in subsidiary registers.
  - (b) Whether Suspense Accounts have been operated properly, what are the shortcomings and reasons therefor.
8. Whether the closing balance of the preceding year has been correctly carried forward as opening balance in respect of each item.
9. Furnish details of grants as below :
  - a) Total grants released by Government to DRDA / District Panchayat.
  - b) Amount released to District, Taluk and Gram Panchayats.
  - c) Amount retained by DRDA or District Panchayats.
  - d) If the amount retained is more than the prescribed percentage, ascertain reason for retaining excess amount.
10.
  - a) Whether each item of grants released by Government is traceable in the Register of grants.
  - b) Whether, unspent grants refundable to Government or other agency are shown distinctly in the accounts and refunded, if so stipulated by the sanctioning authority.
  - c) Whether utilisation certificates in respect of grants / loans have been submitted as prescribed; if not, extent of arrears.
11.
  - (a) Whether all the credits afforded to the PRI fund by the Treasury/Bank have been classified under the final head of receipt. If not, extent of receipts not finally classified and reason therefor.
    - (i) Extent of Misclassification :
    - (ii) Wanting Challans :
  - (b) Whether transactions of receipts and payments have been correctly classified and whether there is any mixing up of funds under the fund accounts.
  - (c) Whether any corrections in accounts or revision of accounts had to be resorted to at the instance of audit.
12. Whether the vouchers have been compiled monthly indicating details as prescribed.

13. Whether classified abstract is posted with reference to the compilation sheets and the consolidated abstracts from the classified abstract.
14. Whether misclassifications if any, by the treasury / bank noticed during compilation were referred to the treasury / bank in time for rectification.
15. Whether all the paid vouchers for the month / months selected for detailed audit were traced to the compilation sheets.
16.
  - a) Whether the accounts rendered by the cheque drawing officers (Engineering & Forest Divisions, Social Forestry Division etc.,) were, after ensuring their correctness, incorporated every month in the classified abstract, under the appropriate heads of accounts.
  - b) Whether the Schedule of paid cheques received from the treasury/bank has been incorporated in the monthly compiled accounts.
  - c) Whether Cash settlement Suspense Account is being operated properly as per rules.
  - d) Whether the Register of cheques is maintained properly and reconciled with monthly schedule of settlement with treasury / banks.
17. Whether the consolidated abstract is correctly posted from month to month and progressive totals struck correctly.
18.
  - a) Whether balance(s) as per the Cash Book/ Books agree with the balance as per Annual Accounts.
  - b) Whether a Plus and minus Memorandum is drawn up every month with reference to the compiled accounts and compared with that furnished by the treasury.
  - c) Whether Bank reconciliation is done every month.
  - d) Arrears, if any, in (b) & (c).
  - e) Whether the differences between Treasury / Bank Accounts and those of PRI have been reconciled. If so, the results thereof. Extent of arrears, if any.

19. Whether the Accounting Authority is regularly obtaining the Schedule of Settlement with Treasuries (SST) from the Engineering Divisions and action taken thereon. If not, extent of arrears.
20. Whether the expenditure incurred under each unit of appropriation is regularly compared with the grant provided therefor and adequate advance action has been taken to limit the expenditure to the grant. Are there any cases of expenditure in excess of or without any budget provision? (Details as indicated below).

Statement showing cases of Excess / savings over Budget Provisions and expenditure incurred without Budget provision.

(Rs. in lakhs)

Sl. No.	Major Head (Plan & Non-plan)	Budget Provision	Expenditure incurred	Variation	Specific Reasons for excess/ savings
I.	Excess				
	(a) Plan				
	(b) Non-plan				
II.	Savings				
	(a) Plan				
	(b) Non-plan				
III.	Expenditure				
	Incurred				
	(a) Plan				
	(b) Non-plan				

21. a) Whether expenditure is being correctly classified under Capital and Revenue.  
b) Whether there is any mixing up of plan and non-plan transactions
22. Whether the expenditure incurred by drawing officers has been reconciled with that of the compiled accounts of the Accounting Authority. Extent of arrears to be given in as indicated below.

**Reconciliation of departmental figures of expenditure with accounts of Panchayati Raj Institution.**

Details may be furnished in the following proforma.

- a) Number of Controlling Officers who are responsible for reconciliation during the year :
- b) Number of Controlling Officers who reconciled :
- c) Number of Officers who have not reconciled :
- d) Amounts remaining unreconciled :
- e) Remedial steps taken by PRI :

23. Whether there are any minus balances in accounts, if so, whether reasons for such balances are examined and rectificatory action is initiated.

24. Whether the Institution is maintaining detailed account of loans and advances and is watching their recoveries.

25. Whether the closing balance shown in the annual accounts is correctly arrived at.

26. Internal Audit

- a) Number of offices to be audited during the year.
- b) Number of offices subjected to internal audit during the year.
- c) Balance.
- d) Reasons for the arrears.

District level Offices	Middle level Offices	Village level Offices
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27. Whether the Audit Certificate in the prescribed format depending upon the audit findings is enclosed.

28. Previous Audit Notes :

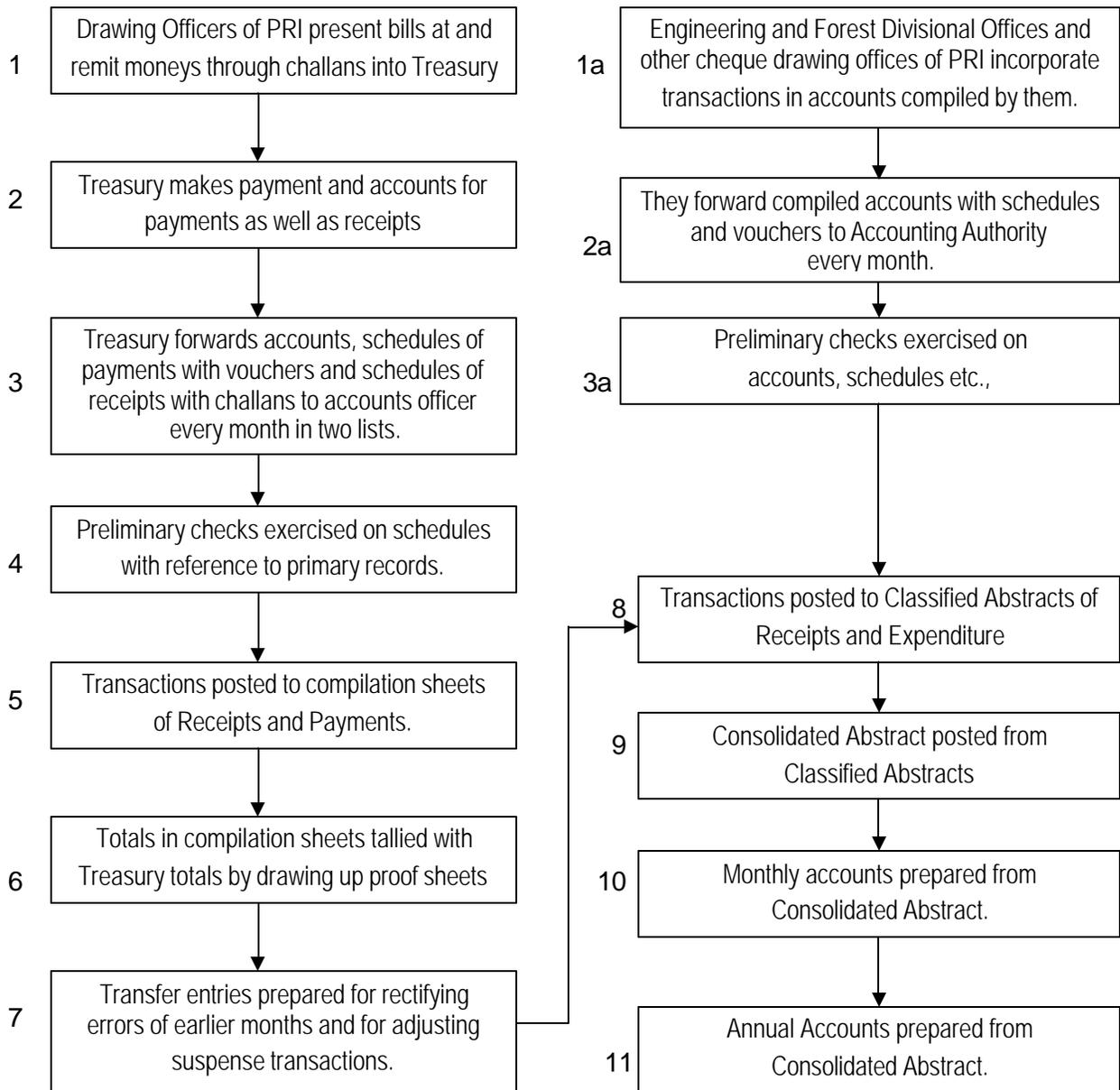
- a) Action taken on previous audit observations and settled by audit analysis.
- b) Reasons for continuance of persistent irregularities and action taken by PRI authorities.

## PROFORMA

(Referred to in item No. 1 of Checklist)

### CHART SHOWING STAGES LEADING TO PREPARATION OF MONTHLY / ANNUAL ACCOUNTS OF DISTRICT LEVEL / INTERMEDIATE LEVEL PANCHAYATS

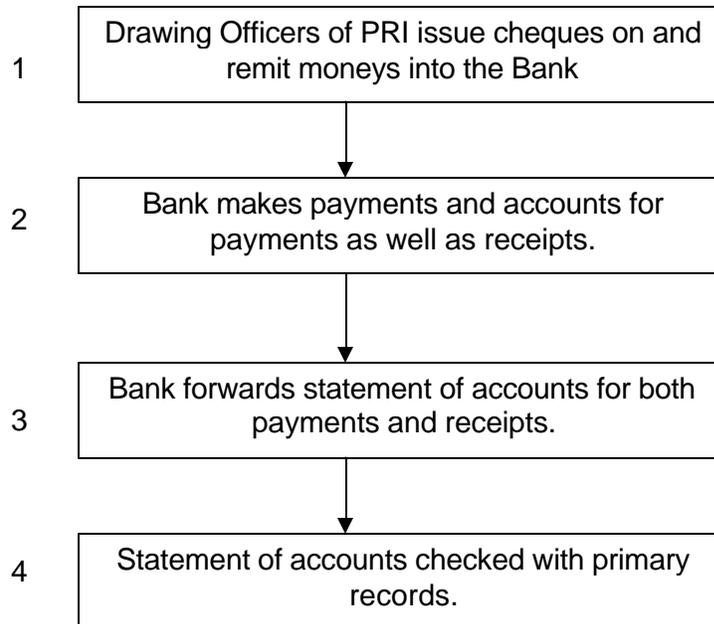
#### A. Where transactions take place through Treasury



## PROFORMA (Contd.)

### B. Where transactions take place through Bank Accounts.

I. Box numbers 1 to 4 under 'A' are to be replaced by the following :-



II. In Box number 6 under 'A', the word "Treasury" is to be substituted by "Bank" for the purpose of 'B'. Other Boxes as at 'A' remain the same for 'B'

C. For Intermediate level Panchayats same as 'A' and 'B' above, **omitting Box numbers 1a, 2a and 3a of 'A'**.

D. The Flow Chart at 'B' is applicable *mutatis mutandis* to PRIs which operate PD Accounts at the Treasury.

## CHAPTER 6

### GENERAL PRINCIPLES AND RULES OF AUDIT

**6.1** *Introductory* : The audit of transactions will vary from one Panchayati Raj Institution (PRI) to another depending upon the nature of transactions, the system of accounting and documents maintained in each PRI. However, the audit checks detailed in the following paragraphs are applicable to all classes of vouchers and expenditure.

#### **6.2** *Audit against sanctions to expenditure*

**6.2.1** Financial powers delegated to different authorities of PRIs are described in the financial rules and/or special orders issued by respective State Governments or other competent authorities.

**6.2.2** In audit, apart from seeing that an item of expenditure is covered by a sanction, either general or special, it has to be ensured that (a) the authority sanctioning it is competent to do so by virtue of the powers vested in it by the provisions of Rules and/or orders issued by competent authorities and (b) the sanction is definite and thus needs no further reference either to the sanctioning authority itself or to any higher authority for obtaining clarification thereon. A sanction to expenditure if received by Audit office, should be examined and admitted as regular and correct. In other cases, sanctions should be examined during local audit of PRI.

**6.2.3** In the audit of sanctions to expenditure, the following guidelines should be observed :-

- (a) If the sanctioning authority is vested with full powers in respect of a certain class of expenditure, a sanction issued by it can be objected to only on grounds of propriety (See paragraph 6.3 below).

- (b) If conditions are attached to the powers delegated to any authority, sanctions accorded under these powers can be objected to if it is found that such conditions have not been fulfilled.
- (c) It has to be ascertained that orders defining the powers of any authority in precise terms are obeyed exactly in every instance.
- (d) It has to be watched that expenditure sanctions are not split up to avoid the necessity of obtaining sanction of a higher authority.
- (e) Sanctions with long period of currency and sanctions of a permanent nature require to be reviewed periodically, so that, if for any reason it is felt desirable that the sanctioning authority should review them in the changed circumstances, etc., suitable action may be taken in the matter.
- (f) The scrutiny of sanctions should also cover the principles described in paragraphs 6.3 to 6.6 below.

**6.2.4** If certain conditions are to be fulfilled before a recurring charge is to be paid it should be seen in audit that the drawing officer has certified that the requisite conditions have been duly fulfilled. In case a recurring expenditure should not be incurred after the occurrence of a certain specified event, the drawing officer has to certify on the payment voucher that such an event has not yet occurred.

**6.2.5** It should be seen in audit that expenditure incurred is in accordance with the sanction authorising such expenditure.

### **6.3      *Audit against Propriety***

**6.3.1** In addition to ensuring that the relevant rules and orders of competent authority have been observed and that there is no irregularity in respect of an item of expenditure, it is important to see that the broad principles of orthodox finance are borne in mind by the officers sanctioning and/or incurring expenditure. This is called **Propriety Audit**.

**6.3.2** The following general principles which have been universally accepted as **standards of financial propriety or standards of official conduct of financial administration** should be applied in the course of audit :-

- (1) The expenditure should not be *prima facie* more than the occasion demands. Every officer is expected to exercise the same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure of his own money.
- (2) No authority should exercise its power of sanctioning expenditure to pass an order which will be directly or indirectly to its own advantage.
- (3) Public money should not be utilised for the benefit of a particular person or section of the community unless -
  - (i) the amount of expenditure involved is insignificant; or
  - (ii) a claim for the amount could be enforced in a court of law; or
  - (iii) the expenditure is in pursuance of a recognised policy or custom.
- (4) No authority should sanction any expenditure which is likely to involve at a later date, expenditure beyond its own power of sanction.
- (5) The amount of allowances, such as travelling allowances granted to meet expenditure of a particular type should be so regulated that the allowances are not on the whole sources of profit to the recipients.

**6.3.3** Any infringement of the principles enunciated above should be mentioned in the Audit Report and taken up with the authorities at appropriate levels.

**6.4            *Audit against Rules and Orders (Audit against Regularity).***

**6.4.1**        It has to be noted that the transactions should conform to the provisions of several Codes, Manuals, Rules and Regulations, orders and instructions issued by Government and other competent authorities and made applicable to the PRIs.

**6.4.2**        It has to be seen in audit that the transactions of PRIs as evidenced by the documents audited, are in accordance with the prescribed Code Rules, Manuals, Instructions, etc.

**6.4.3**        It is also important to ensure that rules and regulations are observed not merely in the letter but also in the spirit.

**6.5            *Audit against Provision of Funds***

**6.5.1**        Every PRI is required to compile an annual budget indicating various sources of income, anticipated income from such sources, the expenditure planned against prescribed heads of account both revenue and capital. The budget so compiled must be approved by the apex body in the annual meeting, including where necessary, a revised estimate for the year in progress, Copies of budget are required to be sent to Government for approval.

**6.5.2**        In audit it has to be seen that –

- (i)        proper control record is kept to watch the progress of income and expenditure against funds estimated for the purpose in the approved budget.
- (ii)       variations between actuals and budget provisions are examined at appropriate levels and remedial action is taken where called for and re-appropriation approved by specified authorities.
- (iii)      final receipt and expenditure under several heads of account at the end of the year are duly examined with reference to final appropriation and variations are brought to notice of the apex bodies for information and regularisation where necessary; and

- (iv) money expended has been applied to the services and purposes for which funds have been provided in the budget and it does not exceed the provision made therefor.

## **6.6      *Audit of Classification***

**6.6.1**      It has to be verified in audit that the transactions are correctly classified in the accounts under appropriate prescribed heads of accounts in accordance with the budget provision and also general rules and regulations relating to classification of transactions.

**6.6.2**      Audit should also see that the major, minor and detailed heads of accounts as noted in the paid vouchers are authorised heads, classified according to the provisions made in the sanctioned annual budget under 'Plan' and 'Non-plan' and the expenditure which should have been classified under 'Capital' section of the account has not been classified under 'Revenue' and ***vice-versa***.

## CHAPTER 7

### CHECK OF COMMON BOOKS OF ACCOUNTS AND REGISTERS

#### 7.1 *Introductory*

**7.1.1** All the Panchayati Raj Institutions (PRIs) dealing with cash transactions and Establishment matters should keep initial records as laid down in relevant rules, manuals, orders etc. Apart from these, the offices working under each Drawing Officer of PRIs are required to maintain registers, etc., as prescribed for the purpose of accounting for and exercising control over the several transactions of each department. Audit Parties should, therefore, verify in the first instance, whether the offices / institutions visited by them have maintained all the registers, records, etc., as prescribed in the Rules, Codes, Manuals, Orders, etc., applicable to them. Omissions and defects, if any, should be commented upon in the Audit Reports.

**7.1.2** PRIs are required to maintain accounts on cash basis and prepare **Receipts and Payments Accounts** (*vide Chapter 3*).

**7.1.3** Checks to be applied to the most common records maintained in the several offices of PRIs during audit are mentioned in this Chapter.

**7.2** ***General Checks applicable to all Records*** : Audit checks generally to be exercised on common as well as other registers, etc., kept in the offices subjected to audit are as follows :

- (i) The register is maintained in the prescribed form, page numbered and a certificate of count of number of pages is recorded under the attestation of The Head of Office on the first page.
- (ii) All the columns in the Register are correctly and properly filled in.
- (iii) Entries of receipts and payments are made in the chronological order on the date and as and when each transaction takes place.

- (iv) There are no over-writings, erasures, interpolations, etc., and all corrections are properly made by drawing a line through the erroneous entry and by inserting a fresh entry under the proper attestation of the Head of Office.
- (v) Entries or pages of the Register have not been tampered with.
- (vi) Entries in the Register have been made up to date, attested by a responsible officer, closed and reviewed by the Head of Office regularly as prescribed in the relevant rules.

### **7.3 Cash Book**

**7.3.1** In addition to the Cash Book for general transactions, PRIs are required to maintain a separate Cash Book for recording Bank transactions relating to each Centrally Sponsored Scheme (**see also paragraph 3.3 (c)- Item no.7 of chapter 3**)

**7.3.2** Cash Book is the most fundamental record and audit commences with the check of entries and posting in the cash book. The main purpose of auditing the cash book, is to verify that :-

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

**7.3.3** For the purposes indicated above the Cash Book should be generally examined to ensure that it is being maintained properly in the prescribed form and arrangements for obtaining cash, its custody, payment and accounting of cash transactions are in accordance with the relevant rules. The following points are to be covered during this examination :-

- (i) Adequate security from the cashier has been obtained, accepted by competent authority and documents relating thereto are kept in the safe custody of the office.
- (ii) Moneys received are remitted in full into the Bank or Treasury without undue delay and without appropriating them to meet departmental expenses.
- (iii) Details of unspent balances in hand are shown when closing the Cash Book at the end of each month. Heavy cash balance, which is not required for immediate disbursement, is not kept on hand at any time.
- (iv) No money is drawn from the Bank / Treasury far in advance of requirements.
- (v) Advances paid for departmental purposes do not remain unadjusted for unduly long periods for want of accounts supported by vouchers or refund, as the case may be.
- (vi) At the end of each month, the cash book is closed and the cash in chest is verified by the Officer-in-Charge of the cash who should mention in his own handwriting over his dated signature, cash actually found at the time of verification and whether the same tallies with the balance appearing in the Cash Book. Any discrepancy coming to notice is dealt with as per prescribed rules.
- (vii) Totals of the Cash Book if not checked by the Officer-in-Charge of the cash, are verified by an official other than the Cashier. In token of such verification, the official should certify "Totals Checked" over his dated initials in the Cash Book.
- (viii) Private cash (collection of Co-operative dues, etc.,) is not mixed up with the regular cash balance of the office.
- (ix) No money paid to an employee is charged off in the Cash Book, unless it is in settlement of a personal claim and it is ensured that such employee

remains accountable for the money received by him till he renders accounts for the same.

- (x) Accounts of imprests and temporary advances, if any, are regularly closed and rendered promptly every month and the recouping officer properly verifies them before recouping. When the Cash Book is closed at the end of the financial year, permanent advance is fully recouped and accounted for in the main cash book.
- (xi) On the first day of audit of any PRI, the cash balances should be got verified in the presence of the officer in charge of the audit party and the results recorded in the cash book. Shortcomings, (shortage or surplus) if any, noticed in this regard should be brought out in the Audit Report.
- (xii) Verification of encashment / remittances of the PRIs audited (including subordinate offices, Engineering / Forest Divisions / Sub-divisions / Range Forest Offices etc.,) should be conducted for two selected months, in cases where the transactions of PRIs take place through Treasuries. Certificate to that effect should be enclosed to draft Audit Report.

**7.3.4** Apart from the general scrutiny as above, detailed check of transactions relating to the month or months selected for such check should be done as follows:-

- (i) All receipts of cash as shown in the counterfoils of receipt books as well as cash received from the Bank / Treasury and other receipts in the form of cheques, cash or bank drafts, etc., are traced in the Cash Book under the respective dates and with correct particulars, on the Receipts side.

**Note:-** In the case of offices where the receipts are heavy (e.g., Hospitals, Educational Institutions, Forest Divisions) 50% of the receipt entries relating to the entire period covered by audit should be verified at random from the counterfoils of receipt books.

- (ii) All receipts which are remitted into the Bank / Treasury were so remitted without any delay. Cash receipts are not diverted to meet expenditure other than that, if any, authorised.

- (iii) Remittances into Bank / Treasury are supported by the entries in the Bank Pass Book / Remittance Register, in original challans duly receipted by the Bank / Treasury for the amounts shown in the Bank Pass Book / Remittance Register and in duplicate challans and Cash Book.
- (iv) Payments made are supported by proper vouchers complete in all respects.
- (v) Totals are correct and all balances have been worked out correctly.
- (vi) Permanent Advance, if any, held is accounted for in a complete manner in the Cash Book, clear details of cash on hand and un-recouped vouchers are recorded.
- (vii) Expenditure has not been incurred in excess of the permanent advance by using departmental receipts or other unspent balances of amounts drawn from the Bank / Treasury for a different purpose.
- (viii) Where subsidiary Cash Books are maintained, the transactions therein are duly taken over in the main Cash Book or a system exists where balances of all Cash Books are consolidated and reconciled.

**7.3.5** PRIs drawing funds from the Treasury on presentation of bills receive the payment vouchers along with the monthly schedules from the Treasury and keep them in their custody. It should be verified in audit that in such cases, payment vouchers tally in all respects with the duplicate bills and the entries in the Cash Books. In particular, it should be seen that there are no tampering and that there is no scope for any manipulations or frauds. This verification should be done for the month / months selected for detailed check.

**7.3.6** An intelligent review of the Cash Book entries and the Expenditure statement has to be conducted. Transactions involving heavy expenditure may be identified for a thorough check with reference to the office files, notings, sanctions issued by competent authority etc., connected with such transactions. Further, if any serious irregularity comes to notice during detailed check of Cash books and transactions for the selected month / months, the scrutiny should be extended to transactions of other months also.

### **7.3.7 Bank Reconciliation**

**7.3.7.1** The following points should be seen in audit :-

- (a) The cheque books are kept in safe custody, stock of books properly accounted for and the procedure for issue of cheques as laid down is duly observed.
- (b) Inter bank transactions are not resorted to i.e., from one bank account to another bank account. These transactions, if any, should be scrutinised carefully to ensure that such amounts have been utilised properly and recouped within a reasonable time and that such interbank transactions are authorised by the competent authorities.
- (c) Undue and heavy withdrawals of money on self cheques should be particularly scrutinised. The transactions connected with such withdrawals should be verified in detail with reference to vouchers / records in the office to make sure that services rendered and / or supplies made as recorded in the documents and registers have been actually and properly accounted for and represent real transactions relating to the activities (schemes or general purposes) of the PRI. Similar verification should be conducted in respect of cheque payments involving large amounts.

**7.3.7.2** It should be verified that Bank reconciliation is regularly being done as mentioned in **paragraph 5.11.4.2 of Chapter 5.**

**7.4 Treasury / Bank Challans :** The following points should be seen :-

- (i) There is a legible receipt for the amount received by authorised officials of the Treasury or the Bank, his official stamp is affixed and the amount receipted tallies with the amount for which the challan was prepared.
- (ii) The entry in the challan has not been tampered with and the amount is written clearly both in words and in figures to prevent the possibility of fraudulent interpolations.

- (iii) The signatures of the Bank or Treasury official signing the receipt on the challan should be compared with those on other challans. If they differ, reasons for the same should be ascertained.

## **7.5 Receipts**

**7.5.1** Every institution will have a prescribed procedure for issue and accounting of receipt. While auditing the receipts the points mentioned below are to be looked into.

**7.5.2** It should be verified that the provisions of relevant Rules have been complied with by the The Head of Office in dealing with the receipt transactions.

**7.5.3** It should be verified that the procedures prescribed for collection and remittance of PRI moneys have been followed by the Head of Office.

**7.5.4** It should be seen that the transactions relating to remissions, writes-off and refunds of revenue have been regulated and accounted for in accordance with prescribed Rules and Orders, by the Head of Office.

**7.5.5** The Registers, etc., that are prescribed in the relevant Rules should be scrutinised to see that they are properly maintained by the Head of Office. When conducting detailed check of transactions relating to the selected month / months, the individual items should be traced from one document to the other corresponding document, etc., and the several entries in respect of a transaction linked to one another to ensure the proper observance of the Rules cited above.

**7.5.6** The Stock Account of Receipt Books should be verified to see that (i) the entries of issue of fresh books and receipt of used books are properly made after check; (ii) in the case of cancelled receipts both the counterfoil and the original duly cancelled are available and (iii) the physical verification of used and unused books is done periodically by the Head of Office with reference to the balances in the Stock Account and a certificate of verification recorded. Audit Party should also verify the existence of receipt books with reference to Account Balances as on the date of verification.

**7.5.7** It has to be noted in particular that revenues generated from the resources of the PRI should be credited to relevant heads of account as prescribed. Similarly, income tax, sales tax, royalty, etc., recovered from bills or received in cash should be promptly paid into the credit of the respective accounts and should not be retained in the office. It should be seen that there has been no violation of these requirements by the Head of Office.

**7.5.8** It should be seen that realisations of revenue are duly posted in the Demand, Collection and Balance registers and the Cash Book.

**7.5.9** Reasons for loss of revenue, if any, should be duly examined and it has to be verified whether they have been written off under orders of the appropriate authority.

## **7.6** *Payments*

**7.6.1** It should be verified that the procedures laid down in the relevant rules and orders have been followed in regard to payment transactions and the documents / registers / records prescribed in those Rules have been maintained properly by the Head of Office.

**7.6.2** It should be seen that all payments in excess of the prescribed limits for cash payments have been made through crossed cheques drawn in favour of parties and in no case cash payment has been made by drawing self cheques or out of cash balances available in the office. When drawing bills from treasury, a requisition for issue of crossed cheque "Account Payee Only" is attached invariably to all such bills. It should also be verified that bearer cheques are not issued in any case. Further, endorsements made on cheques should be tallied with the acquittance in voucher or vouchers and it should be seen that no PRI employee figures in them as an endorsee.

**7.6.3** It should be checked that while preparing Detailed Contingent bills for supply of materials, stock certificates in the prescribed form are enclosed and that payment on the basis of proforma invoices is not made in any case. Advance payments on proforma bills can be made in cases where they are expressly permitted by the competent authority, if the relevant rules so provide.

**7.6.4** During detailed audit of transactions of the selected month / months, individual items should be traced from one document to the other corresponding document, etc., and the several entries relating to a transaction linked to one another to ensure the proper observance of the Rules prescribed.

**7.6.5** The general principles and rules of audit of payments are laid down in **Chapter 6**. These provisions should be applied in a general manner to the payments covered during the local audit of an office and in detail and in a thorough manner to the payments occurring in the month / months selected for detailed check.

**7.6.6** All vouchers in respect of payments made during the month / months selected for audit should be scrutinised carefully and in a complete manner. It should be verified that every payment entered in the Cash Book is supported by legal quittance, indicating therein the party to whom the money is paid, particulars of transaction to which the payment relates, the period for which the claim relates and, date of payment duly attested by person authorised to make payment. It has also to be seen in audit that :-

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

## **7.7 Security Deposits**

### **7.7.1** It should be seen that :-

- (i) Security in the proper form and for the prescribed amount has been furnished by officials dealing with cash or stores and by contractors and suppliers who are engaged to execute a work or effect supply of stores to the office;
- (ii) Security Bonds in the appropriate form have been executed by the persons concerned;
- (iii) Securities such as Savings Bank Pass Books, Fixed Deposit Receipts, Bank Guarantees etc., have been duly hypothecated in favour of the Head of Office;
- (iv) conditions attached to the security are being fulfilled by the persons concerned and requisite action is taken promptly by the Head of Office in case of any infringement of any of the conditions;
- (v) validity periods of securities, such as Bank Guarantees, furnished are in accordance with the requirements of contract, supply order, etc., and prompt action is taken by the Head of Office to get them renewed whenever necessary;
- (vi) Securities and Security Bonds are kept in safe custody and are released only after the purpose for which they have been obtained is served and with the prior approval of the competent authority; and
- (vii) the title of the person concerned to the Security Deposit is absolute.

**7.7.2** The Register of Security Deposits is to be verified to see that (a) entries relating to the receipt and disposal of deposits since last audit have been correctly made with attestation of the Head of Office; (b) acknowledgments of parties have been obtained when Security Deposits have been returned and (c) physical verification of Securities is conducted every year by a responsible officer with reference to

the entries in the Register and a Certificate of Verification recorded in the Register over the dated signature of the verifier.

## **7.8        *Establishment Pay Bills and Acquittance Rolls***

**7.8.1**        Establishment pay bills and acquittance rolls relating to the period covered by local audit should be generally reviewed to see that they are correctly prepared and properly maintained, acknowledgments of payees (duly stamped, where necessary) are invariably obtained in the acquittance rolls, supplemental claims are noted against original claims in the acquittance rolls, and prescribed certificates as applicable to the claims preferred in the bills are furnished. The checks detailed in the succeeding paragraphs should be applied to all the pay bills and acquittance rolls pertaining to the months selected for detailed check.

**7.8.2**        A scale register is maintained by each the Head of Office, wherein various posts sanctioned, numbers, scale of pay, period of currency etc., are recorded in respect of each establishment. The correctness of the entries in the Scale Register maintained in accordance with the relevant Rules in the Office audited should be ensured in the first instance with reference to the orders cited therein. The number of officials for whom pay has been drawn in the pay bills should be checked with the sanctioned strength of the establishment as recorded in the Scale Register. Any excess number of officials employed over the sanctioned strength should be reported to the head of office promptly so that the matter may be taken up with appropriate authorities for requisite action.

**7.8.3**        The correctness of the pay and allowances of each official drawn in the pay bills should be verified with reference to the following documents :-

- (a) State Service Rules and/or general or special orders as applicable to PRIs issued by Government governing appointments, transfers, joining time, suspension, retirement, pay scales, different types of special pay and compensatory allowances, etc.
- (b) Service Books.
- (c) Increment Certificates.
- (d) Orders of appointment / promotion / reversion of an individual.
- (e) Sanctions to leave.
- (f) Orders of suspension and grant of subsistence allowance.

- (g) Orders, if any, of the Disciplinary authority having a bearing on the pay, increment or promotion.

**7.8.4** Apart from exercising checks as mentioned above, initial fixation of pay, cases of increments sanctioned and cases of fixation of pay done due to promotion, reversion or general revision of pay scales during the period covered by local audit should also be verified to ensure their correctness.

**7.8.5** Cases of leave encashment should be scrutinised.

**7.8.6** Noting of supplemental claims against original claims in the Acquittance Rolls should be specifically verified as also compliance with the other requirements connected with acquittance rolls.

**7.8.7** The correctness of the arrears drawn and paid to an official on account of revision of pay scales, rates of Dearness and other allowances, etc., should be checked.

**7.8.8** Correctness of recoveries towards Income Tax, Contributions to Provident Fund and other funds, installments of repayment of advances etc., should be verified. It should also be seen in audit whether, such deductions have been remitted to the departmental and accounting authorities concerned promptly and regularly in accordance with the prescribed procedures.

**7.8.9** It should be verified that satisfactory arrangements are made for keeping a watch over undisbursed amounts. It should be seen that :-

- (a) disbursements made have been duly accounted for in the cash book and the subsidiary register;
- (b) certificate of disbursement is furnished at the foot of the acquittance rolls;
- (c) Register of Acquittance Rolls bears the dated initials of the Drawing Officer at the time of drawing the bills and of the Disbursing Officer after disbursement of the amounts;

- (d) where the amounts withheld are drawn subsequently in supplemental bills, references are quoted in the Registers, and
- (e) amounts remaining undisbursed for more than three months are refunded into the Treasury / Bank either in cash or by short drawal in the subsequent bills.

## **7.9 Bill Register**

**7.9.1** The following points should be seen :-

- (i) It is maintained in the prescribed form and all the columns provided therein are properly filled in;
- (ii) All bills drawn are entered date-wise in the register, the entries being duly attested by the drawing officer;
- (iii) When the bills are endorsed to parties a note to that effect is made;
- (iv) Reference to the voucher (number and date) is given in all cases;
- (v) When bills are cancelled, a note to that effect is made in the Register.

## **7.10 Contingent Vouchers and Register**

**7.10.1** Every payment of a routine nature for the day to day functioning of the office, such as stationery, postage, maintenance, running of vehicles, purchase of uniforms to staff, cartage (transportation), entertainment expenses etc., fall under the category of office contingencies. In respect of these transactions it is necessary to see in audit that :-

- (i) proper record of expenditure under each category is kept;
- (ii) expenditure is regulated according to prescribed scales;
- (iii) there exists adequate justification for abnormal increase, if any, in expenditure under any category;
- (iv) control over the expenditure is vested in certain authorities and they have performed their assigned duties adequately; and

- (v) procedure, if any, prescribed to be followed before incurring any contingent expenditure is observed.

**7.10.2** The sub-vouchers which have not been forwarded to the Accounting Officer of PRI but retained by the Head of Office should be especially checked and linked to the main contingent bills. It should be verified that they are kept on record and duly cancelled so that they cannot be used again.

**7.10.3** The following points should be seen when checking the Contingent Register :-

- (i) Each entry is supported by a voucher and attested by the drawing officer.
- (ii) Entries are correctly made under the sub-heads of charges.
- (iii) The total of entries of sub-vouchers agrees with that of the Contingent Bill drawn.
- (iv) The progressive total expenditure from month to month during the year, under each head of classification does not exceed the allotment noted at the top of the respective columns.
- (v) The totals of the bills drawn are correctly worked out.
- (vi) In the case of bills for purchase of stores, the articles detailed in the bills have been correctly taken to the Stock Register concerned.
- (vii) Payments made for stores have been noted in the indents and invoices concerned to prevent any double payment.
- (viii) When wages payable to labour or casual workers have been drawn on contingent bills, wages payable have been correctly calculated and proper acknowledgements have been obtained from the payees in the acquittance rolls.
- (ix) The flow of expenditure is even and that if expenditure is unusually heavy towards the end of the year, it has not led to financial irregularities.

- (x) No money is drawn from the bank / treasury unless it is required for immediate disbursement.
- (xi) All charges incurred have been drawn and paid promptly and they have not been held over to be paid from the grant of the next year.

**7.10.4** Points, if any, referred by the Central Audit Wing for local verification of discrepancies in the bills should be carefully examined to ascertain the correct position and to detect serious irregularities, if any, relating to such cases in the PRI under audit.

**7.10.5** A special report should be forwarded to the Head of the PRI on the lapses, if any, noticed on the part of the Controlling Officer who has countersigned the contingent bills.

## **7.11 Muster Rolls**

**7.11.1** In States where PRIs employ labour on daily wages, Muster Rolls in the prescribed form are used.

**7.11.2** The points to be covered in audit of Muster Rolls are as follows :-

- (i) Record of employment on specified jobs and record of performance of the specified job are available;
- (ii) Attendance is taken daily and a daily labour report is sent from the field to the office and supervision over the work is adequate;
- (iii) Record of attendance is checked periodically, by a responsible officer inspecting the works on which the labour is employed and assessment of work done *visa-vis* the expenditure incurred is made;
- (iv) Disbursements are not entrusted as a rule to officials of low standing;
- (v) Father's name and name of village are noted in respect of each person, wages payable are correctly worked out and payment is properly acknowledged.
- (vi) As far as possible, the officer disbursing the wages should be different from that controlling the labour;

- (vii) A record is kept of the progress of work done by labour and its cost does not exceed the value at current rate and expenditure has been correctly apportioned between capital and revenue;
- (viii) If the cost of work done through labour is excessive, the reasons for the same are looked into for exercising closer / stricter financial control;
- (ix) Labourers paid from muster rolls were not engaged on any work other than that for which they were employed; and
- (x) The work on which employment was made necessary and time taken for its completion was reasonable.

**7.12 Stamp Account :** It should be seen that :-

- (i) the account has been maintained properly bringing to account all receipts and issues and totals and balances have been correctly worked out;
- (ii) physical balance has been verified periodically and agreed with the book balance;
- (iii) stamps have been used strictly for official purposes; and
- (iv) expenditure on telegrams is not excessive.

**7.13 Stationery Register :** It should be seen that :-

- (i) all purchases of stationery shown in the indent are traceable with the receipt entries of this register in respect of the months for which detailed check is being conducted;
- (ii) totals and closing balances are correctly worked out; and
- (iii) all issues are bonafide and there is no evidence of any tampering of entries.

**7.14 Register of Forms :** During scrutiny of this Register –

- (a) the receipt entries should be checked with the indents;
- (b) correctness of issues should be test checked;

- (c) a percentage of totals and closing balances should be verified;  
and
- (d) the receipts and issues of saleable forms, (such as tender documents) license forms or receipt forms should be checked very carefully.

## **7.15 Log Books for Vehicles and other Records**

**7.15.1** It should be verified that in respect of vehicles attached to the office, the following records are maintained:-

- (a) Log books in the prescribed form.
- (b) A record of repairs and replacements indicating the cost and the dates on which they have been carried out.
- (c) A register showing cost of petrol, diesel, oil, etc., consumed and all incidental expenditure.
- (d) An inventory of accessories, tools, spare parts, etc.

**7.15.2** The following points should be seen in audit :-

- (i) The entries in the log book and other records are made in ink and there is no tampering of the entries.
- (ii) The kilometer readings at the start and at the completion of each journey are noted by the officers using the vehicles in their own handwriting or by other subordinate officers duly authorised to authenticate the entries.
- (iii) The purpose of the journey is noted clearly to indicate that journeys are official and also marked as 'Official' and signed by the officer using the car, van or jeep.
- (iv) The log book is scrutinised by a senior officer once a month to ensure that there is no misuse of the staff car and that officers who used the staff car have made the necessary entries in the log book. A certificate to this effect

is recorded in the log book by the officer authorised to scrutinise it every month.

- (v) The log book is closed at the end of each month and a summary showing details of duty and non-duty journeys performed during the month is prepared in the prescribed proforma.
- (vi) The staff car is used for bonafide official duties and its use for non-official journeys is allowed to a limited extent without detriment to official work.
- (vii) All private journeys where allowed are charged at the rate fixed for the purpose and the charges at these rates are recovered correctly and promptly from the concerned persons for the entire distance travelled.
- (viii) Proper control is exercised over consumption of petrol, diesel, etc. The average K.M. run per liter of fuel is worked out every month and it compares favourably with the optimum prescribed average consumption. In case consumption is more than the average, reasons for the same are investigated and suitable remedial measures are taken.
- (ix) The cost of repairs and replacements is not on the high side.
- (x) The replacement of same part / parts is / are not repeated in quick succession.
- (xi) Reasons for frequent repairs / break down of vehicles / staff car are not such as to indicate negligence on the part of the drivers or laxity of control.
- (xii) All bills paid towards the cost of P.O.L are entered in the Register of P.O.L.
- (xiii) The entries made in the Register of P.O.L. agree with those made in the P.O.L. Account maintained in the log books.
- (xiv) The accessories, tools and spare parts are kept on record immediately on their purchase and the entries are verifiable from the relevant vouchers.

- (xv) The stocks of accessories, spare parts, etc., are physically verified once a year by a responsible officer with reference to the inventory and a certificate of verification recorded. Any shortage coming to notice is promptly enquired into and is got replaced or its value recovered from the person responsible for the shortage. The Stock verifier should also verify whether the accessories, spare parts, etc., are in good and usable condition.

## **7.16 Travelling Allowance Bills**

**7.16.1** In the audit of T.A. Bills of PRI staff paid in the month or months selected for detailed check, it should be seen that the following fundamental requirements have been satisfied :-

- (i) The journey was actually performed.
- (ii) The journey was necessary and authorised by general or special orders.
- (iii) The journey was performed as expeditiously as possible.
- (iv) No bill has been submitted and / or paid for the same journey before.
- (v) The amounts claimed (fares or mileage for journeys, daily allowance etc.) are correct with reference to the pay of the claimant and prescribed rates as also general / special conditions.
- (vi) Particulars under all the columns in the bill have been clearly furnished.
- (vii) The claimant and the drawing and countersigning officers have given all prescribed certificates and declarations applicable to the claims included in the bill in a correct and complete manner.
- (viii) Supporting documents such as tickets in proof of travel and receipts for conveyance of personal effects in case of transfers as prescribed have been attached to the bill.
- (ix) The controlling officers who have countersigned the T.A. Bills have properly discharged their duties.

**7.16.2** In the case of journeys performed by using the PRI vehicle, a comparison of the entries relating to the time of departure and the time of arrival made in the T.A. Bills should be made with those recorded in the Log Book of that vehicle on the days on which Daily Allowance is claimed by the officer using the vehicle. This comparison would ensure the correctness of the quantum of Daily Allowance claimed.

**7.16.3** A special report should be submitted to the Head of PRI on the lapses, if any, noticed on the part of the Controlling Officer who has countersigned the T.A.Bills.

**7.17        *Stores and Stock Accounts***

**7.17.1** The stock accounts to be maintained by PRIs can relate to –

- (i) articles procured for consumption of office;
- (ii) articles retained permanently for official use;
- (iii) plant and machinery;
- (iv) equipments; and
- (v) articles procured for distribution among beneficiaries of schemes etc.

**7.17.2** The main aim of audit of stores and stock accounts should be to ensure that the relevant provisions of the Stores Manual and Departmental Codes, Manuals and regulations regarding purchase, receipt and issue, consumption, custody, condemnation, sale and stock taking of stores, etc., as made applicable to PRIs are being properly followed.

**7.17.3** The transactions relating to purchase, receipt and issue, and sale of stores relating to the selected month / months should be checked in detail apart from (a) a general review of all the transactions for the period covered by audit and (b) ensuring compliance with the other rules relating to stores accounts (e.g. custody, stores verification, etc.).

**7.17.4        **PURCHASE OF STORES:-**** The following points should be seen :-

- (i) Purchases are properly sanctioned authorised and are made economically and necessity for the purchase is established;
- (ii) When purchasing from contractors, an open competitive tender system is adopted;

**NOTE:-** The instructions contained in **Chapter 9** of this Manual regarding audit of tenders and contracts should be followed in auditing contract files relating to purchase of stores.

- (iii) The purchase is made from the lowest tenderer;
- (iv) In case the lowest offer is not accepted, reasons are recorded for rejecting it and for accepting the higher tender;
- (v) Before making payment, certificates of satisfactory quality and correct quantity of supplies and also prescribed certificates in respect of Sales Tax are recorded on the bills by the officers concerned;
- (vi) When advance payments are made in special cases with proper sanction prior to receipt of stores, proper safeguards have been taken to protect the interests of PRI and the advance is adjusted only after ensuring the correctness of quality, specifications and quantity of stores received;
- (vii) Purchase orders have not been split up to avoid the necessity of obtaining the sanction of higher authority, taking into account the total amount of the different orders for the same article issued on the same day or at short intervals;
- (viii) Rates paid for supplies agree with those shown in the contract or agreement entered into for the supply;
- (ix) Conditions, if any, stipulated in the contract or supply order are fulfilled by the supplier before the bill is passed for payment;
- (x) Purchases have **not** been unnecessarily made merely to avoid lapse or surrender of budget allotments and items are actually utilised for the specified purposes;
- (xi) Purchase of a particular item of stores is justified with reference to the existing stock position of that item and its probable consumption or use in the near future, as the activities of the institution would indicate and excessive accumulations are avoided.

**7.17.5 STOCK INVENTORIES:-** It should be verified that the inventory in an office is commensurate with its requirements and there is no unnecessary accumulation of stores. Cases where stock balances of articles are heavy and far in excess of the normal consumption or requirements for a reasonable period should be looked into to find out the reasons for the same.

**7.17.6 STOCK REGISTERS OR LEDGERS:-** It should be seen that:-

- (i) the prescribed forms are used for keeping the stock accounts;
- (ii) balance as per the previous account has been correctly carried forward;
- (iii) there is no evidence of tampering of any of the entries;
- (iv) receipts and issues are entered in the registers as and when the transactions occur;
- (v) items are issued at properly worked out rates approved by competent authorities and are utilised only for specified purposes;
- (vi) valuation of items taken to stock and accounting of issues have been done properly according to prescribed procedures;
- (vii) balances are correctly worked out;
- (viii) all entries of transactions and balances are attested by a responsible officer;
- (ix) entry of receipt is supported by an invoice or supply bill and entry of issue by an indent or requisition approved by the The Head of Office; and
- (x) proper acknowledgment of the recipient for stores issued is kept on record.

**7.17.7 PHYSICAL VERIFICATION OF STORES:-** Apart from verifying that procedure prescribed for stock verification is adequate and is duly observed, the following points should be seen in audit :-

- (i) Physical verification of stores is done annually and ground balances are checked with the Book balances of all the items in stock.
- (ii) The verification is done, as far as possible, by an officer who is not connected with the custody of stores or with the maintenance of stock accounts.
- (iii) Results of stock verification are properly recorded by the Verifying Officer in the Stock Registers or Ledgers.
- (iv) Discrepancies found on stock taking are promptly investigated and set right.
- (v) Clear cases of shortages are pursued vigorously and their values made good from the persons responsible for the shortages and disciplinary action is initiated against the persons concerned for shortages and discrepancies, wherever such action is warranted.
- (vi) Measures are taken to survey, segregate and to dispose of old, unserviceable, surplus and obsolete stores suitably to the best advantage of the institution.
- (vii) When value accounts of stores are maintained, the total of the value account tallies with the balance arrived at in the general accounts and the numerical balance of materials is tallied with the total value balances in the accounts at the rates applicable to different classes of stores; and
- (viii) Profits or losses resulting from sales or due to revaluation, stock taking or other causes are promptly adjusted in accounts and the relevant rules have been properly followed in this connection.

**7.17.8 SALE OF STORES:-** It should be seen that:-

- (i) Stores are sold only with the prior approval of the competent authority;
- (ii) Sale price of an article is fixed with reasonable accuracy;

- (iii) Selling rates are reviewed periodically and revised, if necessary, after comparison with the market rates;
- (iv) Survey Report is approved by the competent authority before unserviceable stores are sold; and
- (v) When stores are sold by public auction, there are documents to prove that sufficient publicity had been given notifying the sale that auction was conducted properly, that they have been sold to the highest bidder, and that auction records have not been tampered with.

**7.17.9 IDLE MACHINERY:-** The following points should be seen while examining why any machinery is idle:-

- (i) Date of purchase or receipt of the machinery and its original cost.
- (ii) The period for which it is idle and the reasons therefor and whether the defects have appeared during the guarantee period offered by the suppliers.
- (iii) The estimated cost of major or minor repairs required to make it serviceable.
- (iv) Reasons for not taking up repairs promptly.
- (v) Expenditure already incurred on repairs and replacements since the date of its acquisition.
- (vi) Expenditure incurred on idle crew during the period of idleness of machinery, if services of such crew have not been utilised elsewhere.
- (vii) If the machinery were absolutely needed for the day to day working of the office, what alternative arrangements have been made in the absence of the machinery and at what cost.
- (viii) If the machinery has outlined its utility or if the estimated cost of repairs is found to be too high, whether it would not be prudent to dispose of it, after technical investigation and after condemnation by the competent authority.

## **7.18 Register of Advances to Employees**

**7.18.1** Audit has to ensure that -

- (a) all types of advances made to employees are classified as advances under correct heads of account and not to final heads of account;
- (b) adjustments of advances are properly accounted for; and
- (c) advances outstanding at the end of year are reflected in the annual accounts.

**7.18.2** It should be seen in audit that in respect of festival advances and advances for purchase of conveyance, house construction etc., recovery of instalments is more or less regular and that in respect of travelling allowance advance, adjustment bills are obtained immediately after the tour or transfer is over.

**7.18.3** It should be seen in audit whether the prescribed rules and orders regulating the purpose, eligibility, documentation leading to the sanction of advances, scrutiny, sanction, quantum, levy of interest / penal interest, disbursements of installments, repayments and modalities of recovery, watching of recoveries etc., have been properly followed by the officers dealing with advances and related transactions.

**7.18.4** Audit should also ensure that procedures prescribed for pledging / mortgaging of properties purchased (movable or immovable) or built out of advances granted to employees have been correctly followed and such documents being valuable documents are entered in a Register of Valuables and kept in safe custody. These documents should be released and returned to the employees only after the advance along with interest has been fully repaid as evidenced from the Advance Register. Till then, the Head of Office should periodically verify the physical existence of these documents and record a certificate to that effect in the Register of Valuables. Special care should be taken to establish that the documents submitted and pledged are authentic and that the PRI authorities take all precautions to verify their genuineness by suitable cross verifications.

**7.18.5** The Register of Advances should be checked to see that entries therein are made promptly with attestation by the authorised officer, there is no omission to effect recoveries of principal and interest as per rules, balances are regularly struck, outstanding balances at the end of each month and year as per the Register tally with corresponding figures appearing in the monthly and annual accounts respectively.

**7.18.6** Audit should also see that internal check and control over advances and their recoveries are quite adequate. In particular it should be seen in audit that :-

- (i) the advance was for meeting immediate disbursement and limited to anticipated expenditure;
- (ii) advance is duly authorised by competent authority;
- (iii) proper record of such advances is kept and recovery / adjustment is watched through it;
- (iv) unutilised amount has been promptly refunded;
- (v) recovery of installments is regular in all cases; and
- (vi) if any purchases for office use have been made out of advances which were duly authorised by competent authority and such items have properly been taken to stock.

**7.19** ***Probing of Irregularities***

In the course of local audit of the initial records of any office a number of irregularities may come to notice. Most of them may, ***prima facie***, appear to be of a minor or routine in nature but at least a few of them are likely to conceal defalcations or frauds. All such irregularities should, therefore, be scrutinised in detail and with great care to ensure that they have not led to any frauds. Examples of such irregularities are given in the **ANNEXURE-1** to this Chapter for the guidance of the Audit Parties.

## ANNEXURE-1

(Referred to in Paragraph 7.19)

### ***Examples of Minor Irregularities which require to be probed into carefully***

1. Erasures, over-writings, interpolations, unattested alterations and corrections in figures, pass orders, etc., in account books and registers, bills presented at Treasuries, invoices, purchase bills, challans, receipts, Bank Pass Books, etc.
2. Removal of pages from account books and registers.
3. Errors in totaling, tampering in carry-forward of totals in bills, challans, cash books and stock books.
4. Errors in carrying over figures from subsidiary registers to main registers.
5. Delay in disbursements of moneys drawn from Bank / Treasury to payees (including moneys recovered against court attachments, undisbursed salaries, etc.).
6. Non-availability of challans in support of remittance entries in cash book and remittance book.
7. Payments made on duplicate invoices, absence of invoices in support of receipt entries and absence of indents and acknowledgements of recipients in support of issue entries in stock books.
8. Failure to cancel sub vouchers or paid invoices.
9. (a) Bills presented at Treasury without entry in the Treasury Bill Register.  
(b) Cheques issued without proper vouchers.
10. Items of stores, works, etc., paid for in bills not being traceable in the relevant registers, viz., stock account, work registers, measurement books, etc.
11. Signing office copies of bills in full; difference between the entries in the office copies and fair copies of bills in regard to name of payee, endorsee, etc., or absence of office copies of bills.
12. Persistent failures to conduct physical verification of stores or to take suitable action on the verification reports.
13. Entries in important records like Cash Books, Stock Accounts, etc., not being attested.
14. Absence of proper periodical scrutiny of Cash Books, Contingent Registers, Stock Books and D.C.B. Registers by the The Head of Office.
15. Not posting important account books up to date.

16. Non-reconciliation of departmental figures with those of the Bank / Treasury and / or failure to get the differences set right.
17. A.C. Bills pending adjustment for a long time without preparation and submission of D.C. bills.

Note : Although D.C. bills have not been submitted for moneys drawn on A.C. Bills, the office should have on record acknowledgements for the moneys disbursed, accounts with supporting documents for final payments made and officer-wise details for the amounts outstanding.

18. Non-production of vouchers, sub-vouchers, muster rolls and other documents and registers having financial implications for audit, despite repeated reminders.
19. Expenditure incurred in excess of monthly allocation or budget grant.

## CHAPTER 8

### AUDIT OF TRANSACTIONS - ESTABLISHMENT

#### **8.1**      ***Service Books and Leave Accounts***

**8.1.1**      During Audit, 25% of Service Books of the officials should be checked in an office which is audited annually, 50% in an office audited once in 2 years and 100% in an office audited once in 34 years. However, the audit party should check Service Books of all officials who are to retire in the next 12-18 months.

**8.1.2**      ***Service Books*** : The following points should be covered during check of Service Books :-

- (i)      They are maintained with the leave account, for every official in the prescribed form and it is complete in all respects and kept up to date.
- (ii)      The posts are created by the authorities competent to create those posts and are in the prescribed scales and the appointments made are as per prescribed procedures.
- (iii)      Entries of all events in the official career of the official (such as date of appointment, promotion / reversion, suspension / reinstatement, grant / stoppage of increment, punishment, if any, affecting service qualifying for leave or pension, commencement / completion of probation, confirmation, deputation to other offices, retirement, etc.) are made in his service book and attested by the authorised officer duly giving reference to sanction order or such other relevant authority and there are no missing links.
- (iv)      Service Book contains a certificate of annual verification of service with reference to acquittance rolls and other records.
- (v)      No alteration of the date of birth of the official is made in contravention of the relevant rules and without sanction of the competent authority.

- (vi) Entries in the first page are attested every five years.
- (vii) option, if any, regarding revised scale / pension rules / leave rules, etc., exercised by the official, the nomination to DCRG, GPF, etc., are recorded / firmly pasted in the service books.
- (viii) entries in the pay columns of the service books agree with the pay actually drawn as per the office copies of pay bills and paid as per the acquittance rolls for the months selected for detailed check.
- (ix) Officials are not retained beyond the date of superannuation, except under the orders of Government or competent authority.
- (x) The regulation of increments, fixation of pay due to revision of pay rules, promotion, etc., are according to the prescribed rules and orders.
- (xi) None of the entries in the Service Book is tampered with.

***NOTE:- If a doubt arises regarding the authenticity of any entry, the original document quoted in such an entry should be called for and the genuineness of the entry verified with reference to that document.***

**8.1.3 Leave Accounts :** The points to be seen are as follows :-

- (i) The nature and extent of leave sanctioned is correctly due and admissible to the official under the leave rules;
- (ii) Leave account has been properly posted and closed soon after the incumbent returns to duty from leave and every entry has been duly attested;
- (iii) Orders of the leave sanctioning authority have been recorded in the body of the service book, giving reference to memo no., date, etc.;

- (iv) Leave at credit has been correctly worked out in accordance with the rules and leave account revised wherever necessary with reference to orders regarding completion of probation, confirmation, etc.;
- (v) Fact of issue of certificate under the relevant provisions of the leave rules in respect of leave sanctioned during the officiating service is recorded in cases where the period of leave is counted as service for increment under these rules;
- (vi) Subsidiary leave accounts have been maintained wherever necessary and debits to such accounts have been correctly made;
- (vii) Excess leave sanctioned or excess leave salary drawn by mistake and discovered later has been rectified promptly
- (viii) Benefit of encashment of leave wherever allowed is correctly admissible, the order number, block period, etc., are recorded in the body of the service book, and the leave availed / surrendered is correctly debited to leave account.

## **8.2        *Audit of Pensions***

**8.2.1        *Introductory*** : In PRIs where a scheme of paying pension to their employees is in operation, audit has to ensure that the scheme has been properly formulated and approved by the competent authority. It should also be seen that detailed rules and procedures have been prescribed for meeting the pensionary liabilities, for building up pension papers, for processing them, for authorising payments, for watching payments against authorisations, for regulating payments in cases of death etc., and for maintaining requisite registers for these purposes and other allied matters.

**8.2.2**        In Audit it should be seen that qualifying conditions prescribed in the Rules for grant of pension and gratuity are fulfilled and that amounts of pension and gratuity sanctioned and drawn are correct and in accordance with the relevant Rules.

**8.2.3**      **Authorisations** : Authorisations issued by the Accounting Authority of PRI for drawing pensionary benefits should be checked in Audit with reference to documents such as Service Book, application form with Joint photo, slips containing specimen signatures and identification marks duly attested by a Gazetted Officer, statement of service, leave account etc., (as prescribed in the Pension Rules), available in the pension files. In cases where the Service Book is lost or service cannot be wholly verified from the Service Book it should be seen that the procedure laid down in the relevant provisions of Pension Rules governing such cases have been followed properly.

**8.2.4**      **Pension Cases** : The more important points to be covered in the audit of pension cases are as follows :-

- (a)      Statement of service, statement of leave, etc., should be checked with reference to the entries in the Service Book.
- (b)      Dates of birth, commencement of qualifying service, retirement or death shown in pension papers tally with those recorded in the Service Book.
- (c)      Service qualifying for pension has been correctly computed.
- (d)      Correctness of the last pay due or drawn should be verified on the basis of the entries in the Service Book.
- (e)      It should be checked that the amount of pension and gratuity have been worked out correctly with reference to the qualifying service and emoluments drawn on the last day of service.
- (f)      It should be seen that Dearness Relief (Allowance) on pension has been correctly allowed as applicable on the relevant date and that both pension and Relief thereon have been correctly rounded off.
- (g)      Apart from verifying as at (a) to (f) above, in cases relating to grant of provisional pension, it should be seen that it is restricted to the admissible period. Similar checks should be applied to cases where anticipatory

pension has been authorised and in addition, whether relevant provisions of Pension Rules are followed should be seen.

- (h) Whether amounts, if any, due from the employees are ordered to be recovered from the Death cum Retirement Gratuity should be checked.
- (i) In cases of death, Audit should see that –
  - (i) points as at (a) to (f) and (h) above are covered;
  - (ii) claims for family pension / gratuity are allowed in accordance with the Nomination obtained from the employee and kept on record;
  - (iii) in the absence of a valid nomination, whether death gratuity is authorised to the beneficiaries supported by legal documents where necessary and as laid down in PRI Pension Rules;
  - (iv) period up to which enhanced family pension is to be allowed is correctly worked out with reference to dates of birth and death of the deceased employee; and
  - (v) conditions governing the admissibility of and the date up to which family pension is admissible to the widow, minor children and unmarried daughters are clearly specified in the sanction.
- (j) It should be verified whether sanctions for payment of commuted value of pension and cash equivalent of earned leave at credit on the date of retirement / death are regulated according to the relevant provisions of Pension Rules.
- (k) It should be ensured that pension payments have been authorised strictly on the terms and conditions stated and to the persons named in the pension papers.
- (l) It should be seen that a note regarding the issue of authorisations is recorded in the Service Book, under proper attestation.
- (m) Whether particulars of authorisations issued have been correctly noted and attested by a responsible officer in the relevant Registers (for Pension Payment Orders, Gratuities, Commutations, leave salaries) maintained by the Accounts Wing should be checked.

- (n) Whether the apportionment of the charge between State Government and the PRI (if the pension rules have so stipulated) has been indicated in the Pension report / PPO in respect of employees who were in the service of the State Government before their absorption in the PRI should be checked.

## **8.2.5 Pension Payments**

**8.2.5.1** Audit should check whether vouchers relating to payment of pensionary benefits to the PRI employees or their spouses as the case may be, are received from the paying authority and properly filed in the Accounts Wing.

**8.2.5.2** In audit of these vouchers it should be seen that –

- (a) they have been drawn in the proper form on the basis of a pension payment order and sanction from Competent Authority;
- (b) calculations and totals of payments are correct;
- (c) period for which pension has been drawn is covered by PPO issued by Competent Authority;
- (d) receipt of payments has been properly acknowledged by the payee authorised to receive the benefits;
- (e) charges have been correctly classified;
- (f) requisite certificates have been attached to the vouchers, duly signed;
- (g) restoration of original pension after the prescribed period from the date of commutation has been made properly;
- (h) dues ordered to be recovered from the gratuity have been recovered fully and adjusted to correct heads of accounts;
- (i) if income tax is due, it has been recovered;
- (j) entries in the respective registers of the Accounts Wing tally with the payments made in the vouchers;
- (k) conditions governing pension payments have been complied with as seen from vouchers; and
- (l) revisions in the rates of Dearness Relief (Allowances) on pensions ordered from time to time and re-fixation of pensions authorised, have been correctly allowed from the dates they became admissible and arrears due on this account are correctly calculated and paid.

## **8.2.6 Pension Fund**

**8.2.6.1** If Pension Rules prescribe the maintenance and operation of a Pension Fund, Audit should check that contributions to the Fund are properly credited to the Fund Account at such rates and at such intervals as prescribed.

**8.2.6.2** Audit should also verify that :-

- (i) entries of receipts and payments in the Fund account tally with corresponding entries in the Cash Book;
- (ii) payments are supported by proper pension vouchers;
- (iii) surplus balances are promptly invested as prescribed in the Rules; and
- (iv) monthly balances agree with those as per Pass Book and Investment Register.

## **8.3 Audit of Provident Fund Accounts of Employees**

**8.3.1** Where PRIs maintain provident fund accounts of their employees, it is essential to ensure that they have framed proper rules and regulations for maintaining accounts and the scheme is duly recognised by the competent authority, as otherwise contribution to the fund by the employees may not qualify for rebate under the Income Tax Act.

**8.3.2** The following points are to be borne in mind in the audit of provident fund accounts :-

- (i) Contributions to the fund are in accordance with the prescribed rules, rate of contributions being regulated in accordance with the rules.
- (ii) Whether missing credit/s for any month / months in the account of a subscriber has / have been investigated and necessary corrective action has been taken in such cases.
- (iii) Withdrawals are duly authorised for specified purposes and refunds are also made as per rules on the basis of duly completed applications submitted by the subscribers as prescribed.
- (iv) Interest due to each account is correctly calculated at the rates prescribed and credited at the end of each year.

- (v) Interest on investments is realised in time and correctly accounted for on accrual basis in the annual accounts.
- (vi) Balances at the end of each year are correctly worked out and communicated to each subscriber and his acceptance is obtained.
- (vii) Total of all balances of all accounts are worked out and total outstanding balances are duly reconciled with the annual accounts.
- (viii) Balances in all accounts are duly drawn up in the form of investment, recoverable advances, cash and bank balances.

## **CHAPTER 9**

### **AUDIT OF TRANSACTIONS - TENDERS AND CONTRACTS**

- 9.1** During Audit, it should be verified that the prescribed rules, regulations and orders regarding Notices inviting tenders and contract agreements to be entered into for supply of stores or execution of works are scrupulously followed by PRI authorities.
- 9.2** The officer in charge of the Party should examine original tenders and compare them with the comparative statement and the agreement finally accepted. Cases of alteration of figures, overwritings and other unauthorised corrections of tendered rates or other errors in the original tenders should be investigated in detail.
- 9.3** The more important points which should be covered in the check of tenders and contracts are indicated below:-
- (i) Tenders are invited in the most open and public manner after giving adequate publicity and time for submitting tenders.
  - (ii) Tenders have been received in sealed covers in the forms prescribed.
  - (iii) Tenders have been opened on the notified date and bear the dated initials of the officer opening them.
  - (iv) Rates quoted in the tenders are not over-written or changed without the attestation by the tenderer and have been correctly transcribed in the comparative statement.
  - (v) The lowest tender has been determined by working out the cost of all items of supplies to be consumed or work to be done and not merely by visual comparison of the tender rates without reference to cost of supplies or work involved.

- (vi) Comparative statements have been correctly prepared and checked and approved by the proper authority and contains his orders about the tender accepted. Satisfactory reasons are recorded for accepting a tender other than the lowest.

**Note :- *In some States (e.g. Tamil Nadu, Kerala and Karnataka) Transparency in Public Procurements Acts are in force and Rules have been issued thereunder. A synopsis of the procedures laid down in these Acts and Rules is given in ANNEXURE at the end of this Chapter. Audit has to ensure that the procedures prescribed in the Acts and Rules have been followed strictly by the officers of PRI.***

- (vii) A complete and regular stock account of receipt and consumption of blank tender forms has been kept.
- (viii) Sale proceeds of tender forms have been correctly accounted for and credited to revenue.
- (ix) Correct and complete descriptions and specifications of materials required, without reference to the manufacturer, are indicated in the tender notices.
- (x) Contract agreements are executed in the prescribed forms and there is no room for any ambiguity or misconstruction in any of the general or special conditions included therein.
- (xi) Suitable securities as prescribed have been taken from the contractor for ensuring the due fulfillment of the contract and adequate protection for levying penalties in the event of breach of contract.
- (xii) Contracts are sanctioned by the competent authority and the terms once entered into are not varied without special and proper sanction.
- (xiii) Agreements for supply of stores generally provide that payment will not be made until the stores have been received and examined and contain clauses regarding inspection of stores, date and place of delivery, despatch instructions, name of consignee, etc.

- (xiv) Clauses regarding payment of sales tax, excise duty, etc., are clear and specific and are in accordance with the tax laws and rules concerned.
- (xv) In cases where a formal written contract is not made, the supply or work order is not given without at least a written undertaking as to price or rate at which payment is to be made for stores to be supplied or work to be executed.

#### **9.4**

In addition to examining the tender procedures followed, and finalisation of contract as per rules and allied matters, the following points should also be seen in audit :-

- (i) The contract agreement and all the connected documents are in the prescribed forms applicable to the contract work and are complete in all respects.
- (ii) Each page of the agreement and each enclosure thereto is signed by the contractor and the Engineer.
- (iii) There are no blanks or overwritings in any page and all corrections, amendments, additions, alterations and deletions have been attested by the contractor as well as the Engineer.
- (iv) Special conditions, if any, (i.e., other than those found in the printed forms) included in the contract are
  - (a) clearly spelt out without giving room for any ambiguity; and
  - (b) approved by competent authorities if they are of an unusual nature or if they confer special benefits (not normally contemplated in similar cases) on the contractor.
- (v) If it is felt that unintended benefits are likely to accrue to the contractor or that interests of the PRI would not be sufficiently safeguarded as a consequence of incorporation of some special conditions or dilution of the

normal terms and conditions of contract, the matter should at once be taken up with the higher authorities.

- (vi) Deviations from contracts are regularised by competent authorities.
- (vii) Payments outside the strict terms of the contract or in excess of contract rates are not made without prior approval of competent financial authority.
- (viii) If it is found that prevailing market rates are considerably less than those stipulated in standing Rate Contracts, if any, valid for one year or more, such variations should be brought to the notice of the competent authority for remedial action.
- (ix) The contract includes a specific clause to ensure levying of penalty for delay in supply of material or execution of work as well as risk clause for non-supply of material or non-completion of work.
- (x) A clause for withdrawal and termination of contract in the case of non-supply of material or non-completion or abandonment of work and procurement of those materials or getting the work completed from other agencies at the risk and cost of the original agency exists in the contract

## ANNEXURE

(Referred to in Note below paragraph 9.3)

### **Salient Features of the Karnataka Transparency in Public Procurement Act & Rules**

1. The main aim of the Act is to provide Transparency in Public Procurement and to regulate the procedures for inviting and accepting tenders and connected matters. Its objectives are :
  - (i) To maximise economy and efficiency in Government procurement.
  - (ii) To foster and encourage effective participation by tenderers in the process of tender.
  - (iii) To promote healthy competition among tenderers by providing fair and equitable treatment of all tenderers.
  - (iv) To eliminate interference and hence irregularities and corrupt practices in the matter relating to tender by providing transparency in such matters.
  - (v) To promote integrity and fairness in the tender process and enhance public confidence in the processing of tenders by ensuring the transparency in the procedure relating to procurement.
  
2. The Act and the Rules made thereunder *inter alia* deal with procedural aspects relating to :
  - (a) Publicity of Tender Bulletin;
  - (b) Notice inviting tenders and Tender documents (Pre-qualification and Two-cover system under which two sealed covers one containing the Earnest Money Deposit and details of capability to undertake the work and the second cover containing the price quotation; the second cover to be opened only if the tenderer is found qualified as per details in the first cover).
  - (c) Receipt of Tenders and Tender Opening.
  - (d) Tender Scrutiny Committee and Tender Evaluation and
  - (e) Appeal by aggrieved tenderers.

Similar Acts & Rules, if enacted or framed in other States, may be consulted by the audit parties while auditing contracts and tenders.

## CHAPTER 10

### AUDIT OF TRANSACTIONS – EDUCATIONAL INSTITUTIONS

#### **10.1**      **Scope of Audit**

**10.1.1**      During audit of educational institutions (Schools, Colleges, etc) under the jurisdiction of PRIs the following transactions are to be checked:-

(i) Receipts; (ii) Establishment and Contingent Expenditure; (iii) Stores and Stock accounts of libraries, laboratories, etc., (iv) Personal Deposit or Savings Bank accounts relating to Sports and Reading Room fund, Poor Boys' fund, Welfare fund, etc.; (v) Hostel accounts; (vi) Free studentships, Scholarships, etc.

**10.1.2**      Whether registers and records as prescribed in the relevant rules applicable to the Educational Institution have been maintained should be verified in the first instance and omissions, if any, pointed out.

**10.1.3**      Apart from applying the checks mentioned in **Chapters 6 & 7** of this Manual to all the transactions and Registers of Educational institutions, the following points should be covered in respect of certain categories of transactions.

**10.2**      **Receipts** : The following points should be seen :-

- (i)      Statements of demand, collection and balance are maintained to watch the recovery of all kinds of fees from the students.
- (ii)      All amounts due at the rates prescribed have been duly realised on the due dates and credited to revenue, and adequate steps have been taken to realise the arrears of fees, if any.
- (iii)      Fee receipt books in standard form and machine numbered with counterfoils are issued under the signature of the authorised official.
- (iv)      Notes of fee concession are recorded in the nominal registers and attested by the Head of the Institution.
- (v)      Fee concessions are in order as per prescribed rules and orders.

- (vi) Refunds of fees collected have been made in accordance with the rules, under proper authority and on proper vouchers, and all refunds are noted against the original receipts in the Tuition and other fee collection registers.
- (vii) Exemption from payment of fees as in the case of scholarship holders, children of ex-servicemen, etc., have been made under proper authority.
- (viii) Entries in the Daily Fee Collection Register are checked by the Head of the Institution with the counterfoils of the fee receipts; and
- (ix) Sports and reading room fees, magazine fees and security deposits are credited to the respective funds and are traceable in the accounts of funds concerned.

**10.3**     **Free Studentship** : Awards of free studentships should be verified with reference to sanctions, attendance register, fee abstract, etc., and with reference to rules of the Education Department and other orders issued by State Government from time to time.

**10.4**     **Scholarships** : The following points are to be seen:-

- (i) Source of scholarship, value, donation, sanction order and name of scholarship and name of the scholarship holder and the class are correctly kept on record.
- (ii) Claims of scholarship are prepared correctly with reference to the terms of the award and the amount disbursed to the students promptly, on proper acquittances.
- (iii) Rules regarding attendance, sick leave, conditions of satisfactory conduct and progress are fulfilled and the amounts claimed are otherwise admissible.
- (iv) Amounts drawn are not unnecessarily retained in the cash chest and are drawn only when required for immediate disbursement.
- (v) Undisbursed scholarships have been credited to revenue without delay
- (vi) Awards not acted upon for one year are not allowed to be drawn without the specific sanction of the competent authority.

## **10.5 Stores Accounts of Laboratories**

**10.5.1** Laboratories are generally attached to the science departments of schools and colleges and inventories are maintained in respect of both stores and apparatus in such laboratories or departments.

**10.5.2** Besides exercising the usual checks relating to stores accounts, the following points should be seen :-

- (i) Stock books of stores and apparatus have been verified once a year by a responsible officer, other than the officer in direct charge of stores.
- (ii) Certificate of verification is recorded in the books under the signature of the Verifying Officer.
- (iii) Shortages coming to notice have been properly dealt with.
- (iv) Stores have not been purchased in excess of immediate requirements and that quantities used are not excessive as compared with the consumption in previous years and the increase in the number of scholars.
- (v) Balance of stores as verified from the accounts is not large.
- (vi) Breakages of apparatus have been entered correctly in the Breakages Register and necessary action has been taken to regularise the loss on account of breakages.

**10.6** **Library Books :** It should be verified whether the books issued from the library to teachers or students have been returned within the prescribed period, or at the most before the annual verification of the library books is conducted. It should also be seen that the stock of library books has been checked by a responsible officer, certificate of verification is recorded in the Register and shortages have been regularised by replacement of books or by recovery of cost thereof.

**10.7** **Wastages :** In Vocational / Technical sections (e.g., carpentry) some wastage of raw materials used for practical training purposes would normally occur. It has to be checked that percentages of such wastages are within the limits prescribed by the competent authority in respect of each raw material.

**10.8**      ***Accounts of Sports Funds, Poor Boy's Funds etc.*** : The points to be verified are mentioned below :-

- (i) The fees collected or donations received in respect of each fund are promptly credited to the respective fund accounts;
- (ii) Proper records of receipts and payments are kept and the balances reconciled with the Treasury / Bank balances;
- (iii) Expenditure is incurred only for the purposes for which the fund has been created;
- (iv) Expenditure is incurred by following the general principles applicable to normal expenditure and properly vouched; and
- (v) Stock accounts of articles are kept properly and their existence got verified periodically from a responsible officer other than the officer who is in charge of the fund.

## CHAPTER 11

### AUDIT OF TRANSACTIONS – HOSPITALS / PRIMARY HEALTH CENTRES

#### 11.1 *General*

11.1.1 The Audit Party should study the following before taking up audit of hospitals:-

- (a) Manual of the Medical Department/ Primary Health Centre (PHC);
- (b) Instructions issued regarding maintenance of accounts;
- (c) Hospital standing orders; and
- (d) Rules framed by Government and the Department relating to scales of diet, rates of ward charges, fees for X-Ray, operation charges, ambulance hire charges, etc.

11.1.2 Whether registers and records as prescribed under relevant Rules, Manuals and Orders of the Medical Department have been maintained should be verified in the first instance and omissions, if any, pointed out.

11.1.3 Apart from applying the checks mentioned in earlier **Chapters 6 and 7** of this Manual to all the transactions and Registers of Hospitals, the following points should be covered in respect of certain categories of transactions.

11.2 **Receipts** : The following points should be covered during audit of receipt transactions :-

- (i) The prescribed registers have been maintained properly.
- (ii) All items of receipts have been recorded in the relevant registers.

- (iii) Bills or receipts have been issued for the recovery of several charges that are leviable.
- (iv) An account of sale of medicines, dietary charges, hospital's stoppage, ward charges, X-ray, pathological tests, etc., is kept on record.
- (v) Receipts have been issued for all other collections such as subscriptions, donations and contributions.
- (vi) Demands are correct and complete with reference to the rates prescribed for each item of revenue and with reference to the supporting entries in subsidiary account records maintained for different items of revenues.
- (vii) All subsidiary registers are written up regularly, correctly and up to date and reviewed.

### **11.3      *Stock Accounts of Medicines, Drugs and Equipments***

**11.3.1**      The following points should be covered during audit of stock accounts of Hospitals:-

- (i)      Supplies, if any, obtained from Government Medical Stores are supported by Delivery Notes (Invoices) and are correctly taken to stock after verification.
- (ii)      In other cases, purchases are made by inviting tenders in accordance with the general principles governing tenders or contracts or by placing orders on firms, which are approved by Government on Rate Contract basis.
- (iii)      Purchases are made from dealers of good repute and standing and articles purchased are of standard quality.
- (iv)      Local purchases are not made in cases where supplies could be obtained from Government Medical Stores or through approved Rate Contracts.
- (v)      Penalty is levied in terms of contract in case of default by suppliers.

- (vi) Receipts are supported by invoices / bills and issues are supported by indents (from several Departments, wards, etc.) in proper form, duly acknowledged by a responsible official.
- (vii) Indents for fresh stock are not made routinely but are based on actual requirements, as may be evidenced by the average consumptions in the previous months.
- (viii) Quantities issued agree with quantities indented.
- (ix) Daily balances are properly arrived at.
- (x) Separate registers are maintained for costly drugs, (with value) the cost of which is recoverable from patients.
- (xi) Stocks are physically verified at prescribed intervals and results of verification recorded and discrepancies are reported for orders of competent authority and
- (xii) Time-expired drugs and medicines (which have lost potency) and condemned articles are entered in the Register of Unserviceable Articles after due orders and corresponding entries are promptly made in the issue registers. Care has been taken to see that such drugs and medicines are not sold or used and are eventually destroyed as prescribed.

**11.3.2** In respect of costly medicines and injections, in addition to indents, case sheets of patients concerned, for any 3 or 4 days selected at random should be verified to ascertain the correctness of issues.

**11.3.3** As hypo-solution used in the Radiology Department contains silver it should be checked whether it is properly stored, accounted for and sold.

**11.3.4** ***Stock Accounts of Furniture and Crockery*** : The following points should be seen :-

- (i) Articles declared as unserviceable and those requiring repairs or replacements have been entered in the Register of Losses and Breakages,

and orders of competent authority are obtained for their disposal or taking suitable action to put them into use.

- (ii) Sale proceeds of articles (sold by public auction or otherwise) are credited to revenue.
- (iii) Articles sent for repairs have been repaired expeditiously and brought to account.
- (iv) Personal responsibility has been fixed in cases of losses or breakages through negligence of the person handling the articles.
- (v) Stock is verified once a year and result of verification recorded under the signature of officials authorised to conduct such verification.

**11.3.5 Linen Account :** The points to be verified are as follows :-

- (i) Entries relating to all new clothings shown as received agree with those shown in the bills of the contractors in the case of cloth purchased.
- (ii) Every issue for use in the ward is supported by a requisition or slip signed by a Medical Officer and issue shown in the account agrees with entries in the requisition slip.
- (iii) There is an acknowledgment on the requisition slip of the ward employee when clothing has been supplied for use in the ward.
- (iv) Issues made for use in wards agree with entries of receipts in ward registers.
- (v) Stock of linen is verified quarterly.
- (vi) Cost of missing linen is made good promptly after fixing personal responsibility.

**11.3.6 Main Stock Accounts :** The following points should be seen :-

- (i) Articles received on annual and supplemental indents and by local purchases have been duly brought to account.
- (ii) Acknowledgments signed by surgeons in charge of the wards are available in support of all issues to the wards, operation theatres, etc.
- (iii) Stock in the main ledger has been verified annually by the head of the office.
- (iv) Articles supplied to wards, operation theatres, etc., have been verified by officers not connected with the custody of such articles.
- (v) Verification of stock at all the places has been done simultaneously and not on different dates.
- (vi) Certificates of verification have been recorded in the registers and lists under dated signatures of the officers entrusted with the work of verification.

**11.3.7 Stock Accounts of Sera and Vaccines (Veterinary Hospitals) :** In addition to the usual checks, it should be verified that:-

- (i) in the case of sera and vaccines, the date of expiry of potency is noted in the register so that stock is not kept beyond the prescribed date;
- (ii) any appreciable stock is not retained beyond the expiry date resulting in loss; and
- (iii) recovery of cost is effected from paying animal owners.

**11.3.8 Milk Account :** It should be seen that:-

- (i) supplies are recorded promptly in the Register;
- (ii) specific gravity of the milk supplied is noted;

- (iii) quantity short supplied should also be noted in the Register;
- (iv) bills are passed with reference to entries in the Account register and actual quantity of milk received and accepted and
- (v) extra cost incurred because of difference, if any, between contract rates and rates paid for local purchase made in case of non-supply or short supply, has been deducted from the milk contractor's claims.

**11.4 Diet Account :** The following points are to be seen:-

- (i) As far as possible rice, sugar, wheat, etc., have been purchased only at controlled rates by obtaining allotment orders from the Food and Civil Supplies Department.
- (ii) Contractors supplying vegetables to hospitals have supplied 25% extra vegetables (except in the case of potatoes in which case the extra quantity to be supplied is 125 gms per Kg.), to cover losses due to wastage, drilage, etc., according to standard contract conditions and the extra quantities have been accounted for.
- (iii) In accordance with the orders issued by Government -
  - (a) wherever Government milk supply schemes exist, milk has been obtained therefrom;
  - (b) bread has been obtained from recognised / approved Bakery;
  - (c) agreements have been entered into with wholesale / other co-operative societies for purchase of diet articles; and
  - (d) eggs and vegetables have been obtained from the Department of Animal Husbandry and the Department of Horticulture, respectively, wherever possible.
- (iv) a diet register in the prescribed form is maintained for each ward and the name of each patient and diet prescribed for him are legibly shown therein.

- (v) The number of patients as per diet register agrees with that shown in the bed head tickets and the Register of In-patients.
- (vi) Issues of diet conform to the standard scale prescribed and in cases where a more generous diet is considered necessary on medical grounds, it is so authorised by the Medical Officer and noted in bed head tickets.
- (vii) Requisitions for supply of food stuffs, vegetables, milk, etc., correspond to the nature of diet prescribed and demands are not in excess of requirements.
- (viii) Except in cases mentioned in (i) and (iii) above, competitive tenders have been invited for supply of diet articles, vegetables, etc., after assessing the total annual requirements and the most favourable tender has been accepted in each case and proper agreements have been executed.
- (ix) In cases where contractors have not supplied the articles indented and the Hospital has made purchases elsewhere at higher cost, the difference in cost has been recovered from the original contractor.
- (x) Rates claimed in the bill agree with the tendered rates.
- (xi) Diets supplied by contractors are checked duly both as regards quantity and quality and passed by the Medical Officer.
- (xii) Articles like ghee, bread, oil, etc., are sent periodically for analysis by the Government Analyst and suitable action is taken on his report.
- (xiii) In the case of supplies by contractors, the original and supplementary indents bearing the acknowledgments of the receiving officer are duly surrendered with monthly bills in support of the quantities billed for and they are duly cancelled after the bills have been paid, to prevent double claims.

**11.5**      **Special Units** : In respect of special units like X-ray plants, Blood Banks, Dental Clinics, the following points should be seen:-

- (i)    Equipment have been purchased economically after observing the prescribed purchase rules, and they have been installed in time and are in working condition.
- (ii)    Necessary technical staff has been appointed to operate the machinery.
- (iii)    Working results of the units have been kept on record.
- (iv)    Prompt action has been taken to repair the equipment whenever they go out of order.
- (v)    The machinery are not unnecessarily kept idle.
- (vi)    The cost of services wherever due has been recovered and properly accounted for, and in other cases where patients are exempted from payment of cost, exemption is properly granted and the fact is noted under the attestation of a responsible officer.
- (vi)    An account of raw materials (e.g. X-ray films) is kept.

**11.6**      **Idle Machinery** : It should be seen that costly equipments like operation apparatus, X-ray equipment, etc., are utilised properly. Some of them may remain idle for want of repairs / want of trained professional to handle them. The exact position of the idle equipments should be verified and their cost, dates from which they are lying idle; reasons therefor and action proposed to be taken for early utilisation ascertained for being commented upon suitably in the Inspection Report.

**11.7**      **Poor Fund Account** : The following points should be seen :-

- (i) Funds are built up by voluntary subscriptions and by certain items of receipt that are intended to be utilised for increasing the comfort and well-being of poor patients in the hospital.
- (ii) Separate accounts are maintained for the fund.
- (iii) Receipts and expenditure are accounted for correctly in accordance with the rules of the fund.
- (iv) Actual balances tally with book balances.

## **11.8      *Important Registers***

### **11.8.1      Hospital Stoppage Register :** The points to be seen are as follows :-

- (i) The total stay as recorded in this register agrees with entries in the bed head tickets as well as the admission register.
- (ii) Fees recovered are correct with reference to the rates applicable and the period of stay.
- (iii) In the case of employees of Government, Corporations, etc., only the wards of the class to which they are entitled are provided free of cost, and drugs / diet, etc., are supplied only to the extent to which they are entitled.

### **11.8.2      Log Book of Ambulance (Ambulance Register) :** It should be seen that:-

- (i) the log book is properly maintained in the prescribed form and the journeys are recorded clearly and chronologically and are duly authorised by the competent medical authority;
- (ii) the amount recoverable from each patient is correctly calculated and is actually recovered;

- (iii) sanction of the Superintendent of the Hospital or other competent authority has been obtained for the remission of the fees either wholly or in part;
- (iv) purchases of fuel have been duly accounted for and proper use of fuel and proper performance and the condition of the vehicle are verified by working out the average mileage for every month and abnormal differences are properly explained and
- (v) log books are periodically reviewed by a responsible official, so that effective control is exercised over trips and consumption of fuel.

**11.8.3 Register of Empties :** It has to be checked whether an account of empty bottles is kept in the register and the empties are sold periodically to the best advantage of the Hospital.

**11.8.4 Other Registers and Records :** The following aspects should be covered by audit :-

- (i) They are properly posted and maintained correctly.
- (ii) Deposit amounts and miscellaneous receipts are not utilised for other purposes.
- (iii) Signatures of the parties or their thumb impressions are obtained in the Register of Deposits for repayments made.
- (iv) Sale proceeds of grass and other such receipts are remitted into the Bank / Treasury and that there is no undue delay in recovery of amounts from the parties.
- (v) In the case of patients admitted into special wards, hospital charges are recovered in advance for ten days at a time at the rate prescribed by relevant rules, that the amounts so recovered are remitted to Bank / Treasury and that for refund of any balance on hand, proper receipts are obtained.

- (vi) There is evidence in the Register of Operations to show that the prescribed fees have been collected and correctly brought to account in the Cash Book.
  
- (vii) In the case of Mental Hospitals, the person or the local body or Non-Government Organisation which has taken the responsibility to maintain the mentally challenged person, has paid the maintenance charges.

## CHAPTER 12

### AUDIT OF TRANSACTIONS – DEPARTMENTAL FARMS

#### 12.1 *Introductory*

**12.1.1** The instructions contained in this Chapter apply to farms under the control of PRIs.

**12.1.2** Farms are maintained by some departments like Agriculture, Horticulture, Sericulture and Animal Husbandry and Veterinary Services. The main objectives of these farms are to conduct demonstrations and propagate knowledge, etc., in the respective fields. These are intended to serve only as model farms and not expected to earn any profit from the activities undertaken by them.

**12.1.3** Apart from the main objectives stated above, the purposes served by different farms are as follows:-

- (i) **Agricultural Farms** : Propagation and distribution of improved varieties of seeds, demonstration of improved agricultural implements, etc.
- (ii) **Horticultural Farms** : Development of the aesthetic taste of the public and to provide advice and inducement to the people to plant useful trees, vegetables, etc., in their houses, by selling improved seeds, cuttings of plants, flowers, etc.
- (iii) **Sericultural Farms** : Propagation of Mulberry tree and distribution of disease-free plants and raising the standard of silk industry as practised by rural population by bringing to their doors the knowledge of advanced practices followed in other countries.
- (iv) **Cattle Farms and Dairy Farms** : They serve as model farms where breeding bulls and milk cows are maintained and ensure production of quality bulls (Murrah, Amrit Mahal, etc.) for distribution in rural parts for

grading and improving the local stock with quality bulls as a quick and feasible breeding expedient to step up milk production.

- (v) **Poultry Farms** : They serve as model farms where breeding is taken up on a large scale and sell eggs and chicken of good quality on a commercial basis.

**NOTE:** The cattle / dairy / poultry farms serve as models for demonstration of scientific dairying and poultry enterprise for the benefit of farmers and also as training and research centres for students of veterinary colleges.

## **12.2**      **General Principles of Audit**

**12.2.1**      Whether registers and records as prescribed in the Departmental Manuals and relevant Rules and Orders have been maintained should be verified in the first instance and omissions, if any, pointed out.

**12.2.2**      Apart from applying the checks mentioned in **Chapters 6 and 7** of this Manual to all the transactions and Registers of the Departmental Farms, the following points should be covered in respect of certain categories of transactions.

**12.2.3**      The scope of audit of several farms is as follows:-

- (i)      Though the farms are not expected to earn profit, it should be verified how the total of revenue receipts of a year compares with the total expenditure incurred during the year. If the expenditure is very large compared to annual receipts, reasons therefor should be analysed.
- (ii)      In respect of each produce, the annual expected yield with reference to the package of practices followed should be compared with actuals and in case there is any shortfall, reasons therefor should be ascertained.
- (iii)      System of taking stock of the yield from time to time and of regulating and accounting for issues should be reviewed to see that there is no leakage of revenue.

- (iv) It should be seen whether the entire land owned by farm is exploited fully without allowing any portion to lie fallow.
- (v) Whether the equipments in possession of the farms are utilised properly and fully and no equipment is kept idle unnecessarily.

**12.2.4** Some important checks to be applied to the records maintained in each of the departmental farms are mentioned in the succeeding paragraphs.

### **12.3 *Agricultural and Seed Farms***

#### **12.3.1 Produce Register or Yield Register :**

- (i) Entries in this register should be checked with daily record sheets to ensure that all types of yield (grain, straw, etc.) obtained by harvest are accounted for.
- (ii) Quantum of yield for each plot of the farm should be compared with the figures for previous years and in case there is any shortfall, reasons therefor should be ascertained.
- (iii) It should be verified that grains for sowing are kept separate from yield and accounted for separately.
- (iv) Other points to be seen are as follows:-
  - (a) Proper storage arrangements exists.
  - (b) The produce has been sold at the rates fixed by the competent authority or at market rates.
  - (c) Amounts realised by cash sales are traceable in the Receipt Registers and Cash Book; entries relating to credit sales are traceable in the ledgers or Register of Outstanding amounts.
  - (d) All unsold produce is duly accounted for, weighed, recorded and valued properly at the rates prescribed.
  - (e) Unsold produce is disposed of expeditiously by auction sale or otherwise, well before it becomes unfit for human consumption.

- (f) Losses on account of wastage, drying, etc., have been approved by the competent authority and are within prescribed limits.
- (g) Superior officers conduct periodical test check of quantities of produce as noted by the subordinates in charge and results of such test check have been recorded.

**12.3.2 Cultivation Sheets** : It should be seen that:-

- (i) details of each operation performed in respect of bulk crops from the stage of preliminary cultivation up to the stage of harvesting of crop and cleaning the field are entered in the sheet; and
- (ii) amounts paid for labour, cost of maintenance work, and other overhead charges are kept on record and taken into account before preparing any profit and loss account.

**12.3.3 Cropping Register** : It should be seen that:-

- (i) cropping scheme is duly approved by the competent authority and any deviation in the actual process is specifically approved by the authority which sanctioned the original scheme;
- (ii) all the columns in the register are duly filled in; and
- (iii) entries relating to farm produce are traceable in the Yield Registers / Stores Ledgers for the months selected for audit.

**12.3.4 Bill Books and Credit Ledgers** : It should be seen that:-

- (i) credit sales are restricted to approved customers and postings of such sales are correctly made in the ledgers;
- (ii) balances, if any, from previous ledgers have been carried forward correctly;

- (iii) interest, if any, and the total amount due are correctly calculated at the time of realisation of dues (Yearwise balances of outstandings should be reported) ; and
- (iv) in case of cash sales, bills are issued as soon as supplies are made and amounts are collected regularly and accounted for correctly in the Cash Book.

**12.3.5 Stock and Issue Registers of Products :** In addition to seeing that these registers are maintained properly, the entries in these registers should be traced from the corresponding records. It should also be verified that large quantities are not stocked unnecessarily, balances have been physically verified periodically and shortages, if any, have been made good.

**12.3.6 Demonstration Registers :** The following points should be seen :-

- (i) Demonstrations have been conducted on plots approved by the competent authority;
- (ii) Separate accounts of inputs have been maintained;
- (iii) Subsidy, if any, given to the beneficiaries is as per approved scales;
- (iv) Results of demonstrations have been correctly recorded, and compared with those in the neighbouring plots and usefully propagated among farmers.

**12.3.7 Stock Book of Implements, Equipments, etc. :** It should be seen that:-

- (i) equipments like sprayers are hired out at rates approved by the competent authorities;
- (ii) hire charges have been recovered correctly with reference to days / hours of issue and return;
- (iii) proper acknowledgments have been obtained from persons who have received the equipments ; and

- (iv) accounts are correctly maintained and existence of stock is ensured periodically.

## **12.4 Horticultural Farms**

**12.4.1** Instructions contained in **paragraph 12.3 supra** in respect of Agricultural and Seed Farms apply **mutatis mutandis** to the audit of Horticultural Farms also.

**12.4.2** During the scrutiny of the Register of Trees, the following points should be seen :-

- (i) It has been properly maintained and a census is being taken periodically;
- (ii) Separate account is being kept in respect of fruit bearing / revenue yielding trees (like mango, tamarind, etc.);
- (iii) Income from revenue yielding trees is properly assessed and accounted for; and
- (iv) Trees felled or which have fallen have been disposed of to secure the maximum revenue.

## **12.5 Cattle Farms**

**12.5.1** Apart from maintaining animals, Cattle farms undertake agricultural operations on a small scale for meeting the fodder requirements of the animals. They earn revenue by sale of animals, milk and manure and by levying fees for service of bulls.

**12.5.2 Livestock Register** : It should be seen that entries relating to additions and sales of animals, made in this Register are covered by proper sanctions, agreements, vouchers, acknowledgments, etc., and that medical certificates are kept on record in the case of death of animals.

**12.5.3 Cattle Feed Register** : It should be seen that, the scale of feed of cattle has been approved by the competent authority and entries are made in the Register daily and a monthly abstract is drawn up at the end of each month.

**12.5.4 Daily Milk Yield Memos :** The checks to be extended are as follows :-

- (i) Names of all milk yielding cows / buffaloes have been entered in the register;
- (ii) Milk yield of all individual milch cattle has been recorded daily;
- (iii) Quantities of yield are measured in the presence of responsible officers;
- (iv) Abstracts are correctly drawn up and transferred to accounts registers of milk and milk products;
- (v) A responsible officer periodically reviewed the yield of milk and remedial action taken in cases of low yield.

**12.5.5 Milk Account Register :** It should be seen that:-

- (i) entries are correctly transferred from the daily yield memos;
- (ii) an account of the quantity of milk sold or used otherwise, quantity fed to calves, etc., is kept clearly and properly;
- (iii) milk is supplied regularly to nearby hospitals or needy institutions, individuals, etc.;
- (iv) cost of milk sold is recovered correctly and promptly; and
- (v) in the case of milk issued for making curd or ghee, the quantity of the end product obtained is commensurate with the quantity of milk issued and such products are properly disposed of.

**12.6**      **Sheep, Poultry, etc., Farms** : Instructions contained in paragraph 12.5 *supra* in respect of cattle farms apply generally to audit of these farms also. In addition to conducting detailed check for the selected months, it should be ensured in audit that:-

- (i) System of purchasing, maintaining and selling of livestock is satisfactory;
- (ii) Yield (wool, eggs, etc.) is correctly accounted for and sale proceeds remitted to the Treasury / Bank promptly;
- (iii) Daily rations issued are in accordance with the prescribed scale;
- (iv) Feed articles are purchased economically and proper receipt and issue accounts are kept.
- (v) Uneconomical birds are culled in time and disposed of to secure maximum revenue; and
- (vi) Cost of dead sheep / birds is written off under orders of the competent authority.

**12.7**      **Sericultural Farms** : In addition to exercising the usual checks as applicable to other farms, the following points should be seen :-

- (i) Cost of production of cocoons and disease-free layings and the cost of cultivation of mulberry leaves are not excessive (the corresponding figures of previous four or five years should be reviewed);
- (ii) Cost of appliances supplied to aided grainages (Collection Centres ) is recorded and accounted for correctly;
- (iii) Bonus due to aided grainages (Collection Centres ) is calculated correctly;
- (iv) In respect of credit sales (wherever authorised), recoveries are effected promptly and outstanding balances reviewed periodically;
- (v) If a review of loan ledgers reveals that there are cases of default, proper action has been taken by the Head of Office to recover the dues expeditiously.

## CHAPTER 13

### AUDIT OF TRANSACTIONS – LOANS DISBURSED BY PRIs

**13.1** *Introductory* : Detailed accounts are kept by the Accounting Authorities of the Panchayati Raj Institutions (PRIs) in respect of some categories of loans; but in a large number of cases detailed loan accounts are maintained by the Disbursing Officers concerned. Responsibility of the Audit Party while checking the latter cases is greater than that relating to audit of the former cases.

#### **13.2** *Scope of Audit*

**13.2.1** In the case of loan accounts kept centrally by PRI Accounts Wings it should be seen during audit of the Disbursing Offices concerned, that the scheme for grant of loans has been sanctioned by competent authorities, connected initial records are maintained correctly, recoveries are effected promptly, outstanding balances are not allowed to accumulate and departmental balances are regularly reconciled with the figures of the Accounts Wing of the PRI. In the case of loans whose detailed accounts are maintained by Disbursing Officers themselves, in addition to aforesaid checks, points mentioned in the succeeding paragraphs should be covered.

**13.2.2** It should be seen in audit that:-

- (a) sanctions and disbursements of loans are in accordance with the rules and procedures prescribed and the source for financing has been duly examined;
- (b) Disbursing Officers have ensured that loans and advances disbursed by them have been expended on the objects for which they have been sanctioned;
- (c) in cases where loans are not spent for the purpose for which they were granted, summary recovery is ordered and enforced; and

**13.2.3** In the case of loans sanctioned under several schemes, the checks mentioned in **Chapter 16** wherever applicable, should be exercised.

**13.3** **Sanctions to Loans** : Points to be seen during audit of sanctions to loans are as follows:-

- (i) Loan applications are in the proper form and contain all requisite details which are essential for the sanction of loan and that security offered is sufficient and free from encumbrances.
- (ii) Loan is admissible according to the prescribed rules and Scheme guidelines and that security bonds required to be executed have been executed properly and are kept in safe custody.
- (iii) Terms and conditions for disbursing loans have been duly determined.
- (iv) Loans are sanctioned only after execution of necessary agreements by the loanee; the bonafides and repaying capacity of the loanee have been verified by the Department before loan is granted and loan agreements are duly registered, where necessary and kept under proper safe custody.
- (v) Loans are not granted in excess of requirements or in excess of ceiling limits prescribed.
- (vi) Terms of repayment of loans are invariably fixed unambiguously before grant of loans.
- (vii) Valuation of land offered as security has been done with reference to prevailing rates by a responsible officer, to determine adequacy of security furnished.
- (viii) Encumbrance certificate has been obtained from the Sub-Registrar to ensure that land offered as security is free from encumbrances and is adequate to cover the loan amount.

- (ix) Actual amount of loan required is determined with reference to the detailed estimate for the proposed work prepared and got approved by a responsible officer.
- (x) Due date of repayment has been fixed correctly and properly.
- (xi) Interest has been charged at prescribed rates and concessions, if any, allowed in the rates are admissible under the rules governing the loan scheme.
- (xii) Interim interest is levied wherever due and there is no wrong / short calculation of interest and amount of annuity calculated is correct.
- (xiii) Sanction orders are not split up to avoid sanction of higher authorities.

**13.4 Disbursement of Loans :** It should be seen that:-

- (i) loan amounts are drawn and disbursed only up to the required extent and not with a view to avoiding lapse of funds and the fact of payment is clearly recorded and proper acknowledgment obtained from loanees;
- (ii) where the loan is to be disbursed in installments, conditions stipulated for release of each installment are satisfied;
- (iii) amount of loan drawn in excess of purchase value of the asset is refunded;
- (iv) in the case of loan for the construction of irrigation wells, the final installment of the loan has been paid only after the receipt of the completion report along with particulars of final cost of the work and the total loan is restricted to the total cost of works execute; and
- (v) in the case of loans paid for the installation of pump sets, intimation has been received from authorised Officers of the Electricity Board that the estimate for arranging power supply to irrigation pump sets has been sanctioned.

**13.5 Recoveries :** It should be seen that:-

- (i) demand notices are issued well in time for recovery of principal and interest at the prescribed rates and recovery is prompt;
- (ii) in cases of default, the arrears installments are recovered with penal interest at prescribed rates; If responsibility for recovery is vested with the Revenue Department, necessary intimation in the prescribed proforma is sent to that Department promptly and certificates and acknowledgments are obtained wherever necessary;
- (iii) summary recovery has been ordered in cases where such action is warranted and recoveries so ordered have been effected expeditiously; and
- (iv) remission of interest and additional expenditure, if any, incurred for recoveries of loan amounts are admissible and authorised by competent authority.

**13.6 Loan Accounts :** It should be seen in Audit that :-

- (i) The loan ledgers or khathas are maintained in proper form and are posted up to date with payments and recoveries;
- (ii) The prescribed periodical reports have been prepared and sent on the due dates to the authorities concerned;
- (iii) The D.C.B. Statement shows the position of Demand, Collection and Balance of loans correctly for each month;
- (iv) Acceptance of balances is obtained annually from each loanee; and
- (v) There is proper reconciliation of Disbursing officer's figures of payments / recoveries of loans with those of the PRI Accounts office annually or at more frequent intervals.

**13.7**      **Utilisation of Loans** : The following points should be seen :-

- (i)      The fact of utilisation of the loan completely for the purpose for which it was sanctioned has been ascertained by suitable means. For example, in the case of purchase of equipment – by insisting on the production of the invoice and the receipt furnished by the supplier – and in the case of loans for construction of irrigation wells – actual value of work done being assessed by the technical staff with reference to original sanctioned estimate;
- (ii)     conditions prescribed for grant of loans such as consent of the owner in case of loans to cultivating tenants or other **pattadars** (land owners) in the case of joint owners, the period within which the purchase should be effected, hypothecation of the property to the PRI, number of loans to be granted to each person and conditions attached to grant of second and subsequent loans, maximum period allowed for completion of work etc., are fulfilled;
- (ii)     In the case of loans under the scheme for construction of new irrigation wells, well works have been completed within the time limit prescribed.

**13.8**      **Loans to Co-operative Societies** : Additional points to be seen are as follows:-

- (i)      There is no delay in obtaining loan agreements from the Societies lest it should jeopardise any legal action to be taken against defaulting Societies.
- (ii)     It has been ensured by the Disbursing Officer that the Co-operative Societies have obtained agreements required from members of the Society.
- (iii)    It is verified by the Disbursing Officer periodically that balances of loans worked out with reference to his office Loan Ledgers agree with those found in the records / accounts of the Societies.
- (iv)    In respect of Societies going into liquidation, steps to recover the dues from their realisable assets are taken where rules provide that loan given by Government / PRI is a first charge on the assets of the Society.

## **CHAPTER 14**

### **AUDIT OF TRANSACTIONS – WORKS AND ENGINEERING DIVISIONS**

#### **14.1**      *Introductory*

**14.1.1**      Most of the registers / records / accounts referred to in **Chapters 7 to 9** of this Manual are maintained also by the Works and Engineering Divisions of PRIs. They are also entrusted with the implementation of some schemes. Consequently, audit checks mentioned in **Chapters 7 to 9 and 16** of this Manual, in so far as they are applicable to such initial records and schemes of the Works and Engineering Divisions, should be exercised by the Parties during Audit of the Divisions.

**14.1.2**      It has to be noted that Engineering Officers have, unlike most other Disbursing Officers, cheque drawing powers, their relationship with the Bank / Treasury is somewhat different from that of others in respect of works transactions, their stock and stores accounts are more elaborate and they render compiled accounts every month to the Accounting authority of the PRI. As a result, the Divisions are required to maintain certain initial records in addition to those mentioned in the previous paragraph.

**14.1.3**      The transactions of Works and Engineering Divisions are centrally audited by the Accounting authority to the extent they are reflected in the documents forming part of monthly compiled accounts rendered by them to the Accounting authority. In respect of the month or months selected for detailed check, transactions of the Divisions for that month or those months will be re-audited by Audit Parties and will be verified with reference to connected initial records, apart from test-checking all the initial records maintained by the Divisions.

**14.1.4**      The points to be covered during audit of initial registers / records peculiar to the Works and Engineering Divisions are detailed in this Chapter.

**14.1.5** Audit Parties should pay special attention to points, if any, marked for local verification in the Division, by Headquarters.

**14.2** ***Works Cash Book***

**14.2.1** Entries of receipts in the Cash Book should be checked with counterfoils or receipts to see that receipts an officer has invariably granted receipts for the amounts received authorised to issue them. Some of the Receipts which are traceable in other records, such as account sales, tool registers, Register of Inspection Bungalow fees, etc., should be verified with the entries in such records.

**14.2.2** It should be seen in audit that:-

- (i) cash realised is not utilised for expenses by the Division or Sub-Divisions; and
- (ii) all receipts are promptly paid into the Treasury / Bank or at least before the end of the month to which they relate, by verifying the entries and acknowledgments of the Treasury / Bank in the Remittance Register / Bank Challans.

**14.2.3** Payment entries in the Cash Book should be compared with vouchers and traced into works abstracts or Register of Works. It should be verified that:-

- (i) entries in the Cash Book are in chronological order,
- (ii) there are no cases of interpolation,
- (iii) Cash Book is posted daily with clear details of the service or work for which a cheque is issued; and
- (iv) the Head of Office checks the Cash Book frequently and attests the entries therein.

**14.2.4** It should be checked that self-cheques are drawn only for meeting petty expenditure and making cash payments in certain cases, e.g., wages of labourers and work charged establishment and value payable postage and that

Engineering Officers make all other payments through cheques issued to the parties concerned.

**14.2.5** The additional points to be seen are mentioned below :-

- (a) Works Cash Book is maintained in the prescribed form and posted, balanced and closed in accordance with the instructions issued in this behalf or contained in the relevant rules etc. ;
- (b) There are no habitual or undue delays in the submission of Sub-Divisional Cash Books or copies thereof with all vouchers to Division Office;
- (c) All entries of receipts and payments and the actual balance of cash in the Cash Chest are verified and any deficit or surplus in actual cash balance as compared with the book balance is accounted for as prescribed in the relevant rules;
- (d) Vouchers obtained from the Accounts Office of the PRI for the selected months agree with corresponding entries in the Divisional or Sub-Divisional Cash Books and imprest accounts;
- (e) Unduly large cash balances are not kept in hand;
- (f) In the case of time expired, lost and cancelled cheques, procedures as prescribed are followed;
- (g) Brief remarks relating to renewal, cancellation or loss of a cheque are recorded in the Cash Book;
- (h) In the case of a lost cheque, a certificate from the Bank / Treasury Officer stating that the fact of loss has been recorded by him has been furnished;
- (i) Dates of drawal of cheques as shown in the cheques agree with those noted in the Cash Book;
- (j) Cheques are not drawn and deposited in the cash chest at the close of the year for the purpose of showing the full amount of grant as utilised;

- (k) The work of monthly reconciliation of remittances into Bank / Treasury and cheques issued with corresponding figures and certificates of the Treasury Officer through Schedules of Settlement with the Treasuries or of the Bank Pass Book / Statement has not fallen into arrears, and the differences have been reconciled promptly and not allowed to accumulate;
- (l) Cash balances with the subordinates are checked occasionally by the Sub-Divisional Officers.

**14.2.6 Imprest Accounts :** The following points should be seen :-

- (a) Imprests are checked and recouped punctually before the Cash Book for the account month is closed and amounts of imprests are not unduly excessive.
- (b) There are no avoidable delays in the adjustment of outstanding Temporary Advances.
- (c) Imprests are not sanctioned by Divisional Officers in excess of prescribed limits.
- (d) Certificates of Cash Balances in imprest accounts are given after actual count.
- (e) Receipts from imprest holders have been obtained and filed for imprests outstanding on 31st March.
- (f) Payments are not made from Imprest Holder's private cash.
- (g) Imprest accounts are properly scrutinised by the Divisional Officer before recouping the imprest.

**14.2.7 Paid Cheques :**

- (a) Paid cheques should be checked in detail with counterfoils and the Cash Book to see that cheques have been drawn in favour of the actual payees

and payments have been actually made to persons entitled to receive them.

- (b) Endorsements made on cheques should be connected with the acquittance on the voucher or vouchers and it should be seen *inter alia* that no divisional employee figures in them as an endorsee.
- (c) Endorsements and acknowledgments of the payees on the cheques do not give rise to any suspicion of fraudulent payment.
- (d) Corrections, if any, on the cheque counterfoils or the memoranda of balance on the reverse of the cheque do not disclose any financial irregularity or over-drawal.
- (e) Counterfoils of used cheque books are returned promptly to the Divisional Office for record and certified as checked by the Divisional Accountant ;  
and
- (f) Used cheque books are destroyed after the lapse of the prescribed period of preservation.

**14.2.8 Hand Receipts** : Payments made on hand receipts supported by detailed measurements should be scrutinised carefully to see that such cases are not large in number. It should also be seen that these payments have been debited to the contractors both in their ledger accounts and in the works abstract concerned and have been eventually recovered from the contractor's bills.

### **14.3 Monthly Accounts**

**14.3.1** It should be seen that:-

- (i) office copies of the complete monthly accounts with all the schedules initialed by the Engineering Officer and the Divisional Accountant are filed in the Division Office;

- (ii) office copies agree with the originals sent by the Accounting authority of the PRI; and
- (iii) if corrections to accounts / schedules have been intimated by the Accounting Authority of the PRI copies have been corrected accordingly.

**14.3.2** A number of entries selected at random from the original monthly accounts and schedules, etc., obtained from the accounting office of the PRI for the month or months selected for detailed check should be compared with corresponding entries in the office copies of accounts and schedules and supporting registers kept in the Division Office to verify the correctness and genuineness of such transactions.

**14.3.3** It should be verified in audit that all the schedules required to be attached to monthly accounts are correctly prepared in the prescribed forms and the totals of each schedule agrees with the corresponding monthly accounts figures.

**14.3.4** The monthly reconciliation of the Divisional office figures with the treasury figures takes place through the Schedule of Settlement with Treasuries. Audit should verify that the differences under "Remittances" and "Cheques" between the two sets of figures are properly reconciled and distinctly shown in the schedule. The items of differences recorded in the schedule should be carefully scrutinised to see that old items do not remain unrectified for long periods. In particular, remittances not acknowledged by treasury and cheques shown as paid by the treasury but not accounted for as issued by the Division should be carefully investigated as such unreconciled differences are likely to conceal frauds. These remarks apply *mutatis mutandis* to Bank reconciliations also.

**14.4** ***Vouchers not sent with Monthly Accounts*** : When checking the transactions for the month selected for detailed check it should be seen that:-

- (i) a correct and complete voucher exists in support of each item of expenditure for which a voucher is not required to be sent along with the monthly accounts and which is entered in the Cash Book or the Transfer Entry Book (Journal);

- (ii) it is traceable to the schedule docket concerned;
- (iii) the charge in each case is in order;
- (iv) only items which should have been classed as unvouched charges have been treated as such in the schedule docket; and
- (v) vouchers have been checked by the Divisional Accountant and duly cancelled to prevent double payment.

#### **14.5      *Stores and Stock Accounts and Transactions***

**14.5.1**      For the selected month or months, the stock accounts should be checked to see that:-

- (i) they are obtained in accordance with the rules prescribed and kept update;
- (ii) quantities of both receipts and issues are correctly taken into account and balanced properly;
- (iii) materials purchased for particular works against sanctioned estimates or specific orders of the competent authority, are charged to the work concerned and accounts of materials at site are kept in such cases;
- (iv) material is purchased not for any specific work but for meeting the requirements of the current works of the Division are charged to the suspense head "Stock" and proper accounts thereof are kept; and
- (v) issue to works have been charged to the appropriate Sub-head of suspense accounts and carried to Contractor's Ledger or to materials account concerned.

**14.5.2**      Stock balances should be scrutinised to see whether any articles held in stock have not at all been utilised for more than one year and whether any articles are unnecessarily stocked, especially those which are permitted to be purchased locally whenever required. It should also be seen that:-

- (i) the quantities kept in hand bear a reasonable proportion to the average half yearly consumption;
- (ii) the total balance at any time has not exceeded the sanctioned Reserve Stock Limit; and
- (iii) money is not unnecessarily locked up in superfluous stock which may entail loss through deterioration.

The audit Party should enquire into accumulated and obsolete store articles to the best advantage of the PRI and the steps taken to dispose of unused surplus.

**14.5.3** Stock transactions are to be accounted and recorded properly and as prescribed in the relevant rules and orders. The following additional points should be seen :-

- (i) Amounts of stock vouchers have been debited to the head 'stock' and quantities shown therein are traceable in the Stock Register.
- (ii) Articles received from other sources, e.g. from purchases for which payment is not immediately made, manufacture or writes back from works, are traceable in the Stock Register (Ledger) and proper sanction has been given for each transaction.
- (iii) Every issue shown in the account of daily issues of materials is based on indents and acknowledgments of the receiving officer. In the case of transfers within the Division, the receiving officer has duly accounted for the receipt in his stock accounts.
- (iv) Monthly totals of the quantity of articles received and issued agree with the corresponding entries in the other prescribed schedules of stock register and issues.
- (v) Entries in stock receipt schedule are verifiable with the corresponding entries in work abstracts.

- (vi) Issue rate charged is correct (It should ordinarily be the same as the rate adjusted and fixed at the end of the preceding half year).
- (vii) In the case of private sales including sales to contractors, the additional percentages on the cost of the articles, if any, prescribed by rules as centage, have been recovered and credited to revenue.
- (viii) Quantities and values shown in Schedule of Stock Issues agree with the entries in the Stock Register.

**14.5.4** The points to be covered in the audit of the Register of Stock (Ledger) are as follows :-

- (i) The opening balance agrees with the closing balance of the last audited register.
- (ii) Closing balances are correctly worked out.
- (iii) Present value of stock has been calculated at the present issue rates.
- (iv) The difference, if any, between the value of the stock thus arrived at and the actual value of the stock as on record is adjusted in the manner prescribed and valuation of stock is done correctly according to relevant rules.
- (v) Review of Register of Stocks has been submitted to the higher authority concerned on the due dates, if such a requirement has been prescribed.
- (vi) Certificates, if any, required to be furnished by Divisional Officers with their salary bills for July and December of each year regarding stock verification and submission of stock returns to the higher authority concerned are correct.
- (vii) Periodical verification of stock has been conducted in accordance with the relevant rules.

- (viii) Shortages noticed during stock verification have been investigated and suitable action has been taken to fix personal responsibility and to recover their value and excesses have been taken to stock.
- (ix) Reserve Stock Limit, if any, fixed for the Division is reasonable and based on the actual requirement of materials.

**14.5.5** It should be verified that stores articles, which are not really required are not indented. For this purpose, the Half Yearly Register of Stock may be scrutinised to find out the opening balances of the same kind of articles as indented and the utilisation of the total stock (i.e., opening balance plus receipts) within a reasonable period.

**14.5.6** Issue rates of stock as noted in the Register should be checked with the rates at which the articles are actually issued to works and contractors.

**14.5.7** In respect of issues to contractors for work it should be seen that instructions issued in this behalf in Rules and Orders have been followed. It should be seen that:-

- (i) issues are generally confined to materials which have to be supplied under conditions specified in the contract agreement;
- (ii) issues are charged for at rates specified in the contract;
- (iii) no carriage or incidental charges are debited against stock for moving the materials beyond the place where the contractor has agreed to take delivery thereof;
- (iv) surplus materials are not taken back to stock except under circumstances authorised in the procedure prescribed in this regard; and
- (v) in cases where, though the tender of a contractor is for carrying out the work with materials purchased by himself in the open market, materials are supplied to the contractor by the Division for the work, cost of materials is recovered at current issue rate or market rate whichever is higher and in

addition, sales tax under the State Sales Tax Act / Law in force is recovered and credited to the Commercial Taxes Department.

**14.6 Road Metal Account**

**14.6.1** In order to facilitate the consolidation or repairs of a road it is customary to collect and stock metal on the side of the road. In such cases, quantitative account of the metal so collected in each kilometer of road, is maintained in the Measurement Book, showing receipts, issues and monthly balances of material on hand.

**14.6.2** During audit, receipts shown in the account should be checked with the relevant vouchers and work abstracts for metal collection and the issues with those of metal consolidation or maintenance. It should be seen that balances remaining in each kilometer have been correctly worked out and that expenditure incurred on collection has been finally charged off to the estimates concerned in accordance with the relevant rules.

**14.6.3** It should be verified that copies of loose sheets containing quantity accounts of road metal maintained in the Sub-Divisional Office have been submitted monthly to Divisional Office within a fortnight of submission of monthly accounts, as prescribed and that there are no arrears in this regard.

**14.6.4** It should be seen that a responsible officer has checked balances of road metal by actual measurements and results of verification have been recorded in the Measurement Book with a note explaining discrepancies between the book and actual balances.

**14.6.5** It should be verified that the Road Metal Rate Book (Land Register) is properly maintained up to date. The standard rates noted in the book should be compared with the rates actually paid in the bill for metal collection. It should also be seen that there is no omission to include kilometer of road recently metalled, and to indicate changes of quarries, which involve a change of rate.

**14.6.6** As the Divisional Officer is required to conform to the sanctioned kilometer-wise allotments for particular roads, it should be seen during audit that the kilometer rates have not been exceeded in the case of road works.

**14.7** ***Tools and Plant Accounts***

**14.7.1** The following points should be seen :-

- (i) There are no undue delays in the submission of the monthly accounts of receipts and issues and Half Yearly Register of Tools and Plant from the Sub-Division to Divisional Office.
- (ii) Divisional and Sub-Divisional Accounts of receipts and issues and the Registers of Tools and Plant are posted up to date and entries in these accounts for the selected months agree with those in the Annual Return.
- (iii) All works abstracts for new supplies of Tools and Plant for the period of audit and the connected vouchers not submitted to audit are in order.
- (iv) All items of receipts are traceable in the monthly returns.
- (v) In respect of Tools and Plant articles transferred to other divisions, proper acknowledgments of the receiving Division are available on record.
- (vi) Certificate relating to Shortages Awaiting Adjustments, has been submitted to the higher authority concerned by the due date, if so prescribed.
- (vii) Certificates furnished by Divisional Officers with their salary bills for December each year regarding verification of Tools and Plant and submission of yearly return to the higher authority concerned are correct.
- (viii) Shortages noticed on physical verification of Tools & Plant articles have been investigated and action has been taken to get them replaced or to recover the value thereof in cash.

- (ix) No machinery is unnecessarily kept idle for long periods without getting it repaired and unserviceable articles as well as machinery are disposed of under orders of the competent authority, to the best advantage of PRI.

**14.7.2** When machinery are issued to contractors as stipulated in the contract agreement, the relevant records and Log Books should be examined to see that hire charges, etc., have been correctly worked out at the rates specified in the agreement and damages, if any, have been made good. In cases where the supply is not contemplated in the contract agreement, it should be seen that recovery has been made at the economic rate approved by the competent authority.

## **14.8      *Tenders and Connected Records***

**14.8.1** Instructions contained in **Chapter 9** of this Manual are to be followed while auditing Tenders and other related documents in the Engineering Divisions of PRIs.

**14.8.2      **Notice Inviting Tenders** :** The points to be seen in audit are as follows :-

- (i) The notice has been properly prepared in the correct form in accordance with instructions laid down in this regard.
- (ii) It is based on the sanctioned estimate and there is on record an analysis of rates (data sheet) for each item not covered by the schedule of rates.
- (iii) It has been approved by the authority competent to accept tenders.
- (iv) Reasons have been recorded for any deviation in description of the items of work from that found in the sanctioned estimates or from the approved designs and drawings.
- (v) No condition provided for in the approved Tender Notice has been omitted to be included in the tenders.

- (vi) If any correction not incorporated in the approved Tender Notice has been subsequently made in the tender documents, it has been done only with the sanction of the competent authority.

**14.8.3 Register of Tenders :** It should be seen that:-

- (i) all the tenders received and opened by the Divisional Officer are entered in the Register of Tenders in the prescribed form;
- (ii) the total number of tenders in each case agrees with the number of tenders included in the comparative statement in the form prescribed and
- (iii) instructions issued in this behalf have been followed by the Divisional Office while maintaining the register.

**14.8.4 Tenders :** Tenders received including the rejected ones should be checked to cover the following points :-

- (i) Wide publicity was given while calling for tenders and due period of notice allowed consistent with the magnitude of the work put to tender.
- (ii) In the case of construction of buildings, there is no undue delay in calling for tenders for Electrical, Sanitary and Water Supply Works connected with the buildings and tenders for these services are invited simultaneously with the award of the building contract so as to synchronize the completion of the building with that of the services.
- (iii) When tenders are invited for transportation of materials, wide publicity was given by sending copies of Notifications Inviting Tenders to a large number of private Lorry Transport Agencies. Such tenders were called for and finalised well in time before the commencement of the year for which the contract operates.
- (iv) Tenders have been issued only to registered contractors and in each case of issue to unregistered contractors, proper authority exists.

- (v) Tender documents conform to all stipulations specified in the approved Notice Inviting Tenders and there are no deviations;
- (vi) Cost of tender forms and sales tax, if any, has been received before issue and credited to revenue;
- (vii) Tenders have been received in the prescribed form in sealed covers;
- (viii) Tenders have not been sold after the expiry of last date notified for issue of tenders;
- (ix) All tenders bear the dated initials of the officer opening them;
- (x) Rates have been quoted by the tenderers both in figures and words and they have not been over-written or changed without attestation by the tenderers;
- (xi) Conditions prescribed regarding earnest money deposits have been followed strictly;
- (xii) Divisional Officer has certified in the tenders that the stipulated Earnest Money Deposit has been received in one of the prescribed forms and accepted by him;
- (xiii) Delays in acceptance of tenders are avoided as they are likely to result in the successful tenderer demanding higher rates on the ground that the rates tendered were no longer workable / valid;
- (xiv) All other formalities to be observed by Divisional Officers as prescribed have been properly observed;
- (xv) Comparative statements in each case have been got correctly prepared, checked and certified by the Divisional Accountant;
- (xvi) In the case of contracts accepted after negotiations, negotiations have been conducted by the authority competent to do so and they have been done in accordance with the procedures laid down.

## **14.9 Contract Agreements**

### **14.9.1 Register of Agreements :** It should be seen that:-

- (i) the Register is maintained properly in the prescribed form;
- (ii) accepted tenders have been properly entered in the Register in serial order and a number is allotted to each agreement;
- (iii) all the columns have been filled in and the date of actual completion of the works noted in the relevant column as soon as each contract is completed;
- (iv) all the agreements entered in the Register are physically available in guard files in the safe custody of the official authorised to keep them; and
- (v) copies of all agreements accepted by officers higher than the Divisional Officers are sent to the Accounting Authority of the PRI.

### **14.9.2 Agreements :**

#### **14.9.2.1** Instructions contained in **Chapter 9** of this Manual apply *mutatis mutandis* to the Contract Agreements relating to the Works and Engineering Divisions also.

Additional points to be seen are mentioned below :-

- (i) Agreements have been entered into by an officer authorised to do so.
- (ii) They are correct and complete in all respects and both the parties have signed each page of all the documents forming the contract agreement.
- (iii) There is no ambiguity in the various clauses incorporated in the agreements and both the parties have attested all corrections, additions and alterations.

- (iv) Rates at which the materials are to be supplied to the contractors are properly filled in and place of delivery is clearly indicated in the schedule attached to the agreements.
- (v) An Agreement Bond in proper form is obtained on stamped paper in all cases, as prescribed.
- (vi) Agreements for large works are not accepted in piece-work agreement forms.
- (vii) Several contracts have not been given out for the same work, the estimated value of each contract being within the Divisional Officer's powers of acceptance, unless such action has the prior approval of the competent authority.
- (viii) In cases referred to in (vii) above, the same person has not been awarded two or more contracts, unless permitted by procedures prescribed.
- (ix) All modifications / amendments to conditions of contract issued by Government up to the date of issue of Notice Inviting Tenders have been incorporated in the contract agreement.
- (x) No tender work is let out for execution before a proper contract agreement is executed therefor and a written order to commence work is invariably issued to the contractor and his acknowledgement obtained
- (xi) Proper supplemental agreement on stamped paper is obtained from the contractor whenever extra items of work are entrusted to him.
- (xii) In the case of Piece-Work agreements, rates provided for are correct with reference to the Schedule of Rates, current for the year, in which the agreement is got executed.
- (xiii) Security Deposit as prescribed for performance of contract has been furnished by the successful tenderer and accepted by the Divisional Officer before the agreement is concluded.

**14.10 Register of Bills Received :** It should be seen that:-

- (i) the register is posted regularly and correctly;
- (ii) an abstract is drawn up at the end of each month showing Opening Balance, Receipts, Total, Disposals and Closing Balance; and
- (iii) scrutiny of causes for any unusual delay in the passing of bills does not reveal any serious irregularities in the execution of work, supply of materials, etc.

**14.11 Work and Supply Bills**

**14.11.1** The points to be covered generally during the check of paid work and supply bills (audited vouchers obtained from the accounting office of the PRI) for the selected month/months are as follows:-

- (i) Quantities paid for are traceable with the supporting details in the record of measurements (Measurement Book) quoted in the vouchers.
- (ii) In each case the record of measurement itself is in order.
- (iii) Rates at which several items of work or supply shown in a voucher were paid for are in accordance with the terms and conditions of the relevant agreement, order, etc., or as per schedule of rates, as the case may be.
- (iv) Terms and conditions of the agreement had been duly sanctioned by competent authority before the liability was incurred and the agreement itself is in order.

**14.11.2** The following detailed checks should be exercised in respect of these vouchers as well as final bills, if any, relating to large contract works paid during the period covered by Audit:-

- (i) Measurements of work done have been properly recorded and they have been test checked by the superior officers as prescribed.
- (ii) When stack measurements of stone, metal, boulders, manure, etc., are recorded, necessary deductions for voids have been made.
- (iii) Arithmetical calculations of the measurements are correct.
- (iv) Total quantities as worked out in the Measurement Book and abstracted for payment agree with those actually billed and there are no discrepancies.
- (v) If any part rates have been allowed in a running account bill, reasons for doing so are recorded and full rates have not been paid for incomplete items of work.

**14.11.3 Excess Quantities :** It should be seen that the quantities actually executed as paid for in the work bill do not exceed the quantities stipulated in the agreement and valid reasons are placed on record in case of excess quantities and approval of the competent authority as prescribed has been obtained therefor. Special attention should be paid to items where the contractors have quoted abnormally high / low rates. Final rates sanctioned for excess quantities should be examined with reference to the relevant terms and conditions of the contract agreement.

**14.11.4 Extra and Substituted Items :** Points to be seen are as follows :-

- (i) Extra / substituted items were really necessary and were not covered by the scope of the provisions in the agreement;
- (ii) Such items have been sanctioned by the authority competent to do so;
- (iii) Tendered items whose rates are very low or which involve procurement of some special types of materials have been substituted only with proper justification and there is no suspicion of any attempt to benefit the contractor unduly by the substitution;

- (iv) Rates sanctioned for such items are supported by Rate Analysis and they have been worked out strictly in accordance with the terms and conditions of the agreement and approved by the competent authority;
- (v) Ordinarily, no payment is made in respect of such items before finalising the rates in terms of the contract and before approval of the competent authority; and
- (vi) If payments are allowed for such items in anticipation of approval of competent authorities, part rates are paid in the running bills so that there will be no overpayment to the contractors in the event of the proposed rates being reduced by the sanctioning authority.

**14.11.5 Progress of Work :** While reviewing the progress of work audit should cover the following points :-

- (i) The contractor has maintained the progress in executing the work as stipulated in the relevant clauses of contract agreement.
- (ii) Whenever there is a shortfall in progress, suitable action has been taken by the Division in terms of contract.
- (iii) In cases where the work could not be completed before the due date stipulated in agreement, action to extend the period of currency of the contract has been taken by the Division before the expiry of the contract period, as prescribed.
- (iv) Application for extension of time for completion of the work has been submitted by the contractor within the time specified in the agreement.
- (v) Extension of time has been justified and recommended by the Sub-Divisional Officer on valid grounds.
- (vi) Extension of time has been granted by the authority competent to do so.

(vii) In case of any default on the part of the contractor (stoppage, non-completion of work, etc.), penalty has been levied on him in terms of the contract.

(viii) Remedial action has been promptly taken in cases of departmental lapses contributing to slow progress, stoppage, non-completion of work, etc.,.

**14.11.6 Technical Reports on Works :** The report of inspection of works periodically by the higher departmental authorities should be studied by the Audit Party as such reports would indicate progress of the work, reasons for slow progress and any defects observed in the execution of the work. It should be verified that suitable steps have been taken as instructed in such reports regarding progress of work and rectification of defects by the contractor, etc. Similarly, the reports of the Technical Audit Cell, if any, set up by the competent authority, should be seen to ensure that any recoveries pointed out by the Cell have been recovered from the contractor's bills and other points raised in the reports are attended to expeditiously.

**14.11.7 Recovery Statements for Materials issued to Contractors :** The following points should be checked :-

(i) The upto date issues of materials as shown in the statements are correct as per actual issues and as per unstamped acknowledgments obtained from the contractors.

(ii) Recovery of cost is correctly made at the rates stipulated in the agreement.

(iii) Materials, which have not been stipulated in the agreement, have been issued to contractors only after obtaining orders of the competent authority and after the issue rate and date of delivery are decided.

(iv) Materials-at-site account is maintained properly in accordance with the instructions issued in this behalf.

(v) Debit for the cost of materials supplied has been correctly computed and posted in Contractor's Ledger and unless ordered otherwise, all recoveries

due are made from each running account bill and the ledger balances are fully cleared at the time of making final payments to the contractor.

- (vi) The theoretical statement for consumption of materials such as cement, etc., has been prepared on the basis of actual work done, if the Division as per agreement has supplied such material.
- (vii) Materials have not been issued in excess of requirements.
- (viii) Action has been taken by the Divisional Officer to take back on completion of the work, any materials found to have been issued in excess of the theoretical requirements.
- (ix) In case excess quantities of materials are not returned to stores, recoveries on this account are made from the contractor's bills as stipulated in the contract agreement.

**14.11.8** Additional points to be seen during audit of vouchers of Engineering Division vouchers are mentioned below.

**14.11.8.1 Contractors' Bills for Work done**

- (a) Name of the contractor and reference to the agreement and work order are given in the vouchers.
- (b) Number and page of the Measurement Book and the date on which the measurements were recorded are indicated in the space provided for the purpose in the bill form.
- (c) Full particulars of quantities of work done are furnished clearly in the vouchers.
- (d) Vouchers are accompanied by statements of recoveries towards cost of materials supplied by the department and towards hire charges for tools and plant etc., hired to the contractors.

- (e) In respect of payments to piecework contractors or others under contracts sanctioned by the Divisional Officer, where there is a clear indication that the agreed rates are on par with or at a percentage above or below the Schedule of Rates, rates paid in vouchers are verified with Schedule of Rates.
- (f) Cost of materials supplied to piecework contractors for works is recovered in cash and not by recovery from their work bills.
- (g) Acknowledgment of the payee is given for the gross amount i.e., amount paid through cheque **plus** the recoveries effected and **not** for the net amount of the bill.
- (h) Bills relating to contract agreements where tenders are accepted by authorities higher than the Divisional Officer, should be checked with reference to the contract agreements concerned carefully and in a comprehensive manner. Some of the more important points to be covered during audit of such vouchers are as follows:-
  - (i) Rates paid for tendered items are those specified in the contract agreement. Rates payable for quantities exceeding the tendered quantities, for extra items and for non-tendered items have been regulated strictly in accordance with the relevant terms and conditions of contract.
  - (ii) Any large variations between the tendered quantities and the quantities actually executed should be enquired into, especially when the rates quoted by the contractor are abnormally higher or lower than the estimated rates for such items.
  - (iii) Extra and non-tendered items should be scrutinised to ensure that these were really beyond the scope of the original contract.
  - (iv) The total value of work done or supplies made with reference to contracts accepted by the Engineering Officer does not exceed the

limit upto which he is empowered to accept tenders for works or supply of materials.

- (v) The correctness of the previous payment recorded in the bill is verified with reference to the earlier bill. Whether payments on running account bills have been linked from the first payment till final payment is made, by noting the number and date of the present voucher on the previous bill, should be verified.
- (vi) When payments are made for dismantling old work or for renewals and replacements, a certificate is recorded by the Engineering Officer that serviceable materials have been accounted for and taken to stock for eventual disposal.
- (vii) There are no deviations from the terms and conditions of the contract and in respect of transactions not covered by the agreement, the relevant rules are strictly followed.
- (viii) Arithmetical calculations in respect of individual items and totals are correct and deductions towards Further Security Deposit, Cost of materials supplied, Hire charges of vehicles, etc., Income Tax, Sales Tax, etc., have been made from the gross amount of the bill.
- (i) Whether the voucher bears the dated initials of the Divisional Accountant in token of his having exercised the preliminary checks as prescribed and whether certificates required to be recorded on the bill by the Engineering officers at different levels have been recorded properly and in a complete manner.
- (j) Special points to be seen in the audit of final bills of contractors are as follows :-
  - (i) appropriate form of final bill has been used;
  - (ii) the contractor has added in his own handwriting that the payment is **"IN FULL SETTLEMENT OF ALL DEMANDS"**;

- (iii) a statement in the prescribed Form, showing the materials issued to the contractor and used on the work is enclosed to the bill.
- (iv) there is no loss of materials or improper issue to the Contractor or improper use of materials by him. Cost of materials is recovered at rates specified in the contract agreement but rates to be charged for materials supplied for additional or altered items of work for which tender rates are not paid, are those reckoned for arriving at the rates payable for such items of work in terms of the agreement.
- (v) The arithmetical accuracy of calculations in the Statement of Materials is ensured. All the materials issued including those supplied free of cost are included in this statement. Quantities of items of work shown in the bill are tallied with those paid in the bill and the quantities of materials are tallied with those shown in the Statement of recoveries of cost of materials.
- (vi) Reasons for variations between theoretical consumption and actual consumption of materials in each case as shown in the Statement of Materials are examined to see whether they are indicative of any sub-standard work justifying payment at a lower rate than that agreed to. If consumption is found to be in excess of the permissible limit, recovery of cost of excess quantity has to be made at penal rates in accordance with the terms of the contract agreement and provisions of relevant rules and orders.
- (vii) The Engineering Officer furnishes a certificate to the effect that there are no outstanding dues from the contractor on the final bill as all dues from the contractor are to be settled before payment of the final bill.

**14.11.8.2 Bills for Purchase of Stores :** The following checks are to be applied to these vouchers for purchase of stores against contract's purchase order agreements etc., :-

- (i) There is provision of funds authorised by the competent authority.
- (ii) Purchase is covered by a special or general sanction accorded by the competent authority authorising expenditure.
- (iii) Purchases are made economically and in accordance with rules and orders, prescribed.
- (iv) Rates mentioned in the bills agree with those stipulated in the contract, purchase order etc.
- (v) Purchases have not been split up so as to avoid the necessity of obtaining the sanction of higher authority.
- (vi) When sales tax claimed in the bill has been paid, it is seen that the contract / order provides specifically for the payment of tax, computation of tax is correct and certificates prescribed in this behalf are furnished by the drawing officer.
- (vii) The following certificates are recorded on the supply bills:-
  - (i) "Received on ..... and duly recorded in the Register of Stock Receipts. See also page ..... of Measurement Book No. ....":
  - (ii) "Certified that the stores have been received in good condition and verified as to quality, quantity and rates."
- (viii) In cases where transportation charges are claimed separately, the Engineering Officer has furnished on the bills a certificate to the effect that transportation charges claimed are reasonable.

**14.11.8.3 Bills for Refund of Deposits :** The following points are to be covered in the audit of these vouchers:-

- (a) A certificate that the fact of refund has been noted against the original entry in the cash book and other accounts (so as to make the entertainment of a double or erroneous claim impossible) is furnished by the Engineering Officer.
- (b) Voucher No. and Month of Refund against the original credit entry is noted in the relevant schedule of Deposits and certificate to this effect is recorded on the Refund Voucher.
- (c) Amount paid is correctly refundable to the payee.
- (d) In the case of refund of security deposits to contractors, refund is made after satisfying the conditions of contract and after expiry of the period specified therein. Reference to the Cash Book Voucher No. and Month of Payment of the final bill of the contractor concerned is given on the Refund Voucher.

## **14.12 Work Charged Establishment**

**14.12.1** In case the practice of appointing work charged establishment is in vogue in a PRI, it should be seen that charges relating to pay of work charged establishment and other contingent expenditure debited to the work are correctly chargeable to the particular work and as per provision made in sanctioned estimate.

**14.12.2 Register of Work Charged Establishment :** It should be seen that:-

- (i) proper sanction exists for each post;
- (ii) provision for the employment of staff on the work has been made in a separate sub-head of the sanctioned estimate;
- (iii) pay of each post does not exceed the rate prescribed for that post ; and

- (iv) the Establishment is set up strictly in accordance with the prescribed rules and the pay of members of the regular establishment entertained in excess of the scale sanctioned for such establishment is not charged to work.

**14.12.3 Payments :** Paid vouchers relating to work charged establishment sanctioned by the Divisional Officer should be checked to see that:-

- (i) bills are prepared in the prescribed form;
- (ii) an Unpaid Wages Register is maintained prescribed for wages remaining unpaid on monthly bills;
- (iii) pay of a supervisor is not charged to a work where no work has been executed and paid for, as can be found out in the accompanying outturn statement;
- (iv) no leave salary is paid to members of work charged establishment except as provided for in the rules;
- (v) only actual travelling expenses as per rules have been allowed;
- (vi) wages for a month are paid only in the next month;
- (vii) deductions in the salary bills of the work charged establishment and the payments to the Life Insurance Corporation of India are regularly made and properly accounted for in the Cash Book; and
- (viii) in case of transfer from one place to another, Last Pay Certificate is prepared properly.

**14.12.4 Allocation Statements :** Allocation statements of work charged establishment should be checked with reference to Service Registers, etc. It should be seen that:-

- (i) pay drawn in the existing scale and date of increment are correct, pay fixed in the new scale and weightage allowed with reference to total service, etc., are correct and there is no error in allocation; and
- (ii) fixation of pay has been done in accordance with the relevant rules and instructions issued by the competent authority.

**14.12.5** ***Festival Advances*** : If the practice of paying Festival Advances to work charged staff is in vogue in the PRI, the Engineering Officer is required to maintain a Register and Broadsheet of Festival Advances in the forms prescribed. It should be seen that:-

- (i) advances are correctly given;
- (ii) outstanding balances are correctly worked out;
- (iii) credits and debits for the selected months are verifiable from the bills concerned;
- (iv) recoveries are regularly effected; and
- (v) suitable action has been taken to recover long outstanding balances, if any.

**14.13** ***Transfer Entries (Journal Entries)***

**14.13.1** It should be seen that the Transfer Entry Book is properly maintained and all transfer entries are supported by proper vouchers of transfer of charges. The purpose served by each Transfer Entry should be verified to ensure that the adjustment was justified.

**14.13.2** Transfer Entries involving rectification of errors should be scrutinised to see that the rectification was really necessary and in order and that the original error does not disclose a defect in the system of accounting or indicate any financial irregularity.

**14.13.3** All adjustments due to erroneous debit in the first instance, especially those effected during March, should be carefully investigated. Such transactions should be traced into works abstracts and registers of works. It can be ascertained from such verification that the transfer of a charge was really due to a genuine mistake or whether the adjustment was intended to hide an excess expenditure over a sanctioned estimate or to show falsely that the available grant has been spent in full.

**14.13.4** An intelligent and careful scrutiny of Transfer Entry Orders has to be conducted as they are likely to be resorted to sometimes to cover up irregularities by the Divisions. The following points should be kept in view in the audit of transfer entries (Journal Entries) :-

- (a) They are prepared by competent authorities in accordance with the prescribed rules and do not disclose any defect in procedure.
- (b) Entries of debits and credits pertaining to the heads of account or works are duly linked up with the corresponding schedule or schedule docket.
- (c) Adjustments are bona fide and do not reveal any fictitious transactions.  
For example,
  - (i) debiting to a work the cost of materials not required or in excess of actual requirements;
  - (ii) debiting to a particular work for which funds are available the value of materials intended to be utilised on another work for which funds are not available; and
  - (iii) writing back of the value of materials used on a work to avoid excess outlay over appropriation, etc.

#### **14.14**      ***Muster Rolls***

**14.14.1** Muster Rolls are the initial records of labour employed on a work. They are always retained in the Divisional Office and are not sent to any other office. It should be seen in audit that Muster Rolls are maintained in machine numbered forms in accordance with prescribed instructions.

**14.14.2** Points to be covered during check of muster rolls are as follows:-

- (i) Payments have been made and witnessed by officers empowered to do so.
- (ii) Charges are solely on account of labour wages. Wages of peons and similar employees are not included in muster rolls as such employees form a part of the regular establishment for which a separate and distinct sanction is required.
- (iii) Designations of the labourers employed as noted in the muster rolls indicate that they are specifically connected with execution of the work concerned.
- (iv) Charges have been correctly allocated.
- (v) Payments of wages have not been unduly delayed.
- (vi) Balance of wages remaining unpaid has been carried over to the arrears register and agrees with the corresponding entries in the Register of Works.
- (vii) Number of labourers employed each day as per the muster roll agrees with those shown in the corresponding daily labour reports.
- (viii) In the case of casual labour, sanction for employment of such labour exists.
- (ix) Duplicate copies of muster rolls are not prepared and separate rolls have been prepared for each period of payment.
- (x) A Register of Muster Roll Forms as per proforma prescribed is maintained properly by the officers concerned and proper acknowledgements are taken and kept on record when muster rolls are issued to authorised subordinates.
- (xi) The system followed does not give scope for muster rolls being misused.

## **14.15 Measurement Books**

**14.15.1** Measurement Book is one of the most important initial records of an Engineering Division, wherein all measurements relating to works and stores are recorded and based on which all bills for work / stores are prepared and paid. It should be seen during audit that the maintenance and upkeep of Measurement Books are in accordance with the prescribed rules.

**14.15.2 Register of Measurement Books :** It should be seen that:-

- (i) this Register showing issues from and return to the Division and Sub-Divisional Offices is page-numbered;
- (ii) it is maintained properly; and
- (iii) completed measurement books are kept in the custody of the Divisional Office and preserved for the prescribed number of years after the completion of the works recorded in the books and duly destroyed thereafter. The stock of unused measurement books in the office should be checked with the register to see that none are missing. Cases of missing books, if any, should be investigated at once and if any book cannot at all be located, it should be seen that the Engineering Officer has referred the matter promptly to the competent authority for orders.

**14.15.3** During the scrutiny of Measurement Books it should be seen that:-

- (i) details of measurements are clearly recorded and entries in the column of contents or area have been invariably made in ink and have not been made in pencil in the first instance and then inked over;
- (ii) issue of cheque towards payment due has been recorded and a reference to the voucher number and date on which payment was made, has been given in the measurement book:

- (iii) the series of measurements connected with a work for which payments have been made have been crossed off to prevent possibility of double payment;
- (iv) in the case of measurements not crossed off, proper reasons are clarified by the Division and are acceptable;
- (v) reasons have been invariably given for the cancellation, if any, of a series of measurements;
- (vi) measurements have been recorded in chronological order and no page is left blank between two sets of measurements relating to the same work;
- (vii) blank pages or portions of pages left blank have been crossed off and cancelled under the signature of the holder of measurement book, to avoid the possibility of fraudulent entries being inserted at some later date;
- (viii) there is no tampering of entries, there are no erasures or corrections by over-writings and all corrections are made neatly with proper attestation;
- (ix) contractor's signature is obtained in the book in token of acceptance of measurements;
- (x) all books issued have been returned to the Divisional Office at least once in three years and the entries contained in page 1 of the book agree with those entered in the Register of Measurement Books;
- (xi) payments on account of each measured work have been promptly made and the dates of measurement and payment as recorded in the measurement book agree with those noted on the vouchers;
- (xii) a comparison of dates and places noted in the measurement books with the entries made in the travelling allowance journals of subordinate officials / officers does not reveal any discrepancies between the two sets of entries and it is established that measurements have been actually recorded on

the dates and at the place noted by the subordinate and certified as checked by the superior officer in the measurement book; and

- (xiii) The rules laid down regarding check of measurements by Engineering Officers are strictly followed by the Officers concerned and evidence of check measurements is found in the measurement books.

#### **14.15.4 Standard Measurement Books :**

- (i) Standard Measurement Books are maintained to facilitate the preparation of estimates for periodical repairs of buildings and also for the purpose of preparing contractor's bills for such repair works thereby avoiding the need for recording detailed measurements on each occasion.
- (ii) Standard Measurement Books should be numbered in an alphabetical series for the division so as to be readily distinguishable from ordinary Measurement Books and a separate Register maintained for them in the Divisional Office, in the prescribed form. The original Standard Measurement Books should be kept in the personal custody of the Divisional Accountant. A similar Register should be maintained in each Sub-Division showing the books belonging to it. It should be seen during audit that all the requirements of relevant rules have been complied with by the Engineering Officers.
- (iii) It should also be seen that:-
  - (a) entries in the books are made legibly in ink and certified as correct by a responsible officer;
  - (b) the Engineering Officer has inspected the books periodically to ensure that the entries have not been tampered with and that all corrections due to additions and alterations in the buildings have been made with proper attestation and the standard measurement books are kept up to date;

(c) certificate as required is recorded by a responsible officer at the time of preparing bills for payment and a suitable note regarding payment is recorded in the Standard Measurement Books when the payment is made ; and

(d) the Engineering Officer has furnished a certificate to the higher authority by the due date each year.

#### **14.16 Works Abstracts**

**14.16.1** All charges relating to any original or repair work (or of manufacture) for which a separate estimate has been sanctioned, are collected and shown in a works abstract. However, when a work has been given out to a single contractor, the contractor's bill serves the purpose of the abstract. Maintenance of works abstracts is not insisted upon where payments on a work are not many in a month and in such cases the transactions are directly posted into Register of Works.

**14.16.2** It should be seen that:-

(i) works abstracts are prepared in the Engineering Office under the supervision of the Divisional Accountant. In cases where they are prepared in a Sub-Divisional Office, they are completed in the Engineering Office by the addition of (a) the value of stock issued, (b) direct expenditure, if any, incurred and (c) adjustments, if any, made, by the Engineering Office;

(ii) every entry appearing in a works abstract agrees with a corresponding entry in the connected documents which are:-

Cash Book for Cash Payments

Schedule of Debits to Stock for Stock Charges

Transfer Entry Book for Adjustments

Muster Rolls for Labour Charges

Measurement Book for Quantities of work

Contractor's Bills for Materials at Site

Register of Unpaid Wages for unpaid amounts on account of Labour and

Contractor's Ledger for unpaid amounts relating to contract;

- (iii) allocation of charges is correct and they have been debited to the proper sub-heads as found in the sanctioned estimate; expenditure properly debitable to some other sub-head is not debited to "Contingencies" to avoid an excess over the provision under the appropriate head;
- (iv) entries of receipts and issues of quantities shown in the materials at site accounts agree with those appearing in the body of the Works Abstract and the Register of Works;
- (v) rates for stock articles issued agree with those shown in the stock accounts;
- (vi) If materials have been purchased from contractors or firms, quantities and rates shown in the Works Abstract agree with those noted in the paid bills concerned;
- (vii) balance of materials lying at site of a work on the 31st March of each year is counted and certified by a responsible officer and statements on which such original certificates are recorded correspond to the Annual Return of Materials at Site sent to the accounting officer of PRI at the end of each year;
- (viii) liabilities shown in the Works Abstracts have been correctly worked out with reference to unpaid amounts relating to each work as recorded in the Contractor's Ledger and muster rolls; and
- (ix) The Engineering Officer has initialed the abstracts in token of having examined them.

**14.17      *Register of Works and Accounts of Works***

**14.17.1      It should be seen that:-**

- (i) Registers of Works are kept up to date and posted in accordance with the prescribed rules and the progress of work as calculated with reference to

the quantities executed and rates actually paid in each case, is clearly brought out;

- (ii) all the works in progress have been entered in Register of Works as verified from Register of Sanctioned Estimates;
- (iii) postings of the monthly outlay under each head have been made from the work abstracts concerned and the total expenditure to date agrees with that noted in schedule dockets;
- (iv) work slip is prepared as prescribed and submitted for any excesses noticed either over the total estimated outlay for the whole work or over the estimated amount for each individual sub-head and is got approved from the competent authority;
- (v) rates for departmentally executed works have been struck monthly and there are no abnormal excesses over the estimated rates in the case of works completed or nearing completion;
- (vi) entries relating to materials at site and liabilities agree with those in the materials at site account, the muster rolls, the bills or the Contractor's Ledger, as the case may be;
- (vii) in cases where a supplementary estimate has been sanctioned for a work or the original estimate is revised, necessary additional entries have been made in the same folio of the Register of Works in the former case and the accounts of the original work have been closed and fresh entries relating to the revised estimate have been made in a separate folio in the latter case; and
- (ix) completion Reports have been prepared and submitted in respect of every completed work.

**14.17.2 Materials at Site Account** : It should be seen that:-

- (i) materials have been counted by a responsible officer within the last 12 months and certified to be in good order;
- (ii) balances as shown in the Register of Works agree with those shown in the abstracts submitted by Sub-Divisions and there are no discrepancies;
- (iii) when a work has been completed, the materials at site account is cleared either by a return of the materials to stock or by transfer to another work; and
- (iv) value and quantity of materials borne on the site accounts agree with those as shown in accounts for preceding months.

**14.17.3 Cases of**

- (a) works started without sanction to estimates;
- (b) works in respect of which expenditure has exceeded the sanctioned estimates;
- (c) abandoned works;
- (d) excess and irregular payments;and
- (e) short recoveries and non-recoveries should be scrutinised in detail and commented upon suitably in the Inspection Report indicating in each case the money value of the objection.

**14.18 Contractor's Ledger** : It should be seen that:-

- (i) it is properly maintained, closed and balanced as per instructions issued in the relevant rules and orders;
- (ii) postings are made as and when payments are made for works executed or for supplies made;
- (iii) all recoveries due are effected in each running account bill;

- (iv) closing balance is worked out at the end of each month and the work-wise details of closing balance are given in respect of each contractor and signed by Divisional Accountant;
- (v) there is no delay in the adjustment on secured advances, if any, paid and outstanding for over 6 months;
- (vi) Divisional Accountant has effected every month agreement between the balances detailed in the works abstracts and corresponding balances of the accounts in the ledger, every month;
- (vii) in the case of old outstanding accounts action has been taken for preparation and submission of a subsequent running bill or the final bill;
- (viii) debits for value of stocks supplied during the selected months are made from original receipts given by contractors which should agree with entries in monthly abstract of stock issues and with the rates stipulated in the agreement;
- (ix) unstamped receipts for issue of materials are duly acknowledged by the contractors and are properly filled;
- (x) there are no balances outstanding for a long period even after the final payment is made to a contractor; and
- (xi) minus balances, if any, outstanding are examined and cleared expeditiously.

**14.19      *Accounts of Deposits***

**14.19.1**      The Register of Deposits is required to be maintained in the prescribed form.

**14.19.2**      It should be seen that:-

- (i) transactions have been posted in the Register up to date under the respective detailed heads, as prescribed;

- (ii) entries of credits and debits agree with the corresponding items in the Cash Book and Refund Vouchers / Transfer Entries respectively;
- (iii) the Register is closed every month and balance struck against each item and totaling is done page-wise;
- (iv) abstract of credits, debits and balance under the different classes of deposits has been prepared at the end of each month and signed by the Divisional Accountant and the Divisional Officer;
- (v) there is no delay in clearing outstanding items;
- (vi) items outstanding for more than three complete accounting years are reviewed and adjusted as Lapsed Deposits in the accounts for March each year in accordance with the Rules laid down in this behalf;
- (vii) any item under the classes "Cash deposits of subordinates as security" and "Cash deposits of contractors as security" if cleared from the Register for converting them into one of the recognised forms of interest bearing securities, is traceable in Register of Interest Bearing Securities and the security is physically available in the Division; and
- (viii) the Schedules of Deposits for the selected months obtained from the accounting office of the PRI are true extracts of the Register of Deposits for those months.

**14.19.3 Register of Interest bearing Securities :** It should be seen that:-

- (i) the security as per scale prescribed is furnished by contractors, store-keeper, cashier and other officials in charge of stores and cash and is pledged in favour of the Divisional Officer or the Sub-Divisional Officer, as the case may be;

- (ii) instructions issued in this behalf are observed and a record of receipt and disposal of securities is correctly maintained in the Register prescribed for the purpose;
- (iii) securities certified in the last Annual account rendered in the prescribed form as being in custody and also those received subsequently, actually exist;
- (iv) In respect of the securities not produced for the verification of the Audit Party, either the original acknowledgments of the depositors given on dates subsequent to the dates of last accounts or the acknowledgments of the authorised custodians, as the case may be, are forthcoming;
- (v) there is evidence on record that the checks prescribed as per (ii) and iv) above, were applied by the Divisional Accountant at his last inspection of the Sub-divisional offices;
- (vi) cash security deposits of contractors and employees have been paid into the savings bank or converted into interest bearing securities at the cost of the depositors when the depositors have expressly desired this in writing if permitted by the relevant rules or conditions of contract agreement and they are hypothecated in favour of the Divisional Officer;
- (vii) Government paper tendered as security is taken at its face value or market price, whichever is less, at the time of deposit and in the event of its subsequent appreciation or depreciation in value, a suitable readjustment is made; and
- (viii) security is returned or retransferred only after the lapse of the stipulated period in the bond or contract agreement and after fulfillment of conditions of contract, as the case may be.

**14.19.4 Security Deposits :** The instructions contained in **paragraph 7.7 of Chapter 7** apply *mutatis mutandis* to the audit of security deposits relating to Engineering divisions also.

**14.20      *Suspense Registers***

**14.20.1**      Accounts of the two suspense heads namely "Stock" and "Miscellaneous Public Works Advances" are maintained in the same prescribed form.

**14.20.2**      **Register of Stock :** It should be seen that the general account of receipts, issues and balances under the suspense head "Stock" is maintained correctly and that instructions issued in the relevant rules have been followed in maintaining the Register of Stock.

**14.20.3**      **Register of Miscellaneous Public Works Advances :** It should be seen that:-

- (i)      postings have been made up to date;
- (ii)      page-wise totalling has been done;
- (iii)      an abstract of opening balance, credit, debit and closing balance has been prepared correctly each month and signed by the Divisional Accountant and the Divisional Officer;
- (iv)      there are no huge balances under "Expenditure incurred in excess of the amounts deposited" in case of deposit works and action has been taken by the Divisional Officer to recover the outstanding amount from the respective authorities without undue delay;
- (v)      vigorous action has been taken for clearance of old outstanding items, especially those classed under "Losses, Retrenchments, Errors, etc."; and
- (vi)      the list of items outstanding for more than six months if furnished to the Accounting office of PRI with the monthly accounts for September and March has been correctly prepared as verified from Register of Miscellaneous P. W. Advances.

**14.20.4 Register of Cash Settlement Suspense Account :** It should be seen that:-

- (i) the Register of transactions adjusted under the head "Cash Settlement Suspense Account", if prescribed under the relevant rules and the Register of Claims Received are properly maintained;
- (ii) there are no inward claims outstanding for more than 10 days without sufficient reasons;
- (iii) prompt action is taken by the Division to send the outward claims;
- (iv) claims for the month of March are prepared and sent by the due dates;
- (v) at the end of the year there are no balances under this Suspense Account and if any items are outstanding clearance, reasons for the same are on record and acceptable;
- (vi) the detailed schedule indicating the items outstanding for more than six months if furnished to the Accounting wing of PRI has been correctly prepared as seen from the Divisional Register; and
- (vii) year-wise analysis of outstanding items, if any, has been prepared and effective action has been taken to clear them.

**14.20.5 Register of Material Purchase Settlement Suspense Account (if in vogue):**

The value of stores not paid for in the same month in which they were received is credited to this suspense head of account and will be cleared when supplies received are actually paid for. Checks mentioned in (i), (ii), (iii) and (vi) in respect of "Miscellaneous P. W. Advances" in paragraph 14.20.3 *supra* apply *mutatis mutandis* to this Suspense Account also. It should be further seen that:-

- (i) suitable action has been taken to clear old outstanding items; and
- (ii) unclaimed balances for more than three complete years have been credited to revenue, after a detailed examination of transactions connected with each such item to establish that the outstanding balance really represents an unclaimed amount.

**14.21      *Annual Certificate of Suspense Balances (if prescribed)***

**14.21.1**      Within six weeks of the submission of the Monthly Accounts for March, a consolidated certificate in respect of suspense balances, other than cash, is required to be forwarded to the accounting authority of the PRI by the Divisional Officer in the prescribed form.

**14.21.2**      It should be seen that the figures furnished in the Annual Certificate are correct as verified from initial records and registers maintained in the Division.

**14.21.3**      It should also be verified that proper steps have been taken by the Engineering Officer to clear the long outstanding balances under each Suspense Head. Any omission or lapse in this regard should be specially commented upon in the Separate Audit Report, furnishing Yearwise analysis of the outstanding in each case.

**14.22      *Work Analysis***

**14.22.1**      It is necessary to analyse in detail the several transactions relating to a major work in a Division from the stage of sanction to the stage of completion so that the quality of the maintenance of work accounts and control over work expenditure, etc., can be tested and defects, if any, in the procedures adopted can be detected. For this purpose, the Officer in charge of the Audit Party, for detailed analysis, may select a major work which has been recently completed or which is nearing completion. Points to be examined in this connection are mentioned in the following paragraphs.

**14.22.2**      The estimate for the selected work should be studied together with relevant correspondence to see that it has been prepared in a comprehensive manner after detailed survey. All charges incurred on the work should be carefully examined to see whether any of them fall beyond the scope of the sanction. Quantities of items of work included in the estimate should be compared with the quantity of work actually done. Quantities of work done should be verified from the latest measurements recorded in the Measurement Book / Books concerned. Correctness of calculations of such measurements should also be checked. It

should be verified that savings due to abandonment, cancellation of a sanctioned item or otherwise, have not been utilised for taking up additional items of work or that there have been no material alterations or modifications in sanctioned designs and specifications without the specific prior approval of the competent authority. It should be seen that there is proper justification for excesses over sanctioned quantities and that competent authority has approved them.

**14.22.3** All payments for work done should be made strictly in accordance with terms and conditions of the contract agreement. Rates provided for in the contract should be specially scrutinised with reference to sanctioned estimates and schedule of rates to see that they do not allow any concessions detrimental to the financial interests of the PRI.

**14.22.4** Quantities of materials required for the work actually done should be worked out on the basis of theoretical consumption or analysis given in the estimates and compared with the actual issues both in the case of direct issue to works or issue to contractors to investigate the differences, if substantial.

**14.22.5** It should also be seen that:-

- (a) correct accounts have been maintained showing the actual cost of work done relating to the specific object for which the particular estimate was sanctioned, executed and utilised for the work;
- (b) work has been executed in accordance with the contract agreement and the estimates and deviations, if any, have been approved by the competent authority, penalty has been levied in case of lapses on the part of the contractor, the Engineering Division has not given room for any delays in the execution and completion of the work and remedial steps have been promptly taken whenever problems were encountered during execution of the work;
- (c) all recoverable charges have been recovered and dues from the contractor have not been allowed to accumulate;
- (d) contractors on whose behalf recoverable charges, if any, are incurred, by the Division in justifiable cases do not get the benefit of any concessions to

which they would not have been entitled if they had themselves incurred such charges;

- (e) bad work, if any, has been promptly got rectified from the contractor at his cost
- (f) work is maintained properly by the contractor after it is completed, for the period specified in contract agreement; and
- (g) There has been no irregularity or defect in the upkeep of work accounts or maintaining of the initial records and registers relating to them.

**14.23** **Other Records** : In the case of other records and registers required to be maintained by the Engineering Divisions / Sub-Divisions not specifically referred to in this Chapter and **Chapters 7 to 9**, it has to be verified that they have been maintained in the prescribed form and in accordance with the relevant rules.

## CHAPTER 15

### AUDIT OF TRANSACTIONS – FOREST DIVISIONS

#### **15.1**      *Introductory*

**15.1.1**      The instructions contained in this Chapter apply to Forest Divisions attached to PRIs.

**15.1.2**      **Paragraphs 14.1.1 to 14.1.3 and 14.1.5 of Chapter 14** of this Manual (relating to Audit of Works and Engineering Divisions) apply *mutatis mutandis* to the Audit of Forest Divisions also.

**15.1.3**      Forest Divisions working under the control of PRIs are primarily concerned with the implementation of the Social Forestry schemes. In addition, these Divisions implemented a few other programmes, such as Afforestation, School Nurseries and Waste Land Development. However, these arrangements may differ from State to State.

**15.1.4**      Points to be covered during the local audit of the initial registers / records peculiar to Forest Divisions are detailed in this Chapter.

#### **15.2**      *Cash Accounts*

**15.2.1**      Whether the rules prescribed or the Division has followed instructions issued regarding maintenance of cash accounts and whether the Books are maintained in the prescribed forms should be verified.

**15.2.2**      Checks prescribed in **paragraphs 14.2.1 to 14.2.5 of Chapter 14** of this Manual as regards Works Cash Book, **paragraph 14.2.6** regarding Imprest Accounts, **paragraph 14.2.7** regarding Paid Cheques, **paragraphs 14.3.1 and 14.3.2** regarding Monthly Accounts and **paragraph 14.4.1 *ibid*** regarding Vouchers not sent with the Monthly Accounts of Engineering Divisions will generally apply to these documents relating to Forest Divisions also.

### **15.3 Work Accounts**

**15.3.1** Like Engineering Divisions, Forest Divisions are also required to maintain Muster Rolls and Measurement Books in the forms prescribed for recording work done through daily labour and work done or supplies obtained through contractors, respectively. Apart from these important original documents, Forest Divisions usually maintain Field Note Books wherein measurements in respect of small works (e.g., Clearing jungle and overgrowth, Pitting, sowing, Trenching, Fire line clearing, Purchase of seeds and seedlings). In auditing these records compliance with the relevant rules should be verified.

**15.3.2** The same points as are required to be seen during the Audit of Engineering Divisions with regard to Muster Rolls (**paragraphs 14.14.1 and 14.14.2 *ibid***) and Measurement Books (**paragraphs 14.15.1 to 14.15.3 *ibid***) should be covered during the audit of these records in the Forest Divisions with the difference that observance of the relevant rules applicable to Forest Division by the Divisions has to be verified. The checks applicable to Measurement Books apply, by and large, to Field Note Books also.

### **15.4 Initial Records and Registers**

**15.4.1** Some of the other important initial records and registers required to be maintained in the Forest Divisions according to the instructions issued regarding them should be audited with reference to instructions contained in **Chapter 14 of this Manual**, wherever relevant.

**15.4.2** In respect of Register of Trees, the points mentioned in **paragraph 12.4.2 of Chapter 12 of this Manual** should be seen in audit.

**15.5** **General** : The completeness and correctness of the several initial registers / records mentioned above should be examined during audit with reference to the instructions laid down in the prescribed rules. Defects / omissions, if any, coming to notice should be commented upon in the Audit Report or included in the **Schedule of Points Settled on the Spot** or in the **Test Audit Note (vide Chapter 20 of this Manual)**, depending upon the seriousness of the objections.

## CHAPTER 16

### AUDIT OF SCHEME TRANSACTIONS

**16.1** *Introductory* : During normal audit of a Panchayati Raj Institution (PRI) it will be necessary to pay special attention to transactions relating to schemes implemented by different departments under the control of that institution.

#### **16.2** *Points to be covered during Audit*

**16.2.1** The more important points to be seen during audit of schemes are as follows:

- 1) A proper survey has been conducted before launching a scheme for the first time in an area.
- 2) Expenditure has been incurred strictly in accordance with the guidelines / instructions issued in respect of the scheme and to serve solely the purpose for which the scheme has been sanctioned.
- 3) Cash accounts, Stores and Stock accounts, vouchers and requisite documents / records / registers are properly prepared and separately maintained, if so prescribed.
- 4) When moneys relating to a scheme are kept in a Bank, whether the opening of the Bank account and its continuance are duly authorised and whether remittances into and drawals from the Bank account are in order.
- 5) In the case of schemes undertaken for the benefit of S.C. / S.T., Women and Children / Backward Classes, etc., coming under the purview of the Social Welfare Department, etc., the necessary certificates such as Caste certificate, income certificate, age certificate, etc., as prescribed are obtained from the authority competent to give such a certificate, before a person is identified as a beneficiary under the scheme.

- 6) Contributions from beneficiaries, if prescribed, have been recovered and properly accounted for.
- 7) The physical and financial achievements with reference to prescribed targets are closely monitored by the Head of Office and remedial steps are promptly taken in case shortfalls, lapses or defects come to notice.
- 8)
  - (i) Where funds are provided by the departments of PRIs for construction of departmental buildings and staff quarters etc., entrusted to Works and Engineering Department, it is to be ascertained whether the progress of works is properly monitored by the funding departments and suitable action is taken to get them completed on time.
  - (ii) In respect of incomplete works, reasons for non-completion are to be ascertained, analysed and commented upon highlighting blocking of funds and wasteful or unfruitful expenditure.
- 9) Proper documents are maintained to prove that the beneficiaries under each scheme are properly selected by following the procedure laid down in the guidelines of the scheme and follow up action is taken to ascertain that benefits have been actually accrued to the intended beneficiaries.
- 10)
  - (a) Expenditure statements or accounts with vouchers, certificates, statements, etc. and progress reports are regularly submitted to the Controlling Officer and the other authorities by the due dates as prescribed.
  - (b) Such statements or accounts are correct and complete in all respects and their genuineness is verifiable from the original initial records maintained in the office.
  - (c) The expenditure figures are reconciled with the Bank Pass Book figures and are not boosted by fictitious adjustments or by drawing huge amounts as Advances and not rendering detailed accounts within a reasonable period.
- 11) Advances are not drawn and charged off as final expenditure in the scheme accounts, especially towards the end of the financial year.

- 12) If the accounts are to be rendered after getting them audited by the State Audit Agency or a Chartered Accountant, etc., they are got audited and submitted with the prescribed audit certificates and other details by the due dates.
- 13) Proper Utilisation Certificates in respect of assistance / grants received for implementing the schemes are furnished promptly.
- 14) Unutilised amounts at the end of the year are refunded if so prescribed by the scheme sanctioning authority.

**16.2.2** **Bank Accounts** : In respect of some schemes implemented by PRIs separate bank account and cash books are required to be maintained scheme wise by each implementing office. Audit should verify that this requirement has been complied with and obtain a list of Bank Accounts showing the name of the Scheme, name of the Bank and Account Number. An intelligent review of the entries in the bank pass books should be conducted to find out whether any amount from one bank account has been transferred to any other unauthorised bank account. If any such cases come to notice, the transactions relating to those accounts should be investigated thoroughly.

**16.2.3** It should also be ensured that the amounts representing State share of Centrally Sponsored Schemes drawn by PRIs from the Treasury are transferred without delay to the concerned scheme account kept in bank and accounted for in the concerned scheme cash book of PRI. Any delay noticed in this regard is to be commented upon in audit.

**16.2.4** **Certificate issued by Chartered Accountants** : In respect of Central / State schemes implemented by the PRIs where audit certificates on accounts are issued by the Chartered Accountants appointed for the purpose, it should be seen whether, the certificates issued by them are in consonance with the points included in the relevant audit reports. For instance, in a given case the Chartered Accountant may have certified that the accounts give a true and fair view and bank reconciliation has been done, **whereas** in the audit report on accounts, serious irregularities such as non-reconciliation of transactions with banks / treasuries, non-maintenance or non-production of important documents such as

scheme cash books, connected bank pass books, stock records, work completion certificates etc., irregular transfer of funds to other schemes, unauthorised expenditure, treating advance payments as final expenditure, debiting of expenditure not relating to the scheme and similar serious defects are pointed out. It is clear that in cases of this type, the Chartered Accountant should not have certified the accounts until the irregularities pointed out by him were rectified. In the alternative, the Chartered Accountant should have given an appropriate qualified audit certificate.

**16.2.5 Completion Registers :** In respect of Centrally sponsored schemes like **Rural Development Programme, Urban and Rural Rozgar Programme etc.**, the guidelines prescribe that a Completion Register for utilisation of Government funds should be maintained. It should be verified in audit :-

- (i) whether this Register is maintained properly indicating the assets created by the implementation of the scheme.
- (ii) whether the revenues realisable from the assets are correctly assessed, demanded, collected and accounted for as prescribed; and
- (iii) whether suitable steps have been taken to ensure the safety and proper maintenance of the assets regularly.

**16.2.6 Other points in respect of specific schemes :** An illustrative list of additional points to be seen in the course of normal periodical audit of transactions of some District or State Sector Schemes as well as other schemes implemented by each PRI is attached as **ANNEXURE 1** at the end of this Chapter.

### **16.3 World Bank Aided Projects**

**16.3.1** Specific provisions for Accounts and Audit are included in the agreements for loan / development credit entered into between the World Bank and Government of India for financing development projects to be implemented by departments of Central and State Governments, and other bodies including Panchayati Raj Institutions (PRIs). Some of the projects undertaken with World Bank assistance in the Panchayati Raj Sector are Integrated Rural Water Supply and Sanitation Project (Karnataka, Maharashtra & Uttar Pradesh) and Andhra Pradesh Economic Reconstructing Project (Andhra Pradesh).

- 16.3.2** The World Bank has accepted the Comptroller and Auditor General of India to be an independent (sole) auditor for the purposes of certification of accounts and issue of audit certificates in respect of projects executed in India with financial assistance from World Bank. In respect of projects falling under their jurisdiction, the respective Accountants General (Audit) should furnish an integrated audit certificate to the project authorities for onward transmission to the Bank. This certificate is required to be furnished within 9 months of the close of the financial year in the prescribed form (**ANNEXURE 2** at the end of this Chapter). The certificate is to be based on irregularities noticed in audit in relation to the accounts of each project.
- 16.3.3** Instructions contained in **Chapter 5** of this Manual (**Audit for Certification of Accounts**) and also in the foregoing paragraphs of this Chapter apply, by and large, to the audit of World Bank assisted projects executed by PRIs also. The audit for purposes of the certificate will cover mainly the project transactions and accounts for the year under certification. Although a comprehensive Efficiency cum Performance Audit / Review will cover project activities for about 3 to 5 years, the integrated Audit Certificate forwarded every year is considered adequate for the purpose of the World Bank.
- 16.3.4** Agreements concluded with the Consultants, Non-government organisations, (NGOs), etc., who are involved in the implementation of schemes normally contain a stipulation that the books of accounts of such persons or organisations will be open to verification by the project implementing authority. It should be seen in audit whether this stipulation has been invoked and the transactions recorded in the books and other records produced for verification have been checked. Such records should also be scrutinised by the audit party to ensure the correctness of reports, accounts and records produced for verification.
- 16.3.5** Project authorities are required to furnish the Annual Accounts / Statements of Expenditure in the prescribed forms for audit within 4 months of the close of the financial year. It has to be ensured that there is no delay on this account and in verification and reconciliation of expenditure.

- 16.3.6** The Certificate should indicate, in brief, the amounts held under objection in relation to wanting vouchers, DC Bills, sanctions etc., and misclassifications, over payments, defalcations etc., that come to the notice of audit. If any further details are required by the World Bank, these are to be furnished by the project authorities. For some payments of a miscellaneous nature, e.g., remittance vouchers, cheques etc., it would be sufficient if it is verified in audit that there is a proper voucher for the payment and that there is adequate authority for making it.
- 16.3.7** To facilitate the timely issue of Audit Certificates, the irregularities noticed in the audit of offices of the project implementing agencies should be distinctly recorded and separate files for issue of Certification of accounts and issue of audit certificates in respect of each project should be maintained in the Audit office.
- 16.4** These instructions will also apply to normal audit of schemes implemented by other agencies coming under the jurisdiction of a PRI.
- 16.5** As regards schemes selected for detailed review from the Efficiency Cum Performance Audit (ECPA) aspect, instructions issued by C&AG from time to time will apply.

## ANNEXURE 1

(Referred to in paragraph 16.2.6)

### **Routine points (illustrative but not exhaustive) to be covered during the normal audit of the schemes**

1. **Schools, Hostels, Ashrams or Centres:-**
  - (a) A proper admission register with all the necessary details is maintained by each institution;
  - (b) Ineligible candidates are not accorded the benefit or eligible candidates who become ineligible subsequently (e.g. for not passing the examinations, not securing adequate marks, inadequate attendance, improper conduct, etc.) are removed from the list of beneficiaries promptly;
  - (c) The minimum strength as prescribed is maintained every month in the Class, School, Hostel, Ashram or Centre and daily attendance registers are kept and closed;
  - (d) The institution set up to provide benefits is periodically visited by the superior officers and lapses, if any, reported by them are set right promptly;
  - (e) In case food is supplied to the beneficiaries, whether controlled articles (rice, wheat, sugar) are purchased at controlled rates, reasons for local purchases are kept on record and acceptable, food is served neither less nor more than the prescribed scale, total expenditure on food is within the limits laid down, stock accounts are correctly maintained and checked and shortages are regularised.
  - (f) Clothing, bedding, books, etc., given to the inmates of Residential Schools or Hostels are in accordance with the sanctioned scales and purchases are made by following the Purchase rules or supplies are obtained from higher authorities as the case may be, for the actual strength of the institution and **not** for the sanctioned strength.

2. **Scholarships:-**

In the case of scholarships payable under different schemes, a watch is to be kept by the Officer of PRI over the receipt of original acquittances from the scholars and over the prompt refunds of undisbursed amounts. Further, the scholars should be studying in the courses eligible, should have obtained the required percentage of marks to be eligible for the scholarships and the quantum of scholarship should not exceed the admissible limits. Renewal of scholarships should be done only with the recommendation of the Principal concerned. It has to be verified that there are no cases of double payments, excess payments of scholarships or maintenance allowance due to arithmetical errors or payment beyond the admissible period or at rates higher than the admissible rates.

3. **Fee Concessions:-**

Fee concessions are given only to eligible candidates and in case loss of fee, income is reimbursed to private institutions, the reimbursement is made at prescribed rates on obtaining correct and complete information from such institutions.

4. **Financial Assistance to Certain Categories of Persons in Training Centres, etc.:-**

The candidates selected should have fulfilled all the conditions laid down in the scheme concerned. If stipends are paid, they are paid at prescribed rates and are recovered from candidates or trainees who discontinue the activity for which assistance is given, in the middle. If equipments (such as sewing machines) are supplied free of cost, they are supplied only to such persons as have satisfied all the prescribed conditions. Finished products in centres (clothes, wooden articles, etc.) are made use of by other Institutions or otherwise disposed of properly and the sale proceeds credited to revenue under Government account or PRI account as prescribed. Stocks of such products should not be allowed to accumulate unnecessarily.

5. **Agricultural Schemes:-**

When financial assistance is given to agriculturists for purchasing bullocks, cows or agricultural implements, it should be seen that it is given at the rates prescribed only to eligible persons, it is ensured by the Officers of PRIs that the beneficiaries have purchased the animals or implements for which assistance was given to them, and that they are put to proper use. Periodical verification reports by the authorities of PRIs should be kept on record in the office concerned.

6. **Assistance to Co-operative Societies:-**

It should be seen that:-

- (a) The same co-operative society is not in receipt of assistance from different departments for the same purpose (e.g. Industries, Social Welfare and Co-operation Departments);
- (b) The grantee has executed the prescribed agreement on stamped paper before the release of the grant;
- (c) Bank account has been opened jointly in the names of the Officer concerned of PRI and the authorised functionary of the society;
- (d) The Officers of PRI have ensured proper utilisation of the grants by the grantees and the societies are functioning effectively;
- (e) If assistance takes the form of loans, loans are repaid promptly with interest as prescribed; and
- (f) Proper audited accounts are rendered periodically by the grantee to the Officer of PRI as prescribed.

7. **Subsidy for Construction of Houses:-**

It should be seen that:-

- (a) Cash subsidy and subsidy in the form of free timber supplied by the Forest Department are given to eligible persons subject to monetary limits laid down;
- (b) The Officer of PRI has satisfied himself that the applicant for the subsidy possesses a site, is financially sound enough to construct the house and has made necessary arrangements for construction;

- (c) The prescribed agreement on stamped paper has been obtained from the grantee before subsidy is paid and / or free timber is supplied; and
- (g) The Officers concerned monitor the progress of construction and the utilisation of the subsidy and have taken suitable action for recovery in case of non-utilisation or misutilisation of subsidy.

8. **Rural Water Supply Works :-**

It should be seen that –

- (a) the completed works have been taken over by the department and maintained properly;
- (b) water is being supplied regularly and charges are recovered promptly. Arrears have not been accumulated on this account. If accumulated, action is taken for early recovery;
- (c) fees of pumps are recovered from users;
- (d) in case of non-functioning of scheme, reasons are to be analysed to find out whether they were avoidable; and
- (e) whether any fund has been created for maintenance work and repairs and the same is being utilised for that purpose; otherwise, it should be properly investigated and commented upon.

9. **Grants to Aided Schools :** It should be examined whether audited accounts of schools and utilisation certificates are being obtained and excess grants paid, if any, are recovered or adjusted promptly.

10. **Minor Irrigation Works :** It should be verified that minor irrigation works are carried out as per sanctioned plans and estimates and are completed, commissioned and optimum benefits derived expeditiously.

**ANNEXURE 2**

(Referred to in Paragraph 16.3.2)

***(To be in proper letter head and to be signed by an competent officer)***

OFFICE OF THE

.....

No. ....

**AUDIT CERTIFICATE**

The Expenditure Statements / Financial Statements relating to the project.....

..... (loan / credit No ..... ) for the year ..... Attached hereto have been audited in accordance with the regulations and standards of audit of the Comptroller & Auditor General of India and accordingly included such tests of accounting records, internal checks and controls, and other auditing procedures necessary to confirm.

- (a) that the resources were used for the purposes of the Project; and
- (b) that the expenditure statements / financial statements are correct.

During the course of the audit referred to above, Statements of Expenditure (Each Application No. .... And amount to be indicated) and the connected documents were examined and these can be relied upon to support reimbursement under the aforesaid loan / credit agreement.

On the basis of the information and explanations that have been obtained as required and according to the best of our information as a result of the test audit, it is certified that the Expenditure Statements / Financial Statements read with the observations set out below represent a true and fair view of the implementation (and operations) of the Project for the year .....

Signed .....  
(NAME & DESIGNATION)

# CHAPTER 17

## AUDIT OF RECEIPTS

### 17.1 *Revenue Receipts*

**17.1.1** Audit should ensure that regulations and procedures framed by competent authorities regarding revenue receipts of PRIs such as rates, taxes, tolls, cesses, fees, rents, fines, surcharge on stamp duty, etc., octroi, water rates, auction of ponds / tanks, interest on bank balances, sale / auction of property, stores and stock, contributions, etc., are followed by the staff and officers of PRIs. It should be verified that the sums due are correctly assessed in accordance with prescribed rules and orders are regularly recovered and checked against demand and sums received are duly brought to credit in accounts.

**17.1.2** The following points are to be covered during audit of receipts :

- (i) Necessary data and relevant particulars for the computation of demand at the prescribed rates and refund are collected and utilised properly. For example, in respect of houses and water connections in a village, particulars of owners / occupants liable for property tax, water rates etc., are collected and placed on record for assessing demands. Surveys are conducted periodically to update the information.
- (ii) Demands are raised promptly and regularly on taxpayers in the manner prescribed.
- (iii) Demand collection and refunds are regularly accounted for.
- (iv) Accounting and allocation of collections are correctly done and they are credited to proper account as prescribed.
- (v) Proper safeguards exist to ensure that there is no omission or negligence to levy or collect taxes or to issue refunds.
- (vi) Claims of taxpayers are pursued with due diligence and are not abandoned or reduced except with adequate justification and proper authority.

- (vii) Cheques received in payment of dues to PRIs are not retained for long periods lest their currency should expire necessitating initiation of fresh steps to effect recovery of dues.
- (viii) There is no scope for double refunds, fraudulent or forged refund orders or other losses of revenue through fraud, default or mistakes; or deliberate omissions to enforce recovery, if there are such cases they are promptly brought to light and investigated. These aspects should be specially looked into while checking cases of revenues realised occasionally e.g. fees for temporary licenses, auction sales of PRI properties etc.
- (ix) Proper registers and records relating to revenue receipts such as Assessment records in each type of cases, Licence Forms, Tender Forms, Demand Notices, Receipt Books, Remittance Challans, Demand Collection and Balance Registers, papers relating to auction sales, papers justifying refunds, orders of competent authority regarding remissions and refunds and correct accounting of all transactions are maintained as prescribed.

## **17.2      *Audit of Receipt of Grants***

**17.2.1**      Grants may be received by a Panchayati Raj Institution (PRI) either for recurring maintenance expenditure or for acquisition of certain capital assets of non-recurring nature. In all cases accounts must be so drawn as to facilitate not only identification of source and object of grant, but also to indicate the purpose for which these grants have been utilised.

**17.2.2**      In audit, it is necessary to look into the following points :-

- (i)      The grant payable for each purpose has been correctly assessed in accordance with the guidelines;
- (ii)      Maintenance grant is limited to the net deficit of the expenditure in accordance with the scales laid down.
- (iii)      Unutilised grants are refunded or duly taken into account before determining subsequent grants, as prescribed.
- (iv)      Conditions attached to the grants are duly fulfilled.

- (v) The assets acquired out of grants are continued to be utilised for the intended purpose / purposes.
- (vi) The income expected to be realised by assets acquired is actually being realised and to that extent the dependence for maintenance has been reduced without increase in liability.

**Note :** If it is prescribed by any Government (e.g. Karnataka has so prescribed) that the revenue / returns from assets created out of Government grants or assets transferred to PRI by Government, should be credited to Government account as Revenue, audit has to ensure that the PRI has complied with such rules and has not retained receipts realised from those assets as part of its funds.

**17.3** Audit should also review the outstanding dues and suggest to the authorities any feasible means for their recovery. Whenever dues appear to be irrecoverable orders for their waiver and adjustment should be sought. The procedure prescribed in this Manual for raising and pursuance of audit objections (**paragraph 20.4 of Chapter 20**) relating to expenditure , shall apply *mutatis mutandis* in respect of audit objections on account of receipts also.

# CHAPTER 18

## SOCIAL AUDIT & MISCELLANEOUS AUDITS

### 18.1 Social Audit

#### 18.1.1 Introductory

The concept of social audit has been accepted as powerful way of securing accountability. Social audit is a security and analysis of working of a public utility vis-à-vis its social relevance from the perspective of the vast majority of the people in the society in whose name and for whose cause the very institutional system is promoted and legitimised. In other words, it means an independent evaluation of the performance of the local bodies by the people.

**18.1.2** The Ministry of Rural Development (MORD) has issued instructions, which stipulate that the Gram Sabha should be specifically empowered to conduct social audit, or collective audit by the Gram Sabha, into all public works and beneficiary oriented programmes implemented at the village level under various schemes of the MORD. These instructions also require that the completion certificate for all village level public works should be awarded by the Gram Sabha only after a conducting social audit of the works in question.

**18.1.3** Certain States like Rajasthan have made social audit mandatory and it is hoped that in future more States would make it mandatory. The experience gained from the experiment on Jan Sunvais (Public Hearing) in Rajasthan is instructive in this context, where a local Non Government Organisation played an important role in conducting social audit and bringing in greater transparency and accountability.

**18.1.4** Wherever audit parties come across social audit reports, they should take into account the findings of such social audits and may point out the pending action to be taken on such reports. Also in case the social audit reports point out gross mismatch between the expenditure on village works and the actual work done/assets created, the audit report should recommended physical verification by an appropriate authority of the State Government.

**18.1.5** Audit parties should call for social audit reports, along with minutes of the meeting wherever it is mandatory and see the following:-

- (i) Number of meetings prescribed & actually held and the quorum for the meeting. The cases where the participants raised doubts about the existence and quality of the work(s) may be examined in detail.
- (ii) The labour and the material components (in some of the schemes wage-material ratio is prescribed) and their break up were mentioned and full disclosures were made to the members.
- (i) Bills, voucher, muster rolls, Ucs, MBs and other documents were displayed for public scrutiny.
- (ii) Appropriate action was taken on time where the reports point out mismatch between expenditure in village work and actual valuation of the work/assets created or cases where no assets were created. In such cases if no physical verification of the works has been done, the same may be recommended in the audit reports.
- (iii) Where the social audit is not mandatory, the party should call for the minutes of the Gram Sabha/ Ward Sabha and examine the cases of mismatch referred to in point (iv) above in detail.

## **18.2 Loans raised by PRIs**

**18.2.1** When loans are raised by PRIs for execution of any specific activities or for any other purpose in accordance with the provisions of Panchayati Raj Act or Notifications issued thereunder, it should be seen in audit -

- (i) the financial position of the PRI was such that it had to raise the loan up to the level raised;
- (ii) the purpose for which loan is to be raised is determined and loan is utilised for that purpose;
- (iii) loan is not raised far ahead of the schedule or in excess of needs, resulting in diversion of loan for other purposes (for purchases or for investing);
- (iv) capacity of PRI to repay has been duly assessed with reference to source of income from which repayment is to be made and the source becomes actually available for the purpose;

- (v) repayments of loan and interest are not met by obtaining grants for the purpose, unless it is specifically authorised by the grant sanctioning authority;
- (vi) the terms and conditions of the loan are clearly determined and a copy of document is available with the loanee;
- (vii) interest payable is correctly worked out and is duly indicated in accounts whether actually paid or not;
- (viii) the loan is utilised for the specified purpose and any excess is duly refunded, if it is permissible;
- (ix) a proper record of the loan is kept for watching timely repayment and the record is duly reviewed; and
- (x) all matters relating to raising of loan, utilisation, finalisation of terms and conditions, position of repayment, etc., are duly brought to notice of the main governing body and other connected committees from time to time.

**18.2.2** In auditing accounts of **Sinking Fund** created by a PRI under the relevant provisions of Act and Rules for the redemption of loans raised, within the periods prescribed, the following points should be verified :-

- a) A separate account is maintained.
- b) The Fund is sufficient to repay the principal and interest by the prescribed due date / dates.
- c) Credits to the Fund are made in installments regularly from the PRI funds debiting Revenue in accordance with the prescribed procedures.
- d) Payments from the Fund are made only for the purpose for which it is created.
- e) Accumulations in the Fund are invested in such securities as may be prescribed and such investments are sound.
- f) A Register for Sinking Fund is maintained, posted up to date and the balances as per the Register agree with account balances.

**18.2.3 Investment of Funds :** Where funds of PRIs as required under law or rules / regulations issued by the competent authority are to be invested in securities, it has to be seen in audit that :-

- (i) the amount allocated is in accordance with rules governing the fund and is permitted where no surplus is left.
- (ii) the fund is being accumulated in accordance with prescribed scales and not in excess of ceilings prescribed;
- (iii) investment is resorted to in accordance with rules with the specific sanction of the competent authority and allocated fund is not out of any loan raised for specific purposes.
- (iv) the investment is duly authorised and conforms to the prescribed pattern and it does not result in any avoidable loss;
- (v) a watch is kept on the realisation of interest and Interest realised is not appropriated to revenue unless it is out of general income, but is allowed to swell the fund balance only;
- (vi) accumulations in funds invested are duly matched with fund balances and where required, the shortfall in funds is duly made good;
- (vii) excess receipt of Government grant / loan or receipts in advance is not diverted towards investments; instead, they should be paid back to Government for release when necessity arises.
- (viii) a Register of Investments is properly maintained in the form and manner prescribed by rules; and
- (ix) Securities (Investment documents) are kept in safe custody and their existence checked periodically with Investment Register and certificate of verification is recorded in the Register.

## CHAPTER 19

### PREPARATION OF REPORTS AND ALLIED MATTERS

#### 19.1 *Introductory*

**19.1.1** The procedure for conduct of audit of PRIs is indicated in **Chapter 4** of this Manual, Instructions for applying audit checks to different kinds of accounts, records, registers, schedules and transactions are contained in **Chapters 5 to 18**. The manner in which Audit Reports are to be prepared and related matters are explained in this Chapter.

**19.1.2** As mentioned in **Chapter 4**, audit of PRIs is conducted by the Comptroller and Auditor General under the provisions of either Section 20(1) of CAG's (DPC) Act, 1971 or Section 14 *ibid* or the State Enactments.

**19.1.3** In cases not covered in the previous paragraphs, State Enactments provide for audit of PRIs by an Agency specified in the relevant Act and the rules made thereunder. Such State Audit Agencies come under the purview of and have to function in accordance with guidelines issued under the scheme of Technical Guidance and Supervision by the Comptroller and Auditor General applicable to the accounts and audit of PRIs (*vide paragraph 4.10 of Chapter 4*).

**19.1.4** Instructions contained in paragraphs 19.2, 19.3 and 19.4 apply to audits conducted by the Accountant General under CAG's (DPC) Act, 1971.

**19.2** ***Reporting Procedures*** : Where the Comptroller and Auditor General is the sole auditor of a PRI in terms of Section 20(1) of CAG's (DPC) Act, 1971, he is required to check and certify the accounts and also audit the transactions of the PRI. In case a PRI is audited under Section 14 *ibid*, the Comptroller and Auditor General acts as the second auditor and hence will have to comment on the accounts certified by the State Audit Agency apart from making audit comments on the transactions of the PRI. In both the cases an Audit Report will have to be issued to the Head of PRI audited.

### **19.3      *Formats and Contents of Audit Reports :***

**19.3.1**      The Audit Report may be prepared in the following format :-

- Part I**      (a) Names of President/s and Executive Officer/s of PRI who were in charge during the period covered by audit.  
                 (b) Names of members of Audit Party and their designations.  
                 (c) Dates of Audit.  
                 (d) Period covered during audit.

**Part II**      Introductory.

**Part III**     Comments on Accounts.

**Part IV**     Comments on Transactions.

**19.3.2**      Important particulars about the PRI inspected may be given in **Part II - Introductory** of the Report. The more important particulars may be given in the form of a statement to be enclosed to the report. A specimen form of the statement is given in **ANNEXURE 1** at the end of this Chapter.

**19.3.3**      **Part III** of the Report may be arranged in the following manner :

- (i)      Summary of Accounts for the year under audit.
- (ii)     Forms of accounts.
- (iii)    Comments on Accounts and subsidiary ledgers including misappropriations, if any, reflected in accounts which are normally shown under suspense accounts.
- (iv)    Budgetary control.
- (v)    Reconciliation.
- (vi)    Internal audit.

**19.3.4**      In the case of audits where certification of annual accounts is involved, Part III of the Audit Report will have to be referred to in the audit certificate on the accounts audited.

**19.3.5** Comments on Accounts are expected to contain the following points, though these are not to be considered as exhaustive :-

- (i) All points that vitiate the certification of accounts.
- (ii) Irregularities that come to notice while exercising checks on accounts as mentioned in paragraphs **5.10 and 5.11 of Chapter 5**.
- (iii) Inaccuracies in accounts and misclassification of transactions.
- (iv) Effectiveness of Budgetary control by officers of PRI – Expenditure incurred without or in excess of allotment, savings of grants.
- (v) Absence or inadequacy of internal control and checks which reduce the degree of reliability of accounts, non-maintenance of basic records, delay in recovery or adjustment of advances etc.
- (vi) Omission to take remedial action on persistent irregularities.

**19.3.6** **Part IV of the Report** containing results of audit of transactions may be arranged in the following manner :-

**Section A** (a) Introductory

(b) Outstanding objections of previous reports in brief.

(c) Schedule of persistent irregularities.

**Section B-1** Consisting of major irregularities.

**Section B-2** Consisting of irregularities which though not major, are to be brought to the notice of higher authorities and are required to be followed up by audit.

**Section C** **Test Audit Note**, containing minor irregularities to which a **Schedule of Points Settled on the Spot** should be attached. Procedural irregularities, for which the head of the institution has held out assurances about following correct procedure in future should be noted in the schedule.

**19.3.7** Some of the points that can be included in **Section B-1 of Part IV of the Report** (Comments on Transactions) are as follows :

- (i) Cases of avoidable or infructuous expenditure, overpayments, losses, wastages, frauds, embezzlements or misappropriation of funds.
- (ii) Inordinate delays and serious irregularities in execution of works and schemes resulting in denial of benefits to intended beneficiaries.
- (iii) Non-fulfillment of objectives of any scheme or assistance.

- (iv) Serious lapses in procedures followed in respect of tenders and contracts.
- (v) Leakages of revenue.
- (vi) Serious irregularities in stock and stores transactions.

**19.3.8** **Section B-2 of Part IV of the Report** (Comments on Transactions) may include the following points :-

- (i) Points of lesser importance covering items (i) to (vi) at **paragraph 19.3.7** above.
- (ii) Utilisation of assistance by Government. These would cover under-utilisation, diversion to purposes other than those indicated in sanctions, excess release or late receipt of grant or assistance.
- (iii) Non-availability of vouchers and subsidiary registers.
- (iv) Incompleteness of certain registers and records.
- (v) Overpayments which are not of considerable magnitude.
- (vi) Irregularities in sanction, procedures, etc., which need to be set right under appropriate sanction or recovery.
- (vii) Non-supply or non-maintenance of certain returns and defects in observance of prescribed procedures.

**19.3.9** **Section C – Test Audit Note**, of the Report may include points of minor importance which can be set right by the head of the office himself without reference to higher authorities. **Test Audit Note** and **Schedule of Points Settled on the Spot**, should be prepared in duplicate and duplicate copies thereof enclosed to draft Audit Report. Originals of these documents should be issued to the head of office audited, over the signature of the officer in charge of audit party. Acknowledgement of the head of the office for having received these documents should be obtained on the duplicate copy thereof to be sent along with the draft Audit Report.

**19.3.10** The Audit Report comprising the documents and comments mentioned above should be drafted invariably by the supervising officer of the audit party. Before finalising the draft report, replies of the PRI must be duly taken into account and incorporated. If, however, facts stated in any paragraph are questioned, their correctness should be got rechecked before mention and in case replies are not

acceptable, reasons as to why replies are not acceptable should be clearly specified in the Report.

- 19.3.11** The instructions contained in the foregoing paragraphs are generally applicable to Audit Reports on the first two tiers of PRIs. Considering that (i) the transactions of a Village level Panchayat are usually of a lesser magnitude; (ii) collections of numerous items of revenue are the responsibility of the Panchayat and (iii) its accounts are relatively simpler, a Check List for Model Audit Report on the accounts of a Village Panchayat is suggested at **ANNEXURE 2** at the end of this Chapter. The check list containing more important points to be seen during the audit of Gram Panchayats, is only illustrative and is not exhaustive. The check list duly filled in and signed by the Audit Officer should be enclosed to the draft Audit Report.
- 19.3.12** The officer in charge of the Audit party should discuss the outstanding points from previous Audit Reports with the head of the office and make attempts to settle as many points as possible. Omissions / defects pointed out in the earlier reports which remain unrectified for many years should be specially discussed with the head of the office and should be brought out prominently in the Audit Report.
- 19.3.13** In respect of schemes implemented by the PRI or any office falling under its jurisdiction, the following **proformae** indicating financial and physical transactions for the year under audit should be enclosed to the Audit Report. This is in addition to comments on specific irregularities noticed in the implementation of any scheme / schemes in **Para 7** of the Comments on Transactions (**Part III of the Report- Annexure-2**) as the case may be.

**PROFORMA – 1**

**Financial Transactions for the year .....**

Sl. No	Name of the Scheme	Opening Balance	Receipts			Disbursements	Closing Balance	
			Central Share	State Share	Total		With implementing Officer	With PRI

**PROFORMA - 2**

**Physical Transactions for the year .....**

Sl. No.	Name of the Scheme	Annual Target	Achievements	Shortfall If any	Reasons for Shortfall

**NOTE :**    **A. The following are some of the Centrally Sponsored Schemes implemented in different States :**

1.     Jawahar Gram Samridhi Yojana.
2.     Employment Assurance Scheme.
3.     Swarnajayanthi Gram Swarojgar Yojana.
4.     National Social Assistance Programme.
5.     Rajiv Gandhi National Drinking Water Mission.
6.     Drought prone Area Programme.
7.     Indira Awas Yojana.
8.     Credit cum Subsidiary Scheme for Rural Housing.
9.     Desert Development Programme.
10.    Centrally Sponsored Rural Sanitation Programme.
11.    Integrated Wastelands Development Programme.

**B.**    Apart from these schemes some externally aided projects / schemes are implemented in one or more States.

#### **19.4 Despatch of finalised Audit Report**

**19.4.1** In States where the Comptroller and Auditor General is the sole auditor of one or more tiers of PRIs, Audit Report containing comments on accounts as well as transactions as finalised, should be issued to PRIs along with a copy of accounts and an audit certificate in any one of the specimen forms indicated in **paragraph 5.16 of Chapter 5**, depending upon the circumstances of each case. A copy of the report should be forwarded to the next higher authority / Government also, as stipulated in the State Act and / or Rules issued thereunder.

**19.4.2** In every case, the certificate of audit and the Audit Report must be signed by the Head of the Audit Office concerned. Where no comments are made on accounts in the Audit Report, the words, “**subject to the observations in Part III of the appended Audit Report**” in the certificate should be deleted. It is also to be seen that the finalised Audit Report and audit certificate are issued within the time schedule agreed to in consultation with Government and in any case within a period of not more than 4-5 months from the date the accounts were made available for audit. Further, if the audit report is required to be forwarded to Government, it is advisable to indicate the following points in the forwarding letter :-

- (i) Special points in the audit report which would require attention of Government also; and
- (ii) Reasons that contributed to delay in certification, if delay had occurred beyond the prescribed time limit.

**19.4.3** As stated in **paragraph 19.2 ante**, wherever some units of PRIs are taken up for audit under Section 14 of DPC Act, 1971, Audit Reports should contain comments (since certification is done by State Audit Agency), in **Part III** with reference to initial records like Cash Book, Asset Register, Bank Accounts etc., (**vide paragraph 5.13 of Chapter 5 also**) in addition to audit comments on transactions (**Part IV of the Audit Report**). The individual reports of audit are to be routed and processed as per the State Local Fund Audit Act or any similar relevant Act.

**19.4.4** Important points as may be decided by the Local Accountant General may be taken up by him with the concerned Secretary and / or Finance Secretary of the

State Government. These observations are not to be sent to Headquarters office as normally civil audit report would not contain any routine audit paragraphs on PRIs. However, observations, which involve legal issues or systemic deficiencies or frauds/embezzlement cases/failure of internal controls and schematic reviews and issue based audit findings may be sent by the Accountant General to the Comptroller & Auditor General's Office and these may be issued only after the approval of Comptroller & Auditor General.

## **19.5 Role of Accountant General under the Scheme of Technical Guidance and Supervision (TGS)**

**19.5.1** The procedure to be followed for issuing reports connected with audit of PRIs and further action to be taken under the TGS scheme are described in the following paragraphs.

**19.5.2** Guidelines shall be issued by the Accountant General with regard to vetting, finalisation and issue of Audit Reports by the State Audit agency and further follow up action.

**19.5.3** The instructions contained in paragraphs 19.2, 19.3 and 19.4 *ante* regarding Audit Reports are to be taken note of by the Accountant General while issuing guidelines to the State Audit Agency for preparation of Audit Report etc.,

**19.5.4** In respect of units of PRIs test checked by the Accountant General (*vide paragraph 4.10.1 of Chapter 4*), report in two parts may be prepared by the Accountant General as detailed below :-

- (a) The first part of the report called "**Comments on Accounts**" will comprise Accountant General's comments on accounts of PRIs and comments on audit / certification of accounts done by State Audit Agency. This part of the report may be given to State Audit Agency for further action and follow up.
- (b) The second part of the report will be on transaction audit done by Accountant General as a part of percentage test check of PRI. This part of the Report would be called "**Technical Inspection Report**" or any other name prescribed in the relevant State Act / Rules for such reports – e.g., In Rajasthan, "**Test Audit Report**" and in Madhya Pradesh, "**Supplementary Audit Report**". It may be issued to the heads of PRIs

with a copy to the State Audit Agency for information and follow up as if it is its own report. Accountant General may settle important paragraphs, according to monetary value / seriousness of the issue or any other appropriate criteria. The other paras of less importance may be followed up and settled by State Audit Agency with a compliance report to Accountant General.

**19.5.5** The reports of State Audit Agency may contain a preface to the effect that **“This report has been prepared under the Accountant General’s technical guidance and supervision, audit standards and accounts certification guidelines prescribed by CAG of India under Section ..... of the State Act / Rules.”**

**19.5.6** After completion of audit of PRI by the State Audit Agency, reports would be submitted to the authority / authorities specified in the PRI Act and Local Fund Audit Act of the respective State Governments. However, copies of Reports relating to District level Panchayats would be submitted to the Accountant General. In the case of Intermediate level Panchayats and Village level Panchayats Accountant General would decide which Report should be sent to him based on the criteria of monetary value of expenditure / budget / any other suitable criteria. Irrespective of money value or any other criteria, serious irregularities noticed during audit particularly those relating to system defects, serious violation of or deviation from rules, frauds, embezzlements etc., shall be reported to Accountant General by the State Audit Agency along with necessary supporting documents as and when they come to notice.

**19.5.7** After issue of Reports of the State Audit Agency and Reports prepared by the Accountant General under the TGS scheme to PRIs concerned, they should be placed before the elected body of PRI and / or any authority as prescribed by the State Government. Besides, a summary of the important points, appearing in the consolidated report as mentioned in paragraph 19.6 below, may be given to the local press after clearance from C&AG’s office. This summary should be release in particular, in the vernacular press for timely and wide dissemination of the audit findings.

**19.5.8** The Accountant General may recommend to the State Government to issue suitable instructions or make rules for placing the audit report before the PRIs, within 30 days of submission of the reports, if necessary, by calling a special meeting of the elected body.

**19.6** ***Preparation and Issue of Consolidated Annual Report***

**19.6.1** Where the provisions of the State Act / Rules provide for submission of Audit Reports on Panchayats to the Legislature, the procedure laid down for processing draft paragraphs/ reviews and including them in the Civil Audit Report with the approval of the Comptroller and Auditor General, should be followed.

**19.6.2** After the financial year is over, a **consolidated report** is to be sent by Accountant General to the Finance Secretary / Secretary Rural Development / Secretary Panchayati Raj or any other authority prescribed under the State Act by 30 th June of the year. A copy of the report may be sent to the Principal Director (LB), in the Headquarter office. This report should be prepared in two parts. The first part may include, *inter-alia*, the extent to which the State Audit Agency has followed the audit standards, certification guidelines, audit plan etc., prescribed by the Accountant General and suggest action points for improvement. The second part of the **consolidated report**, may include audit comments including those under Section 14 of C&AG's DPC Act 1971, on serious irregularities, systemic defects and recommendations for remedial action.

**19.7** ***Creation of Data Base*** : To secure accountability and transparency, it would be necessary to make available data related to finances of PRIs to all the local bodies connected, elected representatives, general public and to the Government. Accordingly, the audit findings should also be made available to all, once they become public documents. For this purpose a report should be brought out in local languages also as may be required by the State Government, highlighting the important audit findings.

**19.8** Some of the important points noticed during audit of PRIs of some States in recent years are listed out in the **ANNEXURE 3** at the end of this Chapter for guidance.

- 19.9** During checking of records, an illustrative list of main points to be covered in audit of PRIs and also the linked records which should be seen in given in **Annexure –4** to this chapter for guidance of audit parties.

## **ANNEXURE 1**

(Referred to in paragraph 19.3.2)

### **Some Particulars about PRI Inspected**

1. Name of PRI
  - (a) In case of District level Panchayat :-  
Number of Gram Panchayats  
and Middle level Panchayats
  - (b) In case of Middle level Panchayat :-  
Number of Gram Panchayats.
2. Geographical area.
3. Population.
4. Number of Elected members.
5.
  - (a) Number of meetings held by the Panchayat.
  - (b) Number of Sub-committees, Standing committees, etc., constituted and the number of meetings held by each.
6. Staff Strength.
7. Assets of PRI.
8. Own projects of PRI.
9. Number of Programmes / Schemes
  - (a) Involving Social Security.
  - (b) Involving Employment generation programme.
  - (c) Number of programmes completed during the year.
  - (d) Number of beneficiaries.
10. Collection of revenue such as Taxes, Rates, Duties, Rents, Tolls, etc., in the year and outstanding arrears.
11. Total expenditure during the year
  - (a) General.
  - (b) Schemes (on each scheme).
12. Whether the annual plans and budget were discussed and passed by the elected body.

## ANNEXURE 2

(Referred to in Paragraph 19.3.11)

**CHECK LIST FOR MODEL AUDIT REPORT ON ..... (Name of the Panchayat) FOR THE YEAR .....**

### **PART I - INTRODUCTORY**

#### **A.**

1. Name/s of Panchayat Head//s(Sarpanch) who were in office during the audit period.
2. Name/s of Auditor/s and his / their designation/s.
3. Dates of Audit.
4. Period covered during audit.

#### **B. Important Particulars about the Village Panchayat**

1. Location of Panchayat Office
2. Geographical Area (Village-wise, if Panchayat has under its jurisdiction more than one village).
3. Population (Village-wise, if Panchayat has under its jurisdiction more than one village).
4. Number of elected members.
5. Number of meetings held during the year under audit.

### **PART II – COMMENTS ON ACCOUNTS AND RECEIPTS**

#### **A. Accounts, Registers & Periodicals Etc.,**

Comments, if any, on the following points :-

1. Whether the accounts of the Panchayat are prepared in the prescribed forms correctly and submitted by the due dates to designated authorities regularly as per rules, after approval by the competent authority.

2. Whether cash book, vouchers and other prescribed registers and records are maintained / closed properly.
3. Verify carefully the cheques, if any, drawn in the name of the President. Furnish a statement of irregular drawals, if any.
4. What is the cash balance available with the President on the date of audit? Whether the cash was physically verified. Whether it agrees with the balance in Panchayat accounts.
5. Whether proper accounts are maintained for the deposits remitted by contractors and employees.
6. Whether Register of Assets owned by the Panchayat is maintained as per Rules. Are steps taken to ensure proper maintenance and upkeep of assets?
7. Whether Stock Registers of Furniture Tools and plants, lights, books etc., are maintained as per rules.
8. Whether physical verification of cash, stores and assets is conducted regularly and proper action taken as per rules regarding shortages / discrepancies, if any, noticed.
9. Whether Bank / treasury reconciliation is being done regularly.

## **B. Receipts**

Comments, if any, on the following points :-

1. Whether (a) taxes such as house / land tax, profession tax, etc.; (b) license fees; (c) fees for grazing on lands, sanitation, private toilets, drainage, street lighting, wells and pumpsets etc.; (d) rents, rates and duties on markets, melas, bus / car stands, slaughter houses, cattle / sheep pounds, avenue trees, fish ponds, Endowments / Trusts etc., and (e) miscellaneous demands on drinking and irrigation water supply, trades / business, cremation charges, tolls on roads, bridges and ferries, auction sales of moveable or immovable properties, unserviceable articles etc., are levied / raised in accordance with the State Panchayat Act and the rules / notifications issued thereunder and with appropriate approval of competent authority.
2. (a) Whether assessment has been made properly in each case, as prescribed.  
(b) Whether there is undue delay in finalising the demand of any tax, fees, rents, etc., and furnishing the demand list.

- (c) Whether any modification has been carried out in the levy of taxes etc., during the audit year. If so, are they in order and done under proper authority and whether they have been duly written up in the demand list.
  - (d) Whether any alteration has been made in the demand list in the middle of the audit year. If so, whether sanction of appropriate authority has been obtained.
  - (e) Whether total demand has been written correctly in the Demand Register in respect of each item for each half year.
  - (f) Whether periodical revision as prescribed has fallen due. Whether such revision has been made and enforced promptly.
3. Whether periodical lists of persons liable for paying taxes etc., has been written up as prescribed.
4. Whether any demand has become time-barred because of undue delay in raising it or in collecting it. If so, give details of such items with names and designations of persons responsible.
5. Whether auctions have been conducted as per rules and proper records maintained. Whether lease agreements are correctly executed and kept in safe custody. Whether adequate security deposits have been recovered from parties as prescribed.
6. **Collections**
- (a) Whether all dues are collected regularly. Indicate lapses, if any.
  - (b) Whether proper receipts with printed serial number have been issued for all collected amounts duly signed by the official authorised to collect money.
  - (c) Whether receipt books (used and unused) are properly maintained and accounted for as per rules.
  - (d) Whether all collections have been duly credited in the Panchayat accounts and written up promptly Indicate cases of omission or commission.
  - (e) Whether collections are correctly and promptly recorded in Demand Collection & Balance Register. Whether this register is maintained and closed periodically as prescribed.
  - (f) Whether effective steps are taken to collect arrear demands.
  - (g) Whether the system of demand and collection of revenues in force is fool-proof and does not give room for any short demand, misappropriation or leakage of revenue.

- (h) Whether revenues from the assets of the Panchayat are being realised properly.
7. Whether Government grants, local cess surcharge, judicial fines, entertainment tax, subsidies given by other local bodies and donations given by private persons for engineering works, House Tax, Matching grant, arrears of lease amounts, Stamp Duty, etc., have been collected and credited in the Panchayat accounts promptly. Whether there are any omissions in this respect. Indicate omissions with the names of the persons responsible.
8. **Remissions and Write off**
- (a) Whether approval of the Panchayat has been obtained for remissions and to write off time – barred items?
- (b) Whether the approval of concerned officer has been obtained for each write-off item exceeding the prescribed limit?
- (c) Whether the conditions laid down for remissions and write-off have been followed scrupulously? Whether any undue concession has been allowed in respect of remission or write-off?
- (d) Enclose a statement of such items of unscrupulous remission and / or write-off, if any, with names and designations of persons responsible.

### **PART III – COMMENTS ON TRANSACTIONS**

#### **1. Expenditure**

Comments, if any, on the following points :-

- (a) Whether all items of expenditure have been approved by the Panchayat and sanctioned by appropriate authority.
- (b) Whether proper vouchers with the signature of authorised person for all items of expenditure are available.
- (c) Whether the expenditure was incurred (i) as per relevant rules in public interest (ii) as per the provisions of budget estimate and (iii) the amount was paid to the person entitled to receive it with his acknowledgement.
- (d) (i) Whether services rendered or supplies made by the payees have been properly placed on record and their quality and quantity have been ensured and there has been no overpayment.

(ii) Whether any wasteful / unprofitable or any avoidable expenditure was incurred.

(iii) Whether there is any item of expenditure incurred excessively. Was payment made to an improper person or illegally. Furnish details of all items of irregular expenditure.

## **2. Establishment**

- (a) Whether number of persons employed are in accordance with the rules and sanction given by the appropriate authority.
- (b) Whether their pay and allowances are paid from time to time as prescribed.
- (c) Whether travel expenses of employees, members and the President have been duly approved by concerned authority and paid at the prescribed rates.
- (d) Whether there is Provident Fund scheme or bonus schemes for the employees? If so, whether accounts have been maintained properly. Indicate defects, if any.
- (e) Whether Service records of employees are maintained correctly as prescribed.

## **3. Miscellaneous / extra-ordinary expenditure etc.**

- (a) Whether expenditure on contingencies is incurred as per rules and with proper authority.
- (b) Whether sanction of higher authorities have been obtained, wherever necessary, with respect of each item.
- (c) Whether court cases either filed by the Panchayat (or) filed by others against the Panchayat were avoidable.
- (d) Whether sanction of competent authority has been obtained for each item of expenses on law suits.

## **4. Works**

- (a) Whether proper estimate for each work has been prepared? Has it been approved by competent authority.
- (b) Whether prescribed tender procedure has been followed, where necessary.
- (c) If the work was entrusted on contract, whether proper agreement as per rules was obtained from the contractor. Has the payment been made to the contractor and penalty levied where necessary, as per the agreement?
- (d) Whether proper officer took measurements before payment was made.

- (e) Whether actual labour charges did not exceed the value of the work done.
- (f)
  - (i) Whether the Panchayat itself had taken up any Panchayat work. If so, whether their accounts have been maintained properly.
  - (ii) Whether the Panchayat had taken up works with government grants. If so, whether proper accounts have been rendered for them.
- (g) Whether there have been any time or cost over-runs and if so, reasons therefor and whether they were avoidable.

N.B. : Furnish a statement of works executed in the audit year with details of estimated value, actual expenditure incurred and irregularity, if any, noticed.

## **5. Advances**

- (a) Whether all advances have been sanctioned as per rules by competent authority.
- (b) Are they being recovered as prescribed? Indicate the items of advances still pending adjustment and comment on them, if necessary, after examining the reasons for non-adjustment.

## **6. Loans**

- (a) Whether the Panchayat has obtained any loan. If so, whether the sanction of the Government has been obtained as per the relevant Act & Rules.
- (b) Whether annual installments are paid regularly for the loans obtained.
- (c) Whether any loan has been disbursed to any private party from Panchayat funds with proper authority. If so, furnish details.
- (d) If loans were disbursed either to the President or Panchayat members, specify them and examine whether competent authority approved them.
- (e) Whether proper loan documents have been executed as per rules in each case.
- (f) Whether loans disbursed by the Panchayat are being recovered regularly. Indicate details of over-due loans.

## **7. Schemes**

- (a) Whether schemes are being implemented effectively and proper records maintained and reports / returns submitted in accordance with the scheme guidelines and prescribed procedures. Whether completion certificates and utilization certificates have been sent for each project or scheme.
- (b) Whether beneficiaries under each scheme have been identified and their names kept on record.
- (c) Whether record of assets are maintained and their utility to the beneficiaries as per norms is ensured by the Gram Panchayat.
- (d) Enclose list of Schemes in Operation in the Panchayat showing Physical and Financial targets and achievements. Comment on shortfalls, if any, after analysing the reasons therefor.

## **PART IV – OTHER POINTS**

### **F. Miscellaneous**

- (a) Whether Panchayat meetings are convened at least once in month. Whether annual budget, details of expenditure already incurred and to be incurred and monthly / annual accounts are placed in the Panchayat meetings and their approvals are duly obtained. Is an effective system of Budgetary Control being followed.
- (b) Whether irregularities and defects pointed out in previous audit reports and reviews have since been rectified.
- (c) Whether all amounts objected in audit have been recovered and remitted to the Panchayat Accounts or satisfactory explanations given to drop the objection.
- (d) Whether surcharged amounts have been collected and credited to Panchayat Accounts. If not, give a short note on the action taken to collect these amounts.
- (e) Whether internal audit of Panchayat, if prescribed, is being conducted regularly.

**G. Financial Position of the Panchayat**

- (a) What is the financial position of the Panchayat? Enclose Receipts and Payments Accounts with audit certificate and item wise Demand, Collection and Balance statements for the year / years under audit.
- (b) Findings of the audit.
- (c) If the financial position is not sound, can ways and means to improve it be suggested?
- (d) Comments on budgetary control to be included.

**NOTE :** *In respect of items, if any, not covered above, audit instructions contained in the relevant Chapters of the Manual may be followed.*

## **ANNEXURE 3**

(Referred to in paragraph 19.8)

### **I-Accounts**

- Advances given to suppliers not adjusted in the accounts.
- Unutilised funds not considered while releasing subsequent installments.
- Funds released for work deposited in small savings schemes or fixed deposits without being utilised on the scheme.
- Scheme funds not utilised for a long time due to non-transfer of funds.
- Excess expenditure on administration met out of scheme funds.
- Non detection of frauds due to failure of internal controls.
- Indiscriminate opening of a number of Bank Accounts for Centrally sponsored schemes resulting in misappropriations.
- Misappropriation of funds due to non-maintenance of accounts records in Village level Panchayats.

### **II-Stores**

- Excess purchase of material- Avoidable Expenditure.
- Non-performance of equipments purchased at high cost.
- Cheques issued for huge amounts without any proof of supplies made or services rendered by the payees.
- Extra expenditure due to defective agreement.
- Loss due to excess printing of testbooks ignoring the available stock.
- Failure to assess the demand(requirements) correctly resulting in structures and equipment becoming excessive and unproductive.
- Arbitrary award of contract violating Financial Rules and prescribed procedures.
- Undue favour to private companies.

### **III-Works**

- Unfruitful expenditure on construction of houses due to inordinate delay in completion
- Works executed without executing formal agreement with contractors.
- Execution of ineligible works.
- Non maintenance of assets, resulting in heavy loss.
- Assets created under scheme not put to use.
- Loss incurred due to unauthorised works.
- Loss due to defective construction of houses under housing scheme which collapsed before allotment to beneficiaries.

- Delay in execution of work resulting in cost escalation under road works.
- Failure to implement the work as per time schedule rendering expenditure on scheme unfruitful and denying benefits to intended beneficiaries.

#### **IV-Implementation and Monitoring**

- Defective reporting of progress of scheme work.
- Imbalance in physical and financial progress.
- Improper selection of beneficiaries.
- Release of subsidy to ineligible beneficiaries.
- Excess claim of Central assistance due to false reporting
- Failure to implement the scheme in accordance with guidelines resulting in misutilization of funds.
- Diversion of scheme funds for other works.
- Non-achievement of scheme objectives.
- Violation of guidelines resulting in excess payment of subsidy.
- Non-implementation of scheme due to inadequate provision of funds under the scheme.
- Wasteful expenditure due to improper planning.
- Delayed release of funds, effecting the progress of implementation of the scheme.

#### **ANNEXURE-4**

**(Referred to in Paragraph 19.9)**

**Main points to be covered in the audit of records of Panchayat Raj Institutions (PRIs) and linked records to be seen**

Sl. No.	Records to be seen	Points that can be covered	Linked records
1 2 3	<b>Cash books</b> <b>Cash receipts book</b> <b>Counterfoils of cheques issued/ Cheques issue register</b>	<p>Embezzlement of money:</p> <ul style="list-style-type: none"> <li>- Money received through cash receipts or self cheques from treasury/banks not entered/short-entered in cash books.</li> <li>- Money due to PRIs collected without valid receipts/ on forged receipts but not deposited in PRI account.</li> <li>- Totalling mistakes in cash book - Showing lower receipts and higher payments.</li> <li>- Showing expenditure without vouchers or on the basis of forged vouchers.</li> <li>- Cash found short during physical verification of cash balance.</li> <li>- Showing transfer of money from one cash book to another but not entered in the other.</li> <li>- Money drawn in excess of the sanction order by tampering entries in the sanctioned amount of order/cheque.</li> <li>- Cash payment made to other PRIs but not entered/short entered in their cash books.</li> <li>- Amount shown as remitted into treasuries/banks through forged cash challan or challan not available or not found deposited during verification of the fact from records of the treasuries/banks.</li> <li>- Amount of withdrawals as per records of treasuries/banks not entered in the receipts side of the cash book.</li> <li>- Delayed entries of receipts and withdrawals in cash book.</li> <li>- Closing balance of cash not carried forward/short carried forward to next cash book/page of the same cash book.</li> <li>- Non-depositing of amount lying un-disbursed for more than 3 months into treasury/banks.</li> <li>- Delay in remitting receipts into the treasury/bank.</li> <li>- Erroneous refund of revenue/receipts.</li> <li>- Imprest cash book-imprest allowed in excess of prescribed limits.</li> </ul>	<p>Sl. No. 10,15 and 16</p> <p>Sl. No. 10, 15 and 16</p> <p>Cash book of recipient PRIs</p> <p>Sl. No. 5, 6 and 9</p> <p>Sl. No. 5 and 6</p> <p>Sl. No. 6 and 9 Sl. No. 10, 19 and 20</p>

		<p>-Arithmetical mistakes in imprest vouchers and adjustments thereof.</p> <p>-Irregular investments of scheme funds in FDRs, Kisan Vikas Patras, etc.</p> <p>-Investment of surplus funds without sanction of the State Government.</p> <p>-Funds drawn in excess of immediate requirement.</p> <p>-Irregular payment exceeding prescribed limits in cash instead of by cheque with its impact.</p> <p>-Non-maintenance of separate cash books for each Centrally Sponsored Scheme (CSS) and diversion of funds meant for specific scheme/work/purpose to the others.</p> <p>-Irregular transfer of amount of CSS from SB accounts to PD accounts to improve ways and means position of the State Government.</p> <p>-Loss of interest (additional funds) to CSS due to parking of funds in non-interest bearing PD account or current account of bank instead of SB account.</p> <p>-Entries in cash books not verified, cuttings/interpolations in entries not attested and cases of over-writing/erasing of facts and figures requiring further investigation.</p> <p>-Cash books not closed regularly.</p> <p>-Surprise checks of cash balance not conducted as per prescribed frequency in the Rules.</p> <p>Non-receipt/non-renewal of appropriate fidelity bond from cashier and irregular payment of special pay to him</p> <p>-Irregular refund of unauthorized deposits/borrowings to Sarpanch or other persons.</p> <p>-Irregularities committed by the Sarpanch from the date of declaration of results of election to the taking of the charge by winning candidate.</p> <p>-Irregular drawal of deductions (GPF, State Insurance, etc.) in cash and delayed deposit thereof as per Rules.</p>	<p>Sl. No. 10</p> <p>Sl. No. 34 (Register of valuables) -do-</p> <p>Sl. No. 10 and 15</p> <p>Sl. No. 10, 28 and 29</p> <p>Sl. No. 5, 6 and 10</p> <p>Sl. No. 5 and 6</p> <p>Sl. No. 10</p> <p>Sl. No. 10, 15, 16, 34 and 42.</p> <p>Sl. No. 33</p>
4	<b>Stock Account (Register) of cash receipt books</b>	<p>-Not maintained at all/ or not maintained properly i.e. receipts, issues and balances of books not worked out correctly.</p> <p>-Proper acknowledgement not obtained from recipient of receipt books.</p> <p>-Office copies of issued receipt books and collected amount not received back from the recipients for long.</p>	
5	<b>PD Account pass books</b>	<p>-Discrepancies between cash book and PD pass book not reconciled.</p> <p>-Balances not verified from Treasury Officer regularly.</p>	Sl. No. 1 and 7

6	<b>Bank/Post Office saving account pass books</b>	<p>-Irregular parking of funds in non-Nationalized banks.</p> <p>-Irregular debits e.g. bank charges, debit of other agencies, etc. made by banks/ treasuries not rectified.</p> <p>-Transfer of funds from one bank account to another in the middle of month without any utilization of funds, resulting in avoidable loss of interest.</p> <p>-Irregular opening of multiple bank accounts of a scheme.</p> <p>-Interest not credited by the banks in SB accounts or opening of current accounts or deposit of CSS funds in the small saving schemes in post office saving accounts leading to loss of interest.</p>	<p>Sl. No. 1</p> <p>Sl. No. 1</p>
7	<b>Bank Reconciliation Statements</b>	<p>-Non-preparation of monthly bank/PD account reconciliation statements. Difference between balances of PD/bank pass book and cash books remaining unreconciled.</p> <p>-Time barred cheques (issued 6 month ago) not cancelled and amount not written back in Cash book/Ledger after examining the reasons for non-presentation thereof. Its impact on execution of works/beneficiaries may be analysed.</p> <p>-Cheques/drafts deposited into treasury/bank account not collected and credited to the accounts of PRI for a long period.</p>	<p>Sl. No. 1, 5 and 6</p> <p>Sl. No. 1, 3 and 29</p> <p>Sl. No. 1, 5, 6, 8 and 9</p>
8	<b>Demand Draft receipt and issue register</b>	<p>-Delay in deposit of incoming DDs/Bank Drafts/Banker Cheques into the treasury/bank account resulting in loss of interest and belated utilisation of the amount.</p> <p>-DDs/Bank Drafts/Banker Cheques prepared by PRIs lying unissued for a long time and without valid reasons resulting in loss of interest.</p>	<p>Sl. No. 5, 6 and 9</p> <p>Sl. No. 1</p>
9	<b>Cash challans</b>	<p>-Misclassification of remittances into Treasury, variation in the figures/dates as compared to those in cash book and absence of proper (stamped) acknowledgement of bank.</p>	<p>Sl. No. 1</p>

10	<p><b>Bill register and Vouchers</b></p> <p><b>(i)Salary vouchers</b></p> <p><b>(ii)Travelling Allowances (TA) vouchers</b></p> <p><b>(iii) Contingent vouchers</b></p> <p><b>(iv) Medical reimbursement vouchers</b></p>	<p>-Mistakes in arithmetical calculation in the vouchers and sub-vouchers. -Requisite certificates not recorded e.g. regarding non-drawal of the claim previously.</p> <p>See Sl. No. 33</p> <p>-Payment of TA/DA to elected member of PRI at higher rates if free conveyance was provided. -Irregular payment of TA/DA to elected member for the journeys within his jurisdiction. -Over payment of TA/DA due to tours exceeding prescribed tour days or due to application of higher rates of TA/DA. -Non-approval of tour programmes and non-verification of journeys from approved tour programmes. -Irregular journeys claimed in TA bills though no journeys were undertaken as per attendance register or log book of the vehicles or tour/ inspection reports. -Non-submission of tour/inspection reports with the TA bills of technical officers.</p> <p>-Stock entries of articles purchased not made in the stock registers and register of POL &amp; spares. -Non-submission of DC bills in respect of AC bills for long period. -Sanction accorded and payment made by Pradhan to provide immediate relief in the jurisdiction of PS in excess of the prescribed limit and approval/ratification not obtained in PS meeting.</p> <p>-Reimbursement of cost of inadmissible medicines/items/equipment, non-verification of claims by authorised Medical Officer, claims in respect of patients other than employee himself and dependents, purchase of excess medicines than required as per prescription.</p>	<p>Sl. No. 1, 15 and 16</p> <p>Sl. No. 1</p> <p>Sl. No. 36 and 45</p> <p>Sl. No. 45</p> <p>Sl. No. 1, 34 and 36</p>
11	<p><b>Annual action plan</b></p>	<p>-District plan – Delayed preparation and shortfall in holding meetings of District Planning Committee. -Non-preparation/delayed preparation of annual action plans (scheme-wise). -Irregular expenditure incurred on works not included in annual action plan. -Preparation of inflated annual Action Plan of works without any linkage/reference to availability of funds. -Priority not given to completion of incomplete works and works belonging to weaker sections.</p>	<p>S. No. 42</p> <p>S. No. 1, 13, 15 and 16</p> <p>S. No. 29 and 30</p> <p>S. No. 13</p>

12	<b>Sanction files (scheme wise/work wise)</b>	<p>-Non-issuance of Administrative Sanction (AS), Technical Sanction (TS) and Financial Sanction (FS) or amendments therein by the competent authority. -Issue of FS in excess of available funds.</p> <p>-Estimates not prepared on the basis of rates of Gramin BSR or any other BSR/orders.</p> <p>-Non-issuance of estimates of quantity of material required for construction of the works with the TS and excess expenditure on use of material over the quantity prescribed.</p> <p>-Commencement of works without obtaining AS/TS/FS.</p> <p>-Extra expenditure due to deviation from original estimates.</p> <p>-Double sanction of works already sanctioned/executed.</p> <p>-Release of entire sanctioned amount for works without obtaining completion certificates.</p> <p>-Non-release/delay in release of funds to Panchayat/executing agencies affecting the implementation/construction of works by the committee.</p>	<p>Sl. No. 28 and 29</p> <p>Sl. No. 15 and 34</p> <p>Sl. No. 15 and 16</p> <p>Sl. No. 17</p> <p>Sl. No. 13</p> <p>Sl. No. 13 and 18</p>
13	<b>Register of works</b>	<p>-Blocking of funds on incomplete works due to improper survey, improper selection of sites, incorrect preparation of estimates, paucity of funds, disputed land, works abandoned/withdrawn midway, sanction of works involving high level technical inputs, etc.</p> <p>-Irregular execution of works through contractors/middlemen and irregular payment of tender premium.</p> <p>-Irregular payment of pro-rata/establishment/supervision charges to the executing agencies.</p> <p>-Reasons of time overrun/cost – overrun may be analysed.</p> <p>-Diversion of CSS funds to State Plan schemes, establishment, etc.</p> <p>-Non-utilisation/under utilisation of funds/late submission of proposals for second instalment resulting in reduction of Central assistance affecting the development activities in the area.</p> <p>-Irregular expenditure on works not covered in scheme guidelines or uncovered area or on private/religious land.</p>	<p>Sl. No. 12, 42, 43, 45 and 48</p> <p>Sl. No. 10, 15, 16 and 29</p> <p>Sl. No. 10, 15, 16 and 29</p> <p>Sl. No. 12</p> <p>Sl. No. 10, 28 and 29</p> <p>Sl. No. 12</p> <p>Sl. No. 12, 42, 43, 45 and 48</p>

14	<b>Register of Assets</b>	<p>-Postings not made up-to-date in the register from sanctions, register of works and Ucs/CCs.</p> <p>-Non-utilisation of assets e.g. assets created without requirement, damage caused due to faulty construction, construction of assets far from village,in disputed places, etc.</p> <p>-Construction of anicuts in catchment area of dams without obtaining permission/NOC from Irrigation Department.</p> <p>-Non-recovery of expenditure incurred in excess of valuation of new/ incomplete works.</p> <p>-Not conducting physical verification of assets as per the extant rules to ensure unauthorized sale/ disposal of the assets by PRI.</p> <p>-Non-maintenance of assets resulting in avoidable loss due to collapse/ damage to the property.</p>	<p>Sl. No. 12, 13 and 18</p> <p>Sl. No. 12, 42, 43, 44, 45 and 48</p> <p>Sl. No. 12 and information to be obtained from Irrigation Department</p> <p>Sl. No. 15 to 18</p>
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15	<b>Purchase vouchers and Tender/quotation files</b>	<p>-Non-purchase of material from manufacturer or wholesale dealers.</p> <p>-Purchase of poor quality material or non-ISI material (e.g. girder, pipes, etc.)</p> <p>-Irregular purchase of construction material without inviting competitive rates through limited tenders and not following proper tender procedures.</p> <p>-Splitting of purchase orders/purchases of material in piece-meals to avoid invitation of open tenders or obtaining prior approval of higher authorities.</p> <p>-Non-recovery of earnest money (with tenders), income tax and security deposit from the contractors.</p> <p>-Irregularities in invitation of tenders – providing lesser period of notice and publicity, non-publishing in newspapers having wide circulation.</p> <p>-Non-approval of lowest tendered rate without recording reasons in writing or incorrect calculation of the lowest costs (aggregate) of materials.</p> <p>-Discrepancies between figures of original tender and those in comparative statement resulting in undue benefits to contractor and loss to PRIs.</p> <p>-Non-recovery of liquidated damages from the suppliers for the delayed supply of material as per approved terms of agreement.</p> <p>-Excess payment of escalation charges if provided in the agreement.</p> <p>-Unnecessary purchase of material after completion of works.</p> <p>-Exemption from payment of octroi or concessional rate of sale tax not sought for and obtained from concerned departments.</p> <p>-Certificate to this effect not obtained that the goods had been received in good condition/quality and in correct quantity according to specifications agreed upon.</p> <p>-Avoidable expenditure on purchase of material in excess of requirement or due to exaggerated assessment of requirement.</p> <p>-Expenditure on purchases made with a view to avoiding lapse of budget grant.</p> <p>-Arbitrary award of contract or undue favour shown to a tenderer or contractor.</p>	<p>Sl. No. 1</p> <p>Sl. No. 1 and 2</p> <p>Sl. No. 1</p> <p>Sl. No. 16</p> <p>Sl. No. 34</p>
16	<b>Muster rolls and muster rolls issue register</b>	<p>-Employment/engagement of labourers before the date of issue of MRs resulting in irregular payment of wages.</p>	

		<p>-Evidence in the records regarding inspections done i.e. remarks/blanks in columns in muster rolls/MBs may be analysed.</p> <p>-Delay in payment of wages to labourers.</p> <p>-Over-payment of wages (in cash or kind) e.g. more than the prescribed minimum wages paid to the labourers.</p> <p>-Double payment of wages to the labourers shown working on other works/works of other departments during the same period.</p> <p>-Irregular use of unauthorised/duplicate muster rolls.</p> <p>-Non-maintenance of registers of muster rolls in Panchayat Samities.</p>	Sl. No. 1
17	<b>Measurement books (MBs)</b>	<p>-Visits by the PRI Engineer not undertaken at plinth, roof and completion stages to ensure quality of construction.</p> <p>-Item-wise measurement of works not entered in the MBs.</p> <p>-Incorrect application of rates of BSR and arithmetical mistakes (calculation and totalling etc.) resulting in excess valuation of works e.g. rates of cement work were applied in cases where lime was purchased. Sl. No. 15 and 34</p> <p>-Incorrect valuation of incomplete works/inadmissible items taken into account for valuation.</p> <p>-Wide variations in the cost/expenditure of similar works during same period requiring further probe.</p> <p>-Mistakes/omissions in measurement and valuation.</p> <p>-Irregular expenditure due to unauthorized increase in unit cost/BSR rates.</p>	<p>Sl. No. 16 and 45</p> <p>Sl. No. 15 and 34</p> <p>Sl. No. 13, 15, 16 and 18</p> <p>Sl. No. 13 and 18</p> <p>Sl. No. 12 (estimates and layout design)</p>
18	<b>Utilisation certificates (UCs)/completion certificates (CCs)</b>	<p>-Expenditure incurred in excess of sanctioned amount.</p> <p>-Misreporting of expenditure and valuation through UCs/CCs in excess of those as per vouchers and MBs.</p> <p>-UCs/CCs pending issue/receipt.</p> <p>-Irregular release of next instalment without obtaining UC of the previous instalment.</p> <p>-Non-issuance of completion certificates by VAPS/JEN/Sarpanch within one month from completion of the work.</p>	<p>Sl. No. 12, 15 and 16</p> <p>Sl. No. 15, 16 and 17</p> <p>Sl. No. 13</p> <p>Sl. No. 12 and 13</p> <p>Sl. No. 16 and 17</p>

19	<b>Register of Assessment of Demand of Taxes(own income)</b>	-Auction of empty gunny bags (wheat, cement, etc.) and drums not undertaken and sale proceeds thereof not realised and credited to PRI funds	
20	<b>Demand, collection and balance (DCB) register</b>	-Non-realisation/short realisation of tax or non-tax (fees) revenue levied by PRI under Rules. -Double refunds of revenue due to entries of first refund not having been made in cash book and DCB register.	Sl. No. 1 and 2
21	<b>Register of Revenue realised</b>	-Non-recovery of octroi from licencees of country liquor. -Irregular diversion of education cess on items/activities other than education. -Irregular crediting of revenue before realisation thereof. -Non-assessment/short-assessment of taxes levied by the PRIs. -Non-issue of demand slips in time as prescribed in the Act/Rules. -Non-collection of taxes by patwaris as per prescribed duties -Non-crediting/delay in crediting of taxes into the treasury/sub-treasury by patwaris. -Excess payment of collection charges to patwaris. -Non-levy and recovery of interest on the arrears of tax. -Remission/write-off of irrecoverable revenue without approval of the competent authority. -Amount of taxes remaining uncollected and effective action for recovery not taken. -Revenue written off by PRI without obtaining prior approval of the State Government. -Appropriate disciplinary action not taken in cases where loss was caused due to fraud/forgery/defalcation/serious negligence on the part of any employee/Government servant. -Non-increase of own resources by 15 per cent every year by VAPS in PS and CEO in ZP.	Sl. No. 1 and 10 Sl. No. 29 and 30 Sl. No. 5
22	<b>Cattle fair tax and Registration of sales</b>	-Non-receipt of money collected from fairs and cash receipt books from officers/employees.  -Short collection of tax with reference to actual sales.	Sl. No. 1, 2 and 4
23	<b>Cattle pound (kine house) register. Pass for release of animals, receipts for auction of cattle</b>	-Non-recovery of fine and feeding charges at the prescribed rates. -Non-realisation/short realisation of sale proceed of auctioned cattle. -Non-deposit/Short-deposit of amount collected by pound keeper in Panchayat.	Sl. No. 1, 2 and 4
24	<b>Income from immovable properties- Register of</b>	-Acquisition or disposal of immovable property without previous approval of the State Government. -Non-realisation of the amount of the highest bid on spot in case of sale of attached property.	

	<b>building and other immovable properties</b>	<ul style="list-style-type: none"> <li>-Loss due to non-disposal of property (property losing value due to natural decay) in time.</li> <li>-Loss of rental revenue/short realisation of revenue due to shops/ quarters not having been allotted/occupied by the allottees and loss due to unsatisfactory efforts made for recovery.</li> <li>-Irregular expenditure on repairs/maintenance of building by VAPS in excess the amount prescribed.</li> </ul>	
25	<b>Register of Deposits and Statement of loans</b>	<ul style="list-style-type: none"> <li>-Non-maintenance of detailed accounts of loan.</li> <li>-Non-recovery of loans (long /medium term) regularly and arrears of loan outstanding together with interest against beneficiaries/institutions.</li> <li>-Non-utilisation of loans for intended purposes and non-fulfillment of conditions attached with the sanction of loans.</li> <li>-End use of loans not ensured e.g. proof of purchase of material, etc.</li> <li>-Loans outstanding against liquidated firms/ NGOs.</li> <li>-Acceptance of balance of loan from the loanees not obtained.</li> <li>-Disagreement of balance of loans with reference to DCB Register.</li> <li>-Inadequate security obtained with the application of loan.</li> <li>-Non-issuance of demand notice promptly.</li> <li>-Non-levy/Non-recovery of penal interest against the defaulters.</li> <li>-Non-recovery of excess loan released to the loanees.</li> </ul>	Sl. No. 20
26	<b>Statement of assets and liabilities</b>	<ul style="list-style-type: none"> <li>-Old liabilities remaining unsettled for a long period.</li> <li>-Irregular allowance of depreciation on the assets.</li> <li>-Assets as per stock register, register of immovable properties, etc. not included in the statement.</li> </ul>	<p>Sl. No. 29 and 30</p> <p>Sl. No. 29 and 30</p> <p>Sl. No. 24 and 34</p>

27	<b>Register of advances</b>	<p>-Irregular sanction of advances without valid purpose.</p> <p>-Non-recovery of advances from Ex-Pradhan/Sarpanch, retired employees/ Government servants, suppliers, etc. beyond three months together with interest at the rate of 18 <i>per cent</i> per annum.</p> <p>-Irregular adjustment of advances without proper vouchers/Ucs.</p> <p>-Advances made were not entered in the register escaping recovery/adjustment thereof.</p> <p>-Non-recovery of advances made on behalf of the District Collector for providing relief from natural calamities.</p>	<p>Sl. No.1, 10 and 12</p> <p>Sl. No. 1, 10 and 12</p> <p>Sl. No. 1 and 10</p>
28	<b>Annual Budget and Budget control register</b>	-Liabilities created without budget provision.	Sl. No. 29 and 30
29	<b>General Ledger</b>	<p>-Non-posting of transaction from cash book regularly or variations in making entries.</p> <p>-Lapsed deposits not treated as revenue and refunded irregularly.</p>	<p>Sl. No. 1 and 28</p> <p>Sl. No. 10, 25 and 30</p>

30	<b>Accounts – Quarterly return of accounts</b>  <b>(i) Abstract of annual accounts</b> <b>(ii) Statement of grants-in-aid received and spent</b>	<p>-Not prepared at all or not prepared in prescribed format.</p> <p>-Non-submission/delayed submission to next higher authority.</p> <p>-Incorrect classification of receipts/expenditure.</p> <p>-Discrepancies noticed during verification of entries under different heads with reference to budget control register/cash books/ledgers.</p> <p>-Minus balances/excess expenditure over receipts of funds/ income under a scheme/head of account not regularized.</p> <p>-Savings due to non-utilisation/non-refund of unutilised funds affecting execution of works depriving the people of the intended benefits.</p> <p>-Advances shown as expenditure.</p> <p>-Amount irregularly spent in a year included in the expenditure of the preceding financial year.</p> <p>-Amount of closed schemes not merged in new schemes or not refunded to Government but lying unutilised with PRIs.</p> <p>-Discrepancies in closing balance of previous quarter/year and opening balances of next quarter/year.</p> <p>-Amount on a scheme intimated to the Govt. through UCs as having been spent but lying unspent with the PRIs.</p> <p>-Difference between balance of cash/bank/PD A/c/Advances outstanding as per Accounts and those as per basic records i.e. cash books and ledgers.</p>	<p>Sl. No. 12 and 28</p> <p>Sl. No. 1, 28 and 29</p> <p>Sl. No. 29</p> <p>Sl. No. 27 and 29</p> <p>Sl. No. 10, 18 and 29</p> <p>Sl. No. 29</p> <p>Sl. No. 18</p> <p>Sl. No. 1, 5 and 27</p>
31	<b>Sanctioned strength file</b>	<p>-Avoidable expenditure on staff posted in excess of sanctioned strength.</p> <p>-Nugatory expenditure on pay and allowances to the employees remaining idle/rendered without work /equipment/vehicle e.g. driver without vehicle, computer operator without computer, etc.</p> <p>-Post remaining vacant over a long period due to non/tardy implementation of a scheme.</p>	<p>Sl. No. 33</p> <p>Sl. No. 33, 34 and 36</p> <p>Sl. No. 33</p>

<p>32</p> <p>33</p>	<p><b>Service books (including leave accounts), personal files and recruitment files</b></p> <p><b>Salary vouchers and Pay bill register</b></p>	<ul style="list-style-type: none"> <li>-Irregular appointment of employees on the basis of forged documents of date of birth, qualification, etc.</li> <li>-Irregular appointment/promotion of ineligible employees not fulfilling requisite conditions. .</li> <li>-Irregular appointment of staff by Panchayats without obtaining sanction of competent authority.</li> <li>-Appointment of persons for filling up vacancies on urgent and temporary basis in Panchayats without prior approval of District Establishment Committee and in PS/ZP without prior approval of State Government. Continuance of such employees beyond 6 months without concurrence of the competent authority.</li> <li>-Irregular payment of deputation allowance to deputationist(s) not repatriated to parent department after expiry of prescribed period as per extant rules.</li> <li>-Payment of time barred salary/TA (more than 3 years old) claims without prior sanction of CEO.</li> <li>-Incorrect calculation and deduction of income tax (TDS) from the employees.</li> <li>-Expenditure on establishment exceeding the norms.</li> <li>-Over payment of pay and allowances due to:</li> <li>-Incorrect pay fixation.</li> <li>- Incorrect grant of increment/selection grade.</li> <li>- Irregular payment of HRA to employees who were allotted quarters or for whom the quarters were constructed.</li> <li>- Drawal of pay in excess of sanctioned pay as per service book, during dies-non period and excess payment of leave salary during HPL/EOL/leave not due.</li> <li>- Application of incorrect rate of allowances/bonus</li> <li>-Non-fulfillment of conditions governing sanction of special pay/personal pay/allowances.</li> <li>-Annual verification of service books not done with reference to Acquittance rolls/salary vouchers.</li> <li>-Alteration of date of birth without obtaining sanction of competent authority and authentic documentary proof.</li> <li>-Entries on first page of service book not attested every five years.</li> <li>-Options regarding pay scales, nominations for DCRG, list of family members, etc. not obtained and pasted in service book.</li> <li>-Leave account – incorrect credit of leave and entry of leave availed not made in the leave account.</li> </ul>	<p>Sl. No. 10 (ii)</p>
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34	<b>Stock registers (With indents and issue vouchers)</b>	<p>-Non-maintenance of register of valuables, stock registers for permanent and consumable articles and materials for works separately.</p> <p>-Physical verification of stock/store articles not conducted annually.</p> <p>-Recovery of cost of shortage of articles/materials or loss of articles due to pilferage, breakage, theft, decay etc not effected from officials responsible for handling the stores or incharge of supervision.</p> <p>-Avoidable expenditure on computer jobs got done from market even though computers/photo copiers were available in PRIs.</p> <p>-Excessive expenditure on repairs/maintenance of machines/equipment.</p> <p>-Avoidable expenditure on repairs during warrantee period of machines/equipment.</p> <p>-Issue of articles without indents or with improper indents. Proper acknowledgement of issued articles not obtained from recipients.</p> <p>-Irregular purchase and issue of store items to non-officials/officers for private use and non-recovery of the costs particularly from ex-Pradhans/ex-Sarpanch/retired officers.</p> <p>-Articles/equipment lying idle/unutilised for a long period resulting in unfruitful expenditure/blocking of funds.</p>	<p>Sl. No. 10 and 15</p> <p>Sl. No. 1, 10 and 29</p> <p>Sl. No. 1 and 10</p>
35	<b>Disposal of unserviceable/obsolete/ surplus store articles</b>	<p>-Materials lying without disposal for a long period, whose useful life is over.</p> <p>-Non-disposal of articles by public auction or by not forming a prescribed committee.</p> <p>-Sale proceeds not collected or not credited to the PRI fund.</p>	<p>Sl. No. 34</p> <p>Sl. No. 34</p> <p>Sl. No. 2 and 34</p>
36	<b>Records of vehicles</b> <b>(i) Log book</b> <b>(ii) Register of expenditure on POL and spares/parts</b> <b>(iii) Inventory of tools and equipment</b>	<p>-Average mileage per litre of fuel not worked out at the close of the month and not reviewed by CEO/VAPS.</p> <p>-Not conducting half yearly physical verification of the spare parts and non-recovery of loss, if any from the concerned employee (s).</p>	

		<p>-Non-submission of Half Yearly Progress Report of kilometers covered and expenditure incurred on maintenance of vehicles by PS to ZP.</p> <p>-Brief particulars of purpose of journey and mileage readings not entered by the authorized person(s) using the vehicle.</p> <p>-Expenditure on journeys outside jurisdiction of PS or ZP without permission from the Director except for servicing or for transporting authorized persons to some neighboring blocks.</p> <p>-Non-recovery of charges/expenditure on journeys undertaken for private use and for the purposes other than the authorized ones.</p> <p>-Vehicles driven by a person other than authorized driver irregularly and resulting in monetary loss to PRI e.g. due to accident, violation of traffic rules, etc.</p> <p>-Sanction of competent authority not obtained for expenditure on maintenance in excess of prescribed limits per annum by VAPS and on special repairs.</p>	Sl. No. 1, 10 and 40
37	<b>Disposal of unserviceable vehicles</b>	<p>-Non-formation of committee for condemnation of unserviceable vehicles.</p> <p>-Condemnation of vehicles (fit for use though completed their stipulated life and covered the prescribed distance) without approval of competent authority.</p> <p>Condemnation of vehicles without orders of Development Commissioner, where vehicles have not covered the prescribed distance and life.</p> <p>Non-crediting of sales-tax to Government account and sale proceeds to PRI fund.</p> <p>-Requisite certificates not given by the committee.</p> <p>-Action for fixing responsibility for the accident not initiated and follow up action has not been taken.</p>	Sl. No. 36  Sl. No. 36  Sl. No. 1, 2, 34 and 36
38	<b>Trunk call (Telephone) register</b>	<p>-Non-recovery of charges for private calls.</p> <p>-Non-recovery of calls made in excess of prescribed norms in respect of telephone at the residence.</p>	Sl. No. 1 and 2 Sl. No. 1 and 2
39	<b>Register of Service postage stamps and despatch register</b>	<p>-Short receipt of stamps on the Receipts side and excess usage of stamps shown on the payment side.</p> <p>-Shortage of stamps found during physical verification.</p>	Sl. No. 10
40	<b>Court case files</b>	-Payment of fees beyond prescribed limit to legal counsel without obtaining approval of the competent authority.	Sl. No. 1 and 10

		<p>-Non-recovery of loss due to ex-parte decision against the Government/PRI's attributable to Government servants/employees of PRI.</p> <p>-Court decision against Government/PRI's due to negligence and deliberate mistakes/omissions made by employees/Government servants in the contract/agreement, service books, appointment orders etc.</p> <p>-Efforts not made to get the stay orders (against the Govt/PRI's) vacated.</p>	Sl. No. 1 and 10
41	<b>Register of application for inspection of records/grant of copies</b>	<p>-Non-realization /short realization of various fees from the applicants at the rates prescribed from time to time.</p> <p>Non-issue/delay in issue of copies and high percentage of rejected applications.</p>	Sl. No. 1 and 2
42	<p><b>(i) Gram Sabha proceedings (minutes) register</b></p> <p><b>(ii) Registers of minutes of General Body (PS &amp; ZP) and standing committees</b></p>	<p>-Meetings not held on due dates and no reasons are ascribed. Physical and financial programmes not approved by Gram Sabha but executed by the Panchayat.</p> <p>-Identification of ineligible beneficiaries under various schemes like IAY, PMGY, SGSY, NSAP, Balika Samridhi Yojana, etc.</p> <p>-Doubtful payment/expenditures and physical/financial improprieties pointed out in Gram Sabha meetings.</p> <p>-Unattested over writings/cuttings in the register.</p> <p>-Any other irregularities pointed out but remaining unattended by the Panchayat.</p> <p>-Non-implementation of important decision/resolutions passed in the meetings.</p> <p>-Non-inclusion of report of the vigilance committee and compliance report of Panchayat thereon in the proceedings of Gram Sabha.</p>	
43	<b>Social Audit file</b>	<p>-Non-submission of compliance report of social audit in Gram Sabha.</p> <p>-Non-submission of details of expenditure incurred on certain works for social audit as per Village works guide or other rules.</p> <p>-Non-submission of results (poor quality of work/assets lying unutilized, excess expenditure, non-existent works/assets, etc.) of social audit to vigilance and monitoring committee of PS by the Panchayat Secretary.</p>	<p>Sl. No. 42</p> <p>Sl. No. 1, 12 and 13</p>
44	<b>Development register</b>	-Development registers not up-dated and discrepancies found with reference to register of assets and register of works.	Sl. No. 13 and 14

45	<b>Monitoring- Periodical reports/returns</b>	<p>-Periodical reports (MPRs/HPRs/APRs) not sent by due dates.</p> <p>-Misreporting of facts in the MPRs, etc.</p> <p>-Physical progress not commensurate with the financial progress.</p> <p>-Inspection of works not done by the technical officers and administrative officers as per the norms prescribed.</p> <p>-Records of inspections not maintained or maintained improperly/in an incomplete manner and non-submission of tour reports.</p> <p>-Shortfall in inspection of Panchayats by Panchayat Extension Officer, VAPS and CEO and that of PS by VAPS and CEO in comparison to the prescribed norms.</p>	<p>Sl. No. 1, 12, 13, 28 and 29</p> <p>Sl. No. 13 and 17</p>
46	<b>Evaluation reports</b>	<p>-Follow up action/remedial action not taken for removal of deficiencies/ shortcomings noticed in evaluation reports of schemes/programmes.</p>	
47	<b>Annual administrative report</b>	<p>-Non-preparation/non-submission of the report by Panchayats to Panchayat Samities by the prescribed date every year.</p> <p>-Incorrect reporting about activities with reference to basic records.</p>	
48	<p><b>(i) Reports of vigilance committees</b></p> <p><b>(ii) Assembly question files.</b></p> <p><b>(iii) Special physical verification reports.</b></p> <p><b>(iv) Complaints and enquiry files.</b></p>	<p>-Non-submission of compliance reports by PRIs.</p> <p>-Physical/financial improprieties pointed out therein (with results of further probe and details to be highlighted).</p>	

## Glossary of abbreviations

AC	Abstract Contingent
AEN	Assistant Engineer
APRs	Annual Progress Reports
AS	Administrative Sanction
BSR	Basic Schedule of Rates
CC	Completion Certificate
CEO	Chief Executive Officer
CSS	Centrally Sponsored Scheme
DA	Daily Allowance
DC	Detailed Contingent
DCB	Demand Collection and Balance
DCRG	Death-cum-Retirement Gratuity
DD	Demand Draft
EAS	Employment Assurance Scheme
EOL	Extra Ordinary Leave
FDRs	Fixed Deposit Receipts
FS	Financial Sanction
GOI	Government of India
GPF	General Provident Fund
HPL	Half Pay Leave
HPR	Half-yearly Progress Report
HRA	House Rent Allowance
IAY	Indira Awaas Yojana
JEN	Junior Engineer
LND	Leave Not Due
MB	Measurement Book

MPR	Monthly Progress Report
MRs	Muster Rolls
NGOs	Non-Government Organisations
NOC	No Objection Certificate
NSAP	National Social Assistance Programme
PD	Personal Deposit
PL	Privileged Leave
PMGY	Pradhan Mantri Gramodaya Yojana
POL	Petrol, Oil and Lubricants
PRI	Panchayati Raj Institution
PS	Panchayat Samiti
SB	Savings Bank
SCDC	Scheduled Caste Development Corporation
SGSY	Swarnajayanti Gram Swarajgar Yojana
TA	Travelling Allowance
TS	Technical Sanction
UC	Utilisation Certificate
VAPS	Vikas Adhikari Panchayat Samiti
ZP	Zila Parishad

## CHAPTER 20

### OTHER MATTERS

#### **20.1** *Records of Panchayati Raj Institutions to be kept*

**20.1.1** In respect of every Panchayati Raj Institution (PRI) under audit, it is necessary that the Audit Office maintains a complete set of records, consisting of the following :-

- (i) A copy of the enactment applicable to the PRIs.
- (ii) Copies of Rules and Regulations and such other basic orders relating to the PRIs.
- (iii) Copies of orders relating to delegation of powers issued by the competent authority and powers and duties of various committees.
- (iv) Annual Reports from year to year.

**20.1.2** Audit Parties undertaking audit of PRIs should be supplied with the documents cited in paragraph 21.1.1 *supra*. Audit Reports with certified accounts with replies received and Reports, if any, of Review (Monitoring) Committees or other committees relating to the functioning of PRIs.

#### **20.2** *Audit Planning*

**20.2.1** A comprehensive list of PRIs (with their addresses) which are to be audited should be maintained in each audit office in a “**Line Register**”. In this Register, offices of different drawing and disbursing officers who function under each PRI and their addresses should also be included. The entries in the Register should be reviewed periodically and kept up to date.

**20.2.2** On the basis of the Line Register mentioned above, annual forecast and quarterly programmes for audit are to be prepared. Against each entry, periodicity and time allowed for each audit as may be locally fixed and dates of last audit and any other relevant information are to be indicated.

**20.2.3** The Audit Forecast should be so framed as to ensure that all PRIs and connected office which are not audited annually are covered within a period of three years, by rotation.

**20.2.4** A **Progress Register of Audit of PRIs** should be in which names of PRIs and subordinate offices included in the forecast for audit for each year are to be noted. Columns should be provided in the Register to indicate district-wise (i) name of each office to be audited and its location, (ii) periodicity and party days and (iii) month of last audit.

**20.2.5** The Progress Register should be reviewed at suitable intervals to ensure that no audit programmed for the quarter has fallen into arrears, that arrears are subsequently cleared and that steps are initiated to expedite audit of PRIs on a priority basis where certification of accounts is involved.

**20.3** ***Follow-up action on delays*** : A time schedule of 9 months for certification of accounts after the close of the financial year has been recommended for adoption in all cases. Experience has, however, revealed several cases of inordinate delays in availability of accounts for audit – particularly, in conduct of audit, in obtaining replies to audit comments, etc., with the result that there has been accumulation of accounts for audit and certification. Since the Governments finance PRIs under audit are financed to a great extent, either directly or indirectly, and their audits are entrusted in public interest, it is necessary to ensure that the matter of delays is pursued with the PRIs and Governments concerned and they are involved in evolving a crash programme for clearance. The problems causing delays can also be discussed with the Governments at appropriate levels.

## **20.4** ***Raising and Pursuance of Objections***

### **20.4.1** ***Introductory***

**20.4.1.1** For serving the purpose for which it has been prescribed and for becoming really effective, Audit should ascertain that -

- (i) accounts, schedules, returns, vouchers, sanctions and orders, etc., made available to it and transactions evidenced by those documents are scrutinised intelligently in accordance with the audit principles, rules, guidelines and instructions contained in this Manual to see that the accounts and documents audited conform to the relevant Acts, rules, regulations, orders, etc., issued by the competent authorities;
- (ii) results of audit, which indicate any irregularity or impropriety are reported to proper authorities promptly as Audit objections; and
- (iii) objections are pursued with the authorities concerned so that appropriate action is taken to comply with the requirements pointed out by audit and rectify the irregularities, defects, etc., pointed out or to prevent their recurrence.

**20.4.1.2** Objections may relate to (a) defects in procedures followed by the officers of the PRIs and the Banks / Treasuries and (b) irregularities involving financial transactions which cannot be admitted in audit until the requirements of relevant rules, regulations, orders, etc., are complied with by the authorities concerned. The objections are to be pursued to finality through correspondence at appropriate levels. However, in the latter cases, the objections should also be quantified in financial terms, the money value of objections registered and a proper watch kept over their clearance.

**20.4.1.3** As regards wanting Treasury Challans, Vouchers and Schedules and Treasury misclassifications, it has to be noted that they do not come under the purview of this Chapter and that they need not be registered as "Objections" by Audit. It should be seen in audit that such cases have been pursued with the Treasury by the Accounts Officer of the PRI has pursued such cases with Treasury and action has been taken in accordance with the instructions issued in relevant rules and orders in respect of transactions of PRIs with Treasuries.

## **20.4.2** *Classes of Objections*

**20.4.2.1** In respect of the following classes of objections which are communicated to the PRI Officers, their money values need not be indicated in the records of objections:-

- (i) An objection which takes the form of a simple direction for further guidance, or of a call for a document the absence of which is not likely to affect the amount admissible;
- (ii) Stamp not fixed on a voucher otherwise complete;
- (iii) Delays in the settlement of debts;
- (iv) Habitual delays in the submission of accounts, returns, vouchers, etc.;
- (v) Fictitious adjustments and manipulations in accounts unless an actual loss has resulted;
- (vi) Deviations from rule, which are indicative of disregard or evasion of rule, but do not represent charges incurred without proper sanction;
- (vii) Excess over allotment for 'Suspense' heads when an assurance is received from the competent authority that the excess is temporary and will not affect the net allotment of the year;
- (viii) Errors in accounts, classification, vouchers, etc., which do not indicate any deficit or surplus;
- (ix) Instructions and other remarks, regarding the form of accounts, etc.;
- (x) Demands for information not received;
- (xi) Enquiries and remarks on doubtful points; and
- (xii) Remarks calling attention to minor errors of procedure.

**20.4.2.2** Money values should be recorded in respect of the following classes of objections or similar objections:-

- (i) Want of vouchers, sub-vouchers and payees' receipts;
- (ii) Want of sanctions to advances, loans, etc.;
- (iii) Want of sanction to special charges;
- (iv) Want of any other specific sanction required by rule;
- (v) Misappropriations, frauds, deflections, loss / shortage of stores etc.;
- (vi) Over payments and short recoveries;
- (vii) Delays in recovery of sums due to Government, if not recovered within a reasonable period, which may be prescribed locally in respect of each class of debt / advance;
- (viii) Expenditure placed under objection on grounds of financial propriety; and

(ix) Want of allotment and excess over allotment.

**20.4.3** **Communication of Objections** : Audit objections involving money value may be communicated to PRI officers and their controlling officers etc., in accordance with instructions to be issued locally by the Head of the Audit Office. Audit objections not involving money value may be communicated through Audit Report.

**20.4.4** **Registration and Pursuance of Objections** : Instructions and procedures applicable to registration, pursuance and review of audit objections relating to Government departments may be suitably adapted in respect of PRI transactions as may be locally prescribed by the Accountant General.

**20.5** **Issue of detailed instructions and Manual by respective audit offices** : The instructions given in this Manual are intended to cover several common aspects relating to various PRIs and in a compilation of this type, it will not be possible to cater to all contingencies that may arise or are peculiar for certain States / PRIs. In the circumstances, every audit office will have to compile a manual of its own, with due regard to local conditions for the PRIs under its audit, so that the detailed instructions therein can be the basic record for audit of the various PRIs.

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\* Karnataka, Tamil Nadu, Kerala, Andhra Pradesh, Maharashtra, Madhya Pradesh, Rajasthan, Jammu & Kashmir, Sikkim, Tripura, West Bengal, Bihar and Orissa.

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**Office of the Comptroller and Auditor General of India  
10, Bahadur Shah Zafar Marg, New Delhi-110 002**